Conference call

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Investor Relations

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SPEECH

Thank you, operator and hello everyone. Welcome to the conference call for Danske Bank's financial results for the first quarter of 2022. Thank you all for taking the time to listen in on this call today. 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. Slide 1, please

In today's call, we will present Danske Bank's financial results for the first quarter 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.

Carsten Egeriis – CEO

Thanks Claus.

Let me start by making a comment to the company announcement we published yesterday about our decision not to distribute dividends in connection with the announcement of our interim report for the first quarter of 2022. This is done in order to ensure prudent capital management, as we have now entered into initial discussions with U.S. and Danish authorities in relation to the Estonia matter.

Our decision yesterday is consistent with our announcement in February 2022. I am not able to share any more details about the discussions with US and Danish authorities, which are confidential. However, we are not yet able to reliably estimate the timing, form of resolution or amount of a potential settlement or fines, which is likely to be material.

That said, I will now – together with Stephan – comment on our financial results for the first quarter which was published this morning.

Despite the tragic events in Ukraine following the Russian invasion in February, and the accompanying effects on the outlook for the global economy, we at Danske Bank have had a satisfying start to the year.

As I mentioned during our conference call in February we ended 2021 in a positive way as we started to benefit from several green shoots all supporting increased business momentum in many areas of Danske Bank. I am pleased that also in the first quarter, we have continued on this positive trajectory with improved commercial progress in our core banking activities. I will provide more detailed comments for each of the business units later in this call.

This first quarter also marked a period in which the remaining restrictions caused by the pandemic were lifted and economic activity remained at a high level. However, we also saw potential capacity constraints in the labour market and rising inflation from the levels we saw already in the fourth quarter.

Russia's invasion of Ukraine fuelled an acceleration of the supply-chain and energy supply issues. The situation is unlike anything we have seen for decades, and the uncertainty about how this will affect the economies and our customers remains high.

The significant investments we have made to enhance our financial crime prevention and compliance resilience over the past years, have enabled us to respond swiftly to the quickly changing environment. The sanctions implemented in response to Russia's invasion of Ukraine are complex and expansive, and have impacted a number of businesses and operators in various ways across the Nordic countries. As a trusted financial partner, we have diligently focused on managing sanction risks while helping our customers navigate through this changing landscape.

In this turbulent environment, we saw good commercial progress driven by strong customer activity and our own initiatives in many segments of our business. Despite a slowdown in our capital markets-related business from a very high level last year, overall transactional activity including remortgaging was high. Adjusted for the fair value effect of loans at Realkredit Danmark, lending was up 2 per cent from the same period last year, due primarily to demand from our corporate customers.

The good progress we have seen within our sustainability offerings continued in the first quarter. We have improved our green offering to personal customers and we have maintained our position as a top-ranked arranger of sustainability-linked finance.

Financially, we saw progress in our net interest income due to positive effects from higher volumes and pricing initiatives, whereas fee income maintained the strong level from last year, benefiting from a diversified business mix.

Turbulent and difficult financial markets had an adverse impact on net trading income, due mostly to value adjustments whereas customer activity and trading income from our business units held up well relative to the same period in 2021. However, income from insurance business came in significantly lower despite a positive development in the underlying business.

In terms of operating expenses, we continue to make structural progress by reducing underlying costs despite continually high costs for remediation and AML. The cost/income ratio came in at around the same level as in the preceding quarter and higher than the level for the same period last year, mainly because of lower income.

Credit quality remained strong with loan impairment charges at a low level as our customers' financial position remained healthy, and we saw a limited impact from adjusted macro models in the first quarter and continue to have prudent PMAs in place.

Stephan will comment on the financial results in more details later in this call.

Despite the somewhat higher degree of uncertainty for the economies, we maintain our outlook for a net profit of between 13 and 15 billion for the full year subject to uncertainty and does not include any effect from a potential settlement of the Estonia matter in 2022. Stephan will, as usual, comment on the outlook later in this call.

Now, let us have a look at how our business units performed in the first quarter.

Slide 3, please

At Personal & Business Customers, we started the year strongly with good activity and improving income across all lines. NII benefited from growing credit demand and the additional impact of the deposit repricing initiatives we have taken. In general, we saw a strong development for fees across segments, particularly within Business Customers, which also benefited from price initiatives to further encourage the use of digital channels. In Personal Customers Denmark, we saw seasonally high refinancing activity combined with a good contribution from remortgaging and general high activity from healthy consumer spending.

With the necessity of the green transition becoming increasingly more important for our society, we continue to implement products and solutions for all our customers for example through new loans that give personal customers an incentive to change their heating source, and further investing in our advisers' ESG abilities.

We continue our challenger strategy in Personal Customer Nordic, with a positive trend in home finance meetings and approval of mortgage applications in Sweden, which has supported the trend in lending.

For Business Customers, we have strong relations with our customers – and although strong credit demand came primarily from our larger corporate clients, we continue to increase ancillary business with SMEs across our other offerings where especially cash management and FX product categories showed a strong development from the same period last year.
As part of our tiered service model, we continue to enhance our allocation of resources through the investments we make in our digital solutions. In Q1, this resulted in a further improvement of relationship managers' ability to fully approve credit applications for small businesses digitally which now accounts for 60% of all approvals.

Coupled with good traction and further innovative digital offerings, we are excited about the opportunities that lie ahead. We will now welcome Christian Bornfeld and Johanna Norberg to the ELT as new heads of our new Personal Customers and Business Customers units, with the aim of further fine-tuning our focus with the dedicated split of P&BC that takes effect on Monday.
Slide 4, please.

Turning to LC&I, we continued to build on our strong relationships with our customers as a leading wholesale bank and have been able to support customers through our wide range of product offerings and advisory services, which resulted in our financial performance holding up well despite the volatility that characterized the quarter.

In particular, we saw a strong development for lending volumes, which increased 4% from the same period last year. This was driven both by our activities in Denmark and, in line with our strategic priority, in Sweden as well.

Together with our leading everyday banking solutions, this volume growth mitigated the lower activity seen in capital markets, where primary markets slowed significantly during the quarter.
Asset under management saw a decline lower in the quarter due to financial markets correction, however AuM was supported by continued constructive net sales and our efforts to strengthen investment products, including award-winning sustainability offerings.

Even without adjusting for a landmark ECM transaction last year, our diversified business model resulted in NII and net fee income combined being stable in the quarter, despite the volatility and the negative effects of the decline in AuM.

As volatility hit the financial markets, we supported our customers with risk management expertise, which underpinned trading income despite the challenging market conditions. When excluding negative value adjustments, trading income at LC&I declined 14 per cent from the same period last year, however, net trading income rose 29 per cent compared to Q4.

Slide 5, please.

Now let us briefly have a look at our insurance activities and Northern Ireland.

At Danica, the result for the first quarter came in significantly lower than both the year-earlier level and the level in the preceding quarter. The turbulent financial markets 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.

In addition, the result from the H&A business included a negative valuation effect from an adverse development in hedges related to inflation risk.

The underlying business saw a positive development in the first quarter due to a continued growth in premiums from the same period last year as well as the H&A business where our preventive efforts have contributed to a decline in new cases.

In Northern Ireland, the core banking operations performed well, with NII and fee income combined up 16 per cent from the same period last year, supported by sound underlying activity, higher UK rates and diligent pricing adjustments.

This positive development was, however, offset by trading income being affected by mark-to-market adjustment of interest rate hedges. Given the nature of this hold-to-maturity hedging, this adjustment is, however, expected to reverse in the future.

So before I hand over the word to Stephan, let me round up by saying that, all in all, I am confident with the increased progress we have made in the first quarter across all business segments.

Despite the fact that in many ways, the first quarter was a turbulent one, we have, as we saw during the pandemic, benefited from our diverse and resilient business model and have been able to focus on continued execution of our 2023 plan.

Slide 6, please and over to Stephan.

Stephan Engels – CFO

Thank you, Carsten.

As Carsten just mentioned, we had a satisfying start of the year on the back of good progress from the end of 2021.

Our income from core banking activities performed well and was in line with expectations. NII was up 3 per cent from the same period last year, as deposit-repricing initiatives and higher volumes more than mitigated the margin pressure we saw from primarily higher funding rates in Norway. NII was up 1 per cent from the preceding quarter – despite the negative day effect - as a result of yet another quarter with an increase in lending and a positive impact on deposits from recent repricing actions and higher short-term rates.

Net fee income was in line with the level in the same period last year, when fee income benefited from strong customer activity and one significant ECM transaction in particular. The slowdown we have seen in primarily income from our capital markets business was almost fully mitigated by higher activity related income, including an increase coming from remortgaging activity in Denmark. When comparing Q1 with the preceding quarter, fee income came in lower primarily because of the annual booking of performance fees in Asset Management in Q4.

Trading income came in lower compared to the same period last year, due mainly to valuation effects, whereas underlying income from customers held up well despite the turbulent financial markets. Relative to Q4, income was lower as the fourth quarter last year benefited from a one-off gain of 0.2 billion. However, underlying trading income from the business units was up because of good customer activity at P&BC and LC&I.

Net income from insurance business came in lower due to a lower investment result and an adverse effect from an inflation hedge as Carsten mentioned earlier.

Other income amounted to 0.7 billion for the quarter, including the previously announced gain related to the sale of our business activities in Luxembourg.

Operating expenses came in 2 per cent above the level in the same period last year driven by an increase in regulatory costs and elevated remediation costs. Good progress with reducing underlying costs as well as lower transformation costs mitigated part of the increase. I will comment on the cost development in more detail later in this call.

Loan impairment charges amounted to 0.2 billion in Q1, down from 0.5 billion in the same period last year. The level continues to be well below a normalised level, confirming overall strong credit quality and our very limited direct exposure to Russia and Ukraine. We continue to have sufficient buffers in place, which I will also comment on later.

Net profit for the period thus amounted to 2.8 billion, down from 3.1 billion for the same period last year.

Slide 7, please.

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

For NII, we saw a good improvement compared to last year with an increase of 3 per cent. Deposits are clearly benefiting from two factors. Firstly, the repricing initiatives for deposits we launched during 2021, and secondly, the higher short-term rates.

On the lending side, we are pleased to see the positive impact from an increase in volume, whereas the negative impact of lending margins is due primarily to higher NIBOR rates, as the associated pricing adjustments for customers in Norway, announced this quarter, awaits implementation due to the notice period.

Relative to the preceding quarter, NII was up 1 per cent despite fewer interest days in the quarter. This development can mostly be attributed to the same factors I just explained for the year over year development namely higher volumes and margins. In addition, we saw two opposite effects in Q4, related to TLTRO and a negative one-off related to the NII impact of taxation of business travellers.

In respect to wholesale funding activities we have – as usual – been active during the first quarter in order to meet our funding need, primarily by issuing covered bonds and non-preferred senior bonds. The uncertainty caused by the Russian invasion of Ukraine kept the market at low activity for a period. However, in early April we issued a sizeable non-preferred senior debt issue in USD confirming that we have full access to the market and we are in a comfortable position for now.

Slide 8, please.

Let's have a look at fee income.

As we have discussed on some of the previous slides, fee income maintained a strong level and came in at an almost unchanged level from the same period last year when fee income benefited from high activity driven by more benign financial markets conditions.

In the first quarter of this year, we saw a more turbulent market due to rising interest rates early in the quarter and significantly higher uncertainty as a result of the Russian invasion of Ukraine. Hence, we have seen a decline in income from activities subject to financial markets conditions however, this has been mitigated by strong commercial momentum in our business units.

Fees generated by investment activities were impacted by lower investment appetite among our customers however, fees were relative stable from the same period last year, as we continue to benefit from the increased momentum on investment sales we have seen building throughout last year. When comparing with the preceding quarter, please note that Q4 included the annual booking of performance fees of 0.3 billion in Asset Management.

Both year-over-year and relative to the preceding quarter, activity-related fees were up reflecting the strong underlying economic activity, and now exceed the level before the pandemic. In combination with our own customer initiatives, this translated into higher customer activity, for example through corporate daily banking services, and was further supported by adjustments to our fee structure for corporate customers.

For lending and guarantee-related income we also noted higher activity driven by remortgaging activity and the semi-annual refinancing of Flexloans. The higher longer term rates resulted in strong interest for remortgaging among our personal customers in Denmark and the good traction we have seen recently for our Flexloan mortgage product further added to remortgaging activity.

Slide 9, please.

Trading income came in at 0.6 billion for the quarter, significantly impacted by market value adjustments of Group Treasury's mortgage bond portfolio, mark-to-market movements on an interest rate hedge in Northern Ireland, and xVA adjustments, in total amounting to 0.5 billion.

Despite the turbulent financial markets, customer activity held up well at both P&BC and LC&I. The combined income of the two units exceeded the level from the preceding quarter by 28 per cent and was down 7 per cent from a high level in the same period the year before.

When comparing trading income for the periods please note that the first quarter of last year as well as the preceding quarter include one-off gains from the sale of Visa shares and Aiia.

Slide 10, please.

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

The headline number came in higher than in the same period last year, due mainly to the planned ramp up of AML/Compliance we implemented last year and continually elevated costs for remediation of legacy issues. In addition, the new Swedish bank tax and insourcing of IT explain the increase.

We continue to see an improvement in underlying costs in the form of lower staff cost as a result of a decline in the total number of FTEs of 3 per cent driven by a decrease in non-financial crime FTEs of 6 per cent since the peak in 2020. Lower costs for our transformation which is progressing according to plan, also contributed to the decline in costs from the same period last year.

If we look at the quarterly development, the continued progress on structural cost reductions more than absorbed the introduction of the Swedish bank tax and continually elevated remediation costs. The seasonal decline in performance-based compensation we normally see in Q1 was partly offset by a reversal of severance pay in the preceding quarter.

Slide 11, please.

Turning to credit quality and impairments, our direct exposure to Russia and Ukraine is very limited and we therefore continue to see an improving trend in credit quality and impairment charges below normalised level.

Actual single-name credit deterioration and individual impairment charges remain very modest, and despite added macro model charges and additional post-model adjustments to account for the current uncertainty, we ended the quarter with an annualised loan loss level of 5 bps for the Group.

While some sectors will undoubtedly be impacted by the rapidly rising inflation and the economic implications from the war in Ukraine, we remain comfortable with the quality of our loan book. We have done a diligent bottom-up review of exposures that might be impacted by second order effects and will continue to prudently assess our portfolios.

With the current uncertainty, we have made prudent adjustments to our macro scenarios which drove the additional DKK 0.4 billion in impairments this quarter, which is in line with the level we saw in Q4 that was ascribed to the uncertainty at the time related to Covid-19 restrictions and the omicron lock-down risk.
This uncertainty has clearly been reduced since and as such, parts of the post-model adjustment that was put in place to cover Covid-19 related tails risks have been repurposed towards segments particularly affected by the global tension with an additional add-on of DKK 0.2 billion. With that, we ended the quarter with provisions of around DKK 1 billion for any Russia/Ukraine impact not yet measurable on single-name level or captured in our macro models. In addition, we have kept around DKK 1 billion for any Covid-19-related tail risks that could emerge with a new variant for example.

So overall, we remain comfortable with our well-provisioned position, and the additional PMAs we have in place to account for the current uncertainties. While we expect impairment levels to normalise going forward, we are reassured by the robust household finances and low LTV ratios we see across the Nordic countries, which coupled with our specialised risk officers in place to cover the more complex parts of our portfolio and the significant de-risking of our balance sheet in recent years, for example in relation to oil and gas, support our view of a normalised loan loss level of around 8 basis points.

Slide 12, please.

Now let's take a look at our capital position.

Our total capital ratio decreased due to the recent call of AT1 capital. Our reported CET1 capital ratio decreased slightly to 17.6 as the increase from retained earnings and lower REA were offset by an increase in deductions related to Danica and a small increase in intangible assets.

REA came down slightly in the first quarter as the increase in market risk following higher volatility in the financial markets in Q1 was more than mitigated by lower credit risk.

In our capital planning, we remain mindful of the regulatory landscape, including the announcement to raise the Danish countercyclical buffer to 2.5 per cent by the end of Q1 2023.

Danske Bank's leverage ratio was 4.7% according to transitional rules and 4.6% under fully phased-in rules.

Slide 13, please.

Finally a comment on the outlook for 2022.

As Carsten mentioned at the beginning of this call, we confirm our outlook for a net profit of between 13 and 15 billion.

As it appears from the financial report we have presented today, we see a good traction on our income from core banking activities, a stable cost development and a continuation of loan impairment charges below a normalised level. As the observed decline in income from insurance business and net trading income was predominantly caused by value-adjustments, we remain confident in our ability to meet the outlook for the full year.

However, it remains clear that the ongoing geopolitical tension and a potential risk from the pandemic are both factors that could further affect the economies. Consequently, the outlook is of course subject to a high degree of uncertainty and limited visibility and does not include any effect from a potential settlement of the Estonia matter in 2022.

Slide 14, 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 Jakob Brink from Nordea. Please go ahead your line is open.

Jakob Brink (Nordea): Thank you and good morning from my side. I have two questions. The first one is on cost, please, and your guidance of around DKK25 billion. Now, costs were a little above consensus and my expectations in the first quarter. Also, looking at the cost split over the past two years, it has been a somewhat lower share in the first quarter than this year. Why is it that you think DKK25 billion is still the level? Is there any big AML-related cost in the first quarter that would fall away in the next three quarters or anything else you can help us with here? My second question is on loan losses. I see that your stage three loans are coming down in the quarter. We have seen the same in other banks, obviously still strong credit quality. What should we expect do you think for the remainder of the year regarding P&L provisions? Will you keep reducing the COVID buffer to offset potential provisions or move more to the Ukrainian buffer, or what should we expect? Thank you.

Carsten Egeriis: Yes. Hi Jakob. Thanks for your questions. Let me just briefly touch on the asset quality questions and then I will hand over to Stephan on the cost question. We still see in our asset quality and in our customers, both across personal and business, quite benign asset quality trends. There is no question of course that there is uncertainty, but we are not seeing any concerning trends in our books as we look today. And, I think from a Corona perspective, we are right in the middle now of seeing, particularly in Denmark, how the Corona loans phase out. The first loans were due here in April. Again, we do not see any material concerns at this stage. So, I would expect that during the second half of the year you would slowly see a further phasing out of the Corona buffer, if you will. I think in terms of the global tensions post-model adjustment that we put forth of about DKK1 billion, that is still highly uncertain, so we will have to wait and see how things play out. But again, I would reiterate that we have very limited exposure as such of course to the war in Ukraine and to Russia, and to Russia and Ukraine more generally, and that is also why we call it a global tensions post-model adjustment, because it is therefore more general concerns, which we do not really see anything come through in our book at this stage. Then, on costs?

Stephan Engels: Hi, Jakob. I would make two pretty simple comments. One is there are obviously further plans for cost take-out throughout the year, as much as I do agree with your seasonal argument in a way. Also, keep in mind that in Q1 we have seen costs up partly to insourcing of IT that has had some one-off start investment that we do not think is recurring. That is why we still believe that our cost trajectory is fully in place.

Jakob Brink: How much have those one-off costs been, please?

Stephan Engels: It is roughly DKK80 million.

Jakob Brink: Okay. Yes, DKK80 million. Okay, thank you. And just on the losses, Carsten, you said that you would potentially phase out the COVID buffer in the second half of the year. Given the uncertainty, do you think you will continue adding them to the Ukraine buffer, or do you think the likelihood of reversals is likelier?

Carsten Egeriis: Yes, I think that is a very difficult question to answer, Jakob, so I am going to remain cautious and say I would like to wait and see how the current macro tensions and uncertainties play out in Q2.

Jakob Brink: Okay, fair enough. Thanks a lot.

Carsten Egeriis: Thanks, Jakob.

Maths Liljedahl (SEB): Yes. Good morning and thank you. Looking a little bit into NII sensitivity, since that is a major topic among the Nordic banks, first of all, we got the rate hike in Sweden yesterday. Do you have any estimates for your interest-rate sensitivity related to the rate in Sweden? Also, how is the path in Denmark, considering that the ECB would move a little bit later during this year regarding repricing of deposits, et cetera? I know the mortgage product, but on the deposits with the pricing shortages there - if you could allude on that. Thank you.

Carsten Egeriis: Yes. Hi. Morning, Maths. Just on NII more generally, we look at a 25 basis point increase and this is mostly really driven by ECB and DK rates. A 25 basis point increase in rates would probably give around DKK500 million to DKK600 million all else equal of NII, just to state that first of all. That is for the next 25 basis points. Then we would expect subsequent increases to be around DKK800 million of NII sensitivity, just so you all have that as sort of a high-level view. Then your question on Denmark and then I will come to Sweden at the end. Your question on to what extent rate expectations and rate moves would change pricing on deposits, as I understood your question, and clearly I cannot say anything about future pricing, but obviously, current rates in Denmark are still negative and short rates are still negative, and we have not charged negative rates to our customers for a long time and roughly two thirds of our deposits are still not covered by negative interest rates in Denmark. Clearly, as rates potentially increase – and there is of course a likelihood that euro and DK rates will increase towards the end of the year and into next year – then we would look at how we reflect that, both in deposits as well as in lending rates, but it is too early to say anything about that. Then on your Sweden question, we do not disclose NII sensitivities for Sweden.

Maths Liljedahl: Okay, thank you. Regarding these investigations, especially in the US, you say it likely could be material, whatever that means. We can do the calculation backwards here in terms of capital requirements and where you are, et cetera, but have you stated anything? How much could you withstand in terms of a potential size, if we really paint a bearish picture here? Have you estimated that or said anything?

Carsten Egeriis: No. I mean, first of all, and I know this is not what you are asking directly, but I might as well say it so it is out, I cannot say anything about the timing, the outcome or the amount of any potential settlement or fine. Then to your direct question, we have not done any direct calculations of the nature that you mentioned there, but obviously, we disclose our capital and our minimum requirements and so forth.

Maths Liljedahl: Yes, okay. We will take it from there. Okay, thank you.

Carsten Egeriis: Thanks.

Maria Semikhatova (Citi): Yes, thank you. A couple of questions from my side, first on costs. You recently noted that the resolution of legacy issues is likely to be delayed beyond 2023 and that you are now looking into alternative approaches. I just want to check with you what it means for the outlook of remediation costs. If I am not mistaken, you previously guided that remediation costs should amount to DKK400 million this year and then drop to zero in 2023. That is the first question. Second, I just was wondering on the outlook for Danica earnings. I think previously you said that normalised is around DKK1.5 billion to DKK1.7 billion. So, just given the results of the first quarter, what do you think would be the appropriate level for this year? Thank you.

Carsten Egeriis: Yes. Thanks, Maria. Yes, on the remediation costs around the debt collections case, which I believe was your question – it was a little difficult hearing it just at the start – we guided to higher remediation costs. They were probably a little bit higher in Q1 than expected, also because of the increased magnitude of the case, but we are looking, as you also alluded to, at alternative solutions to basically address and get the case resolved towards our customers. And, therefore, we do not believe there is an impact to our 2023 cost guidance, which I think was your questions. Then Stephan, I will pass over to you on Danica.

Stephan Engels: Yes. Let me maybe shed some light on what impacted the quarter. Simply speaking, with in total call it DKK 600 million, there was probably a third related to inflation hedges that we have put in place to meet future liabilities mainly for the loss of ability to work insurance in our health and accident segment. These inflation hedges are not completely available in DKK, so they are also taken out in euro. Since inflation expectations at the end of Q3 between several countries in Europe have been quite widely apart, that has led to this valuation effect. We would expect that to come back or at least normalise to a certain level over the coming quarters. A third was basically related to a widening of credit spreads on our interest rate hedges. As these hedges approach maturity, they also would by definition start to come back over time. And around a third is from financial market correction and our asset allocation. This is where Danica has the investment risk and where we need to see how the market develops throughout the rest of the year. So, to sum up, our underlying performance assumption for Danica still is around DKK1.5 billion. It now remains to be seen how much of the mentioned effects will come back through the year and how much possible further deterioration might come from our asset allocation risk.

Maria Semikhatova: Thank you. Just to quickly follow up on the remediation costs, I understand the outlook for 2023, but is it fair to assume that this year these costs are likely to increase above your expectations, given your efforts to speed up the cases?

Carsten Egeriis: As I said, the costs were slightly higher in Q1. I think it is too early to say what the impact is. As I said, we are looking at alternative approaches and we will come back as soon as possible on that.

Maria Semikhatova: Okay, thank you.

Sofie Peterzens (JP Morgan): Yes, hi. Here is Sofie from JPMorgan. Just a quick follow-up. In terms of the NII that you make on the negative deposits, I understand one third of your deposits only have negative rates, but could you remind us how much of your annual net interest income comes from the negative deposit base that you currently have? Then my second question would be around your dividend outlook. Yesterday, you said you are not going to pay the first-quarter dividend, interim dividend. How should we think about the further interim dividends? Should we expect them to be cancelled as well, or is the first quarter kind of a one-off? And, how should we kind of think about the interim dividends? That would be it for me.

Carsten Egeriis: Hi, Sofie. Thanks. On the further interim dividends, again, I cannot say anything about the timing, the outcome or the amount of the potential settlement fines, and any potential dividends are subject to a decision by the board on a quarterly basis, so I cannot say anything other than that. Then I think your question on NII was specifically whether we disclose or can say anything about the income that we receive on the roughly a third of DKK deposits that are impacted by negative rates. I am not sure we disclose that, but Stephan, do you want to comment?

Stephan Engels: I think as at some total of our deposit repricing initiatives across P&BC and LC&I, we have also quite done something. We have disclosed DKK 400 million to DKK 500 million last year on several occasions, but you need to keep in mind that that has been factored in and only covers for P&BC the third, as Carsten just mentioned. On a more general note, I think you need to keep in mind that the rate hikes will obviously have different effects on different currencies. As Carsten said, our main sensitivity is probably around the euro and the DKK part, and you need to keep in mind that you will see different levels of impacts on segments. LC&I probably, which still kind of benefits from the floored loan agreements, will see a lesser to neutral effect, whereas P&BC from deposit repricing might or might not see a positive effect, also obviously being a reflection of how the market will react to any changes in pricing.

Sofie Peterzens: Sorry, just a quick follow-up on the negative deposit rates, because I think last year you at least guided for two times DKK 500 million more in NII from the negative deposit rates. So, I am just wondering where the DKK 500 million then disappeared from one of those kinds of initiatives?

Stephan Engels: The DKK500 million will not disappear. You will see that in a year-over-year effect, but it will also affect, Sofie, the sensitivity going forward, because last year we were looking at a DKK800 million sensitivity for a 25 basis point shift and this year we will, as Carsten mentioned earlier, more go to DKK500 million to DKK600 million, because some of that has obviously been captured by quite some measures and also some smaller rate hikes in Norway and Sweden, as per yesterday.

Sofie Peterzens: But did you not introduce those negative rates for the first time in January 2021 and the NII by DKK 500 million? And then you had a further negative rate introduction in mid-2021, which was another DKK 500 million. So, I am just kind of struggling a little bit on how to kind of add that DKK 1 billion versus your DKK 500 million to DKK 600 million NII improvement from a 25 basis point hike.

Stephan Engels: No - I think the confusion might be that when we gave the effects of these repricing measures, we clearly said there is a full-year impact which we will only see in 2022 and that is what we are also seeing in Q1, and there was obviously a smaller effect than last year, because measures only kicked in throughout the year and only come to full effect this year. On top of that, we are seeing rate hikes, for example in Norway, and as of yesterday also in Sweden, and part of the measures that we have taken throughout the 2021 decisions plus the rate hikes that you have seen over the last couple of weeks, including, for example, the UK, obviously eat a bit into the sensitivity for the 25 basis point parallel shift concept, where we expect DKK500 million to DKK600 million rather than DKK800 million. So, there is quite some upside still from rate hikes. And as Carsten mentioned, there is a different, call it sensitivity between the first 25 basis points, amongst other things reflecting floors, for example, that we have in loan agreements than with the next 25 basis points, which will then go up again to DKK800 million.

Sofie Peterzens: Okay. Sorry, just a quick follow-up. In your annual report, I think you have the rate sensitivity as negative DKK 1.5 billion for a 100-basis point increase in rates. So, how does that then square with the guidance of DKK 500 million to DKK 600 million for the first 25 basis points and then DKK 800 million for the subsequent rate hikes?

Claus Ingar Jensen: This is Claus here, Sofie. I think you should be careful, because the rate sensitivity you are referring to is under the risk management part, and where we apply completely different assumptions. So, the DKK 1.5 billion negative is essentially based on a gone-concern view. As I said, this is from a risk management point of view, whereas the DKK 500 million to DKK 600 million replacing the previously DKK 800 million guidance is in a…

Stephan Engels: Constant balance sheet, basically.

Claus Ingar Jensen: Yes, exactly. Yes.

Sofie Peterzens: But I mean, what assumptions do you then have for the DKK 500 million to DKK 600 million, that you repriced all the loans and nothing on the deposit side?

Stephan Engels: No. Let us reflect back, Sofie. These 25-basis point rate shift sensitivities were originally kind of driven by regulatory prudency questionnaires. And, that assumes simply no change in customer behaviour, constant balance sheet and a number of other things and obviously some pass-through assumptions that you make. And, in that sense, I think it is a bit of a theoretical concept to begin with. And, I think if you look across the market, there are very different views on what this will do and these very different views in many cases reflect also the different business models, which obviously have different sensitivities. Again, if you look at Danske Bank, there is obviously a higher sensitivity in call it our Danish business because we are structurally over-funded by deposits, given the way the Danish market is set up, and that makes for quite some sensitivity in this market. Part of that is kind of covered by our thresholds and the negative pricing, but, as Carsten said, two thirds of the deposits are in that sense unpriced.

Claus Ingar Jensen: You are welcome, Sofie, to give us a call afterwards.

Sofie Peterzens: Okay. Thank you.

Claus Ingar Jensen: Yes.
Sofie Peterzens: Yes, sounds good. Thank you.

Jan Erik Gjerland (ABG Sundal Collier): Thank you. It is regarding Northern Ireland and the hedges you have in trading. Should we think about those to anywhere towards the net interest income and see that that is in a comparison versus the trading? So, the NII could sort of overstate it versus your trading loss? That is my first question. And just to clarify on the NII sensitivity, is it two thirds in the personal customer and SME division rather than in the large corporate division that is sensitive to your Danish interest-rate changes? Thank you.

Carsten Egeriis: Hi, Jan Erik. No, on Northern Ireland, these are interest-rate hedges that normally would be hedge-accounted, but are not due to the systems that we have in Northern Ireland, so they are mark to market and you should look at it in the sense that this income will come back over 2022 and into, I guess, early 2023. Then on your NII sensitivity question, the two thirds is really focused on the personal customer book in Denmark, so it does not impact the business banking book and it does not impact the large corporate and institutions book.

Jan Erik Gjerland: Okay. Very clear. Thank you.

Claus Ingar Jensen: To put it in another way, all deposits in Denmark except for the two thirds of the retail deposits are priced negative.

Carsten Egeriis: Yes, and again, those are the ones where customers have under our DKK 100,000 of deposits with the bank.

Jan Erik Gjerland: Thank you.

Martin Gregers Birk (Carnegie): Thank you. Just following the lines of the announcement yesterday, so, assuming you guys reach a settlement this year, what would that mean for costs going forward?

Carsten Egeriis: I mean, the way I would look at it, Martin, is that clearly there are costs associated with this case, not least lawyers, et cetera, so in terms of operating expenses there will be some cost benefit, but you should not see that as a material cost benefit.

Martin Gregers Birk: Okay. You only wrote Danish and US authorities in the company announcement yesterday. So, should we still interpret that as other authorities that are involved in this, you guys are still waiting for them?

Carsten Egeriis: Yes, I mean again I cannot comment on discussions with authorities. They are confidential by nature. So, I cannot say anything more on that, Martin.

Claus Ingar Jensen: But if you go into the contingent liability section, Martin, you will find what kind of authorities we have a dialogue with. That is disclosed in that section.

Martin Gregers Birk: All right. Appreciate it. Then maybe just a very final question. After a potential settlement, is it also fair to assume that the DKK 10 billion Pillar II relief is going to be removed and then potentially also the CET1 ratio short term above 16% should also be maybe a percentage point lower?

Stephan Engels: That is a question I think we can only really answer once we know what the world looks like at the end of the day. And again, it is not for us to decide on any Pillar II buffer requirements. I do not want to give any guidance for what my expectations are, but I think that in this part, there are many moving parts and I would not start speculating on that right now, to be honest.

Martin Gregers Birk: All right. Okay. Thank you.

Johannes Thormann (HSBC): Yes, good morning. Johannes from HSBC. Two questions from me. First of all, on Danica, you basically put all the negative performance towards the valuation and market effects. Can you comment a bit more on the underlying or the technical result of the unit and try to put this in a quarterly and year-on-year context? Secondly, as you cancelled your dividend due to the potential fines, will you do any acquisition before this is settled or you will only do acquisitions after the talks are finished? Thank you.

Carsten Egeriis: I think on your last question again, if you are talking about sort of larger acquisitions or larger activity on that front, I would see it as unlikely that we would enter into that until we have more clarity on the current process. Then Stephan, do you want to comment on the underlying technical results and run rate, which I think you alluded to before, but maybe give a bit more detail?

Stephan Engels: Yes. The underlying performance of Danica is doing fine. We are seeing increase in premiums. And your question about what are we seeing in terms of risk trends, we have seen far better risk trends in our health and accident part. So, the underlying part is really strong. It is indeed the DKK 600 million of valuations which drive the result which I alluded to earlier.

Johannes Thormann: Okay. Understood. Thank you.

Jacob Kruse (Autonomous): Hi. Thank you. Just two questions from me. Firstly, just on your capital you have 17.6% CET-1 versus the 16% target, which I think you say is inflated a bit due to the uncertainties, but that is about DKK 13 billion of excess capital. Then you have I guess some of the Pillar II buffer of DKK 10 billion. Just given those capital resources, the decision to cut the dividend to save I guess about DKK 1.5 billion, can we at all think about this as the sort of scope of outcome that you see in these regulatory discussions, or is there anything you can just say about how you think about the capital resources that you have? Then my second question was just on cost. I think for 2023 you are targeting DKK 23.5 billion. Does that mean that the compliance ramp-up that you have done needs to be reversed? You noted that the impact on cost of a settlement may not be that material in an earlier question. Or, especially given inflation that we see now, how do you we go from the DKK 6.3 billion quarterly run rate this quarter down to a full-year DKK 23.5 billion? Thank you.

Carsten Egeriis: On your capital question, again, given that we cannot say anything about the timing, outcome or size of a potential fine, I do not want to comment more on the question other than the fact that we also clearly say in the company announcement that we do this to ensure prudent capital management, given the fact that we have entered into these initial discussions. We mentioned clearly that we cannot reliably look at any timing, the form of resolution or the amount, but also that the fine is likely to be material. On the cost piece, I am not sure on the DKK 23.5 billion. I mean, the outlook on the cost this year is around DKK25 billion, right? Were you asking on the 2023 number?

Jacob Kruse: Yes. Sorry, 2023, so the next step from here.

Carsten Egeriis: Okay. But I guess there are several moving parts in terms of the cost out. As you said, there are some reductions in compliance as part of that cost reduction. There are reductions planned from a remediation perspective. Then there are underlying costs, so a continuation of the reductions in salary costs, driven also by the automation and digitisation efforts that we continue to see quarter-on-quarter, for example, now that we can open up automated account opening in the mobile bank here in Q1 is a good example of how we are freeing up frontline resources. And then there are also cost savings on non-salary costs, so premises and other costs. So, that would sort of be the main components driving the cost from around the world DKK 25 billion to the DKK 23.5 billion.

Jacob Kruse: Okay. I understand you cannot comment on the size of the fine, but would you agree at least that the available capital resources are starting point DKK 13 billion and then there is some potential uplift from the Pillar II buffer becoming smaller once the settlement is done?

Carsten Egeriis: I am not sure I understand. Again, given that I cannot comment on the outcome, the likelihood or the size of the fine, I do not want to comment on the question. I mean, I can say more generally, when we look at our capital position, as we have said previously, we have a strong capital position, so if that was your question, then yes.

Jacob Kruse: Okay.

Claus Ingar Jensen: Jacob, I think we have to refer you to the interim report, where we have put a number of what we see as being the excess capital and limited by that for now.

Jacob Kruse: Yes, yes. Okay. Thank you.

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

Robin Rane (Kepler Cheuvreux): Yes, good morning. Thank you for taking my questions. So, two questions on NII, I guess. So, we saw some Nordic peers reporting benefits from the rate hikes in Norway and the UK already. Is there anything of those visible in your numbers this quarter and, if not, when do you expect there to be some visible benefit from this? Then secondly, you mentioned that you called the AT1 capital. Should we expect the AT1 payments that are currently deducted from the net profit to go to zero in the course ahead? Thank you.

Carsten Egeriis: Yes. I mean, on the NII question, on Norway, there will be a lagged effect, so we will expect NII to increase in Norway as we reprice there. And the impacts in the Northern Ireland business we are already seeing and you will see an annualised benefit of that. And overall, we remain very comfortable with our NII trajectory. We have seen increases five quarters in a row now. We also note, which we also show you in the bridge, that there are fewer days in Q1 versus Q4. So, we see good trajectory and we will see that further flowing through in subsequent quarters. Stephan, do you want to take the AT1 question?

Stephan Engels: And the answer to your AT1 question is yes.

Robin Rane: Okay, great. Thank you very much.

Carsten Egeriis: Unfortunately, we are just out of time, but thanks again all for your interest in Danske Bank and, as always, you can contact Claus and our IR department if you have any questions and look forward to speaking with some of you over the coming days and into next week. Thanks very much.