Conference call

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Investor Relations

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Claus Ingar Jensen – Head of Investor Relations

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

In today's call, we will present Danske Bank's financial results for the first half of 2022. We aim to keep this presentation to around 30 minutes. After the presentation, we will open up for a Q&A session as usual. Afterwards, feel free to contact the Investor Relations department if you have any more questions. I will now hand over to Carsten.
Slide 1, please.

Carsten Egeriis – CEO

Thanks Claus.

No doubt, the first six months of 2022 was in almost all aspects a very turbulent period. The world has moved from one extraordinary situation caused by the pandemic to another dominated by the Russian invasion of Ukraine and the accompanying effects on energy supply, accelerated inflation and firm tightening of monetary policies in the US as well as in Europe.

In these, even by historic standards, very volatile times, we have focused – and we are – focussing on helping our customers navigate in a very uncertain environment. At the same time we continue to execute on our strategic agenda with strong commercial and customer focus, whilst maintaining a strong commitment to our role in the green transition in the society.

As I also mentioned during our conference call in April and during the first half of the year, we have continued on a positive trajectory, with improved commercial progress in our core banking activities evidenced by strong growth for corporate lending in particular and an overall good level of economic activity to the benefit of our core income lines.

That said, our activities in the financial markets have been severely impacted by the magnitude and pace of interest rate changes, which have had a negative impact on trading income from primarily our rates business and on net income from insurance business in the form of negative valuation adjustments.

On that basis, on 10th July, we announced a revised net profit outlook for the full year. We maintain our view of higher full year income from core banking activities however, we now expect net profit for 2022 to be between 10 and 12 billion, based on lower-than-expected trading and insurance business income as well as slightly higher costs due to sustained elevated remediation costs.

The second quarter marked a period during which the growth outlook for the economies in which we operate was revised down due – among other things - to expectations for a change in consumer confidence and a persistently higher level of inflation. However, consumer spending remained healthy in the first half of the year, supported by strong household finances as well as very low unemployment, and we continue to see good corporate sector activity. Against this favourable background, credit quality continues to be strong, with our PMAs and adjusted macro models being the drivers of impairment charges for the second quarter.

The good commercial progress was driven not only by strong customer activity in general, but also by our own initiatives in many areas of our business and we are happy to see our market share within some customer segments increase during the quarter. 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 fair value effect of loans at Realkredit Danmark, lending was up 4 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. 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 good 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.

As mentioned previously, the transition into a completely different interest rate environment has been challenging and had an adverse impact on net trading income, primarily within mortgage bond markets in Denmark and Sweden whereas our currency franchise benefited from good customer activity.
The insurance business saw a positive development in the underlying business which we will comment on later. However, income came in significantly lower, including the gain from the sale of our Norwegian insurance business.

In terms of operating expenses, we continue to make structural progress by reducing underlying costs however sustained elevated costs from remediation and AML continues to strain our cost line.

Stephan will comment on the financial results in more details later in this call and will also comment on our revised outlook for the full year.

But first, let's go through how we continue to make commercial progress within our business units.

Slide 2, please.

At our Personal Customer business unit, we generally see good activity across the Nordic region and we see momentum towards regaining our Danish retail position. We are working diligently on improving customer flows and have continued to see improvement. In terms of market position we have improved our market share for bank lending to 19 per cent as bank lending was up 4 per cent year over year. The strong development in bank lending is partly a result of recent remortgaging activity and our customers preference for our Danske Bolig Fri loan where the margin is higher than on conventional fixed-rate RD loan.

However, the call feature for Danish mortgage bonds also meant that some customers have been able to reduce their loans by 20+ percent which naturally reduces the average LTV ratio and therefore results in lower margins for us as a bank. On the other hand this made a good contribution to our fee income and also entails reduced credit risk which we will highlight later in this presentation.

We continue our challenger strategy in Personal Customer Nordic, with a positive trend in lending volumes, which were up 3 per cent year-over year in local currencies in both Sweden and Norway, and the traction we are experiencing with home finance meetings and approval of mortgage applications, further supported the trend in lending. Also, in Norway, we recently extended our partnership agreement with Akademikerne which underpins our focus to enhance profitability across the region.

For Business Customers, we have maintained our strong relations with our customers as they navigate the current uncertainties at a time when supply chain challenges and commodity prices have rapidly changing the landscape. We have seen credit demand and we have helped our customers with increased financing along with more ancillary offerings, particular cash management and FX product categories showed a strong development from the same period last year.

As part of our new service model in both PC & BC, we continue to enhance our allocation of resources through the investments we make in our digital solutions.
Coupled with good traction and further innovative digital offerings targeted to our segments, I am excited about the opportunities that lie ahead. We now have the organisation setup fully up and running as we have welcomed Christian Bornfeld and Johanna Norberg to the ELT as new heads of our new Personal Customers and Business Customers units.

Slide 3, please.

Let us then turn to LC&I.

Overall, LC&I had a busy period. The high level of economic activity drove a continually positive trajectory for our activities in General Banking.

In the first half of 2022, we experienced significant credit demand from our customers and we supported customers with some DKK 40 billion in new lending. Broadly speaking, credit demand reflects the limited

appetite to capital markets, our strategic ambition to grow in Sweden and high activity.

In relative terms, lending volumes at LC&I increased 24 per cent compared to the level the year before. The increase in lending volumes was especially high in Denmark and Sweden, where we have grown lending volumes by more than 30 per cent year over year. The strong lending volume as well as higher deposit margins, made a good contribution to NII, which increased 9 per cent year over year. However despite the increase in NII, total income in the first half 2022 was down 25 per cent from the same period last year, as a result of significantly lower net trading income and lower fee income.

The decline in fee income from capital markets related activity was caused in particular by a slowdown in ECM activity. Fee income in the first half of 2022 was down 9 per cent from a high level the year before and 6 per cent quarter-on-quarter. Our strong position in everyday banking services helped to counter some of this decline as fee income from everyday banking products sustained the positive trend seen in recent quarters.

Trading activities were affected by high volatility and low liquidity in the Nordic fixed income markets. This had an adverse impact and caused challenging conditions for our business in especially the second quarter. During the period we were pleased that as a leading Nordic fixed income house, we were able to continue to support our customers through a volatile period. In addition, while we remain committed to continue to run a leading Nordic fixed income house, we have applied a cautious approach for the rest of the year and calibrate our risk appetite to prevailing market volatility.
Stephan will talk in more detail about the financial markets and the impact on our trading income later in the presentation.

We continue to build on our market-leading position within sustainability and to apply the power of finance to drive sustainable progress. Demonstrating our leading capital markets platform, we were selected as Joint Lead Manager for a NextGenerationEU EUR 6 billion 20-year green bond issue and continue to be ranked number one among Nordic banks according to the Bloomberg League tables for sustainability-linked loans and sustainable bonds.

Our asset management activities were affected by financial market conditions as assets under management decrease. However, fee income in Asset Management increased slightly compared to the first half of 2021, driven by higher performance-related fees.

Let us now focus on our insurance activities.

At Danica, the result for the first half of this year was significantly lower than the result for the same period last year and also lower than the result for the preceding quarter. The turbulent financial markets with rising interest rates and rising inflation led to negative valuation adjustments and therefore had a negative impact on the investment results on life insurance products where Danica holds the investment risk, as well as on the investment result in the Health & Accident business. Please note, that the gain from the sale of Danica Norway of 0.4 billion is included in the result for the first half of 2022.

The underlying business continues to develop positively. We saw continued growth in premiums from the level in the same period last year as well as improved underlying health and accident business for which we saw 25 per cent fewer claims and improved recovery rates driven by preventive efforts.

Slide 4, please and over to Stephan.

Stephan Engels – CFO

Thank you, Carsten.

As Carsten just mentioned, we saw a good progress for our core banking activities in the first half of the year where strong commercial momentum for primarily our corporate customers led to an increase in lending volume and resilient income streams from diversified business model.

Income from core banking activities performed well and was in line with expectations. NII was up 4 per cent from the same period last year, as deposit-repricing initiatives and higher volumes more than mitigated the temporary margin pressure caused primarily by rising funding rates in Norway and Sweden. NII was up 3 per cent from the preceding quarter 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. The improvements we have seen in lending margins continued in Q2 which I will comment on in more details later.

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 Q2 with the preceding quarter, fee income came in lower primarily because of high remortgaging and seasonally high refinancing activity in Q1.

Net trading income came in significantly lower than in the same period last year, due mainly to very challenging market conditions for our rates business, whereas underlying income from customers held up well despite the turbulent financial markets. Relative to Q1, income was lower as market conditions for our rates business worsened in the second quarter. However, the contribution from other customers and Treasury had a somewhat mitigating effect.

As Carsten mentioned earlier, the underlying business at Danica performed well with high premiums and fewer claims. However, net income from insurance business came in significantly lower due to negative investment results on life insurance products where Danica has the investment risk. The result for Q2 includes the gain from the sale of Danica Norway of 0.4 billion.

Other income amounted to 1 billion for the first half of the year, including the gain related to the sale of our business activities in Luxembourg in Q1.

Operating expenses came in on par with the same period last year as higher cost for AML, sustained elevated remediation costs and the Swedish bank tax counterbalanced the one-offs we booked last year. Overall, we continue the good progress with reducing underlying costs compared to last year as well as the preceding quarter.

Loan impairment charges amounted to 0.2 billion in Q2, slightly down from Q1. Continued strong credit quality led to further reversals of impairments however, countered by adjustments of macro models and additional PMAs. We continue to have sufficient buffers in place, which I will also comment on later.

Net profit for the period thus amounted to 4.5 billion, down from 5.9 billion for the same period last year.

Slide 5, please.

Now let us turn to the underlying development in net interest income for the Group.

Overall, NII saw a healthy improvement of 4 per cent in the first half of 2022 from the level in the same period last year driven by deposits as well as lending.

On the deposit side, this uplift was driven by higher short-term rates and the effects of our deposit repricing initiatives we took during 2021 and 2022.

On the lending side, we were pleased to see a positive effect on volume from strong demand from our corporate customers in particular. This was however, partly offset by margin pressure in our Nordic retail business, mainly stemming from timing effects that arise because of the time gap between base rate increases and the associated implementation of price adjustments.

Compared to the preceding quarter, NII was up 3 per cent driven by the before mentioned positive volume development for corporate customers but also by recent rate hikes and the day effect.

With respect to wholesale funding activities we have been active during the first half year in order to meet our funding need, primarily by issuing covered bonds in Nordic currencies. Given the heightened level of uncertainty in the financial markets and continued elevated credit spreads in Q2, as well as the status of the Estonia matter, we have decided to remain somewhat sidelined.

Slide 6, please.

And then comments to our fee income development.

For the first half year of 2022, we were pleased to note that fee income maintain the strong level from last year despite the turmoil in the financial markets. A testimony to the strength of our diversified business model, fee income from core banking activities came in strong for the first half of 2022, which helped mitigate the lower activity level in capital markets related activities.

This was especially visible in terms of lending fees, which were up 8 per cent and activity driven fees, which were up 20 per cent year-over-year, mitigating lower capital markets related fee income and investment fees. Moreover, when adjusting for the landmark ECM deal we did in the first half of 2021, capital markets fees in the first half of 2022 were largely in line with the same period last year.

Relative to the preceding quarter, total fee income was around 7 per cent lower due to continued subdued activity in capital markets and seasonality effects given high refinancing activity in the first quarter.

Fees generated by investment activities were slightly lower both for year-over-year and relative to the preceding quarter, as they were impacted by lower assets under management and reduced investment appetite among our customers.

Slide 7, please.

Turning to trading income, let me start by providing some background for the adverse development we saw in the first half of the year and during the second quarter in particular.

The first part of 2022 was characterised by an extraordinary market situation across our main fixed income markets in DKK, EUR and SEK. As you know, the change in inflation led central banks to tighten more and sooner than expected. The large subsequent repricing of rates and credit spreads, led to extraordinarily high volatility and low liquidity in the Nordic fixed income markets. In this challenging environment, we continued to support our customers.

Against this backdrop, we today report negative net trading income for the second quarter primarily related to losses in our LC&I Rates & Credit fixed income operations.

Group trading income for the first half of the year came in at 0.2 billion and was significantly impacted by a negative result of 0.4 billion for the second quarter. The development in the second quarter was due mainly to a negative contribution from LC&I of minus 740 million. Income from our Currency business and from customer activity in the other business units contributed positively.

Slide 8, please.

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

The headline number for H1 came in in line with the same period last year. While we had specific one-offs in 2021, this year has seen higher than initially expected remediation costs, which was the main driver to

the slightly higher cost guidance for the full year we communicated in our company announcement on July 10th. Additionally, our cost base this year is also affected by the new Swedish bank tax, a partly normalisation of travelling, adjustment to amortisation of projects, and a one-time IT expense related to re-contracting. Overall, all of these have been absorbed by our ongoing efforts to simplify our operations and improve efficiency.

In that regard, 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. Adjusted for the planned FCP ramp up we have seen a 7 per cent decrease in FTEs since the peak in 2020. Lower costs for our transformation which is progressing according to plan, also contributed to the progress compared to the same period last year.

With the reasoning I just outlined we remain confident that our cost trajectory is on track as we look towards 2023. The elevated levels we are experiencing this year are in many cases characterised by cost items of a one-off nature, and as such the cost take-out we expect to see from hereon and through 2023 continue to be in line with our targets.

Slide 9, please.

Now, let's turn to credit quality and impairments.

Actual single-name credit deterioration and individual impairment charges remain very modest, and we saw additional single-name reversals, which this quarter were primarily related to the Oil & Gas segment.

Given the uncertain macroeconomic outlook we have minor charges from our model adjustments this quarter which coupled with additional post-model adjustments to further account for potential unforeseen implications that could impact our loan book. This meant that we ended the quarter with an annualised loan loss level of 4 bps for the Group.

The model adjustments to our macro scenarios I just mentioned has been done to reflect the increasing inflationary pressures and implications with a potential for more prompt policy action in terms of interest rates, which drove additional impairments of 0.2 billion in Q2. This came in addition to the 0.4 billion we had already taken in each of the two preceding quarters.

While we remain comfortable with the quality of our well-diversified loan book, some sectors will undoubtedly be impacted by the rapidly changing operating environment and as such, additional 0.45 billion of post-model adjustments were implemented to cover this uncertainty, taking our total PMAs to 6 billion. This now includes an adjustment in Personal Customers of 250 million relating to potential lower recovery rates for customers subject to debt collection.

So half way through the year, we take comfort in our well-provisioned position and the additional PMAs we have in place to account for the current uncertainties. Given our strong credit quality we continue to expect that impairments in 2022 will be below the around 8 basis points loan loss level we consider to be our normalised level.

But to further address some of the higher risk sectors, let's go to slide 10 please.

Now let me provide some additional context to some of the portfolios that are typically exposed to changes in the macroeconomic picture.

Firstly, our commercial real estate book is well diversified and characterised by very modest exposure to property developers. In general credit growth relating to commercial real estate has been balanced up until now due to our risk management practices which have included overall and sub-segment caps as well as concentration limits. In addition, our underwriting standards focus on cash flows and debt service capabilities, which include interest rate sensitivity, in addition to prudent LTVs at origination.

Our agriculture portfolio has a high proportion of secured lending via RD and has been significantly de-risked when comparing historically. Furthermore, the exposure is well diversified across sub-segments which mitigate potential risks when commodity prices move rapidly or when market dynamics are changing in general. Also for this portfolio we have a specialised unit managing the exposures and the rigorous underwriting standards have also resulted in a high degree of collateralisation.

Finally, property exposure related to our retail customers is supported by the strong household finances and continually very low unemployment across the Nordic region. So while inflation does affect disposable income to a certain extend, households' ability to service their debt obligations remain intact. In addition, the home equity is very high and of our RD book, 85 per cent is fixed for 5 years or more. And though some customers are facing higher rates on their variable products, the original credit approval depends, is among other things, on prudent debt-to-income assessment and the ability to service a mortgage loan during stress.

For all three portfolios outlined here we have substantial PMAs in place to cover any tail risks that could emerge and this further supports our solid balance sheet and hence why we are reassured by our strong asset quality.

Slide 11 please.

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

Our reported CET1 capital ratio came in at 17.1 per cent, mainly as a result of higher REA as a consequence of the higher market volatility and deductions related to Danica.

REA increased slightly in the second quarter as the increase in market risk following higher volatility in the financial markets in Q2 was partly mitigated by lower credit risk.

In our capital planning, we remain mindful of the regulatory landscape, including the announcement in Sweden that the countercyclical buffer will be raised to its normalised level of 2 per cent by the end of first half 2023.

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

Slide 12, please.

And then some comments on the revised financial outlook for 2022, that we announced on 10th July based on challenging financial market conditions and made despite the positive development in our core banking activities that we have presented in this call.

We therefore adjusted the net profit guidance for 2022 from 13 to 15 billion to now 10 to 12 billion, including the gains from MobilePay, Danske Bank International and Danica Norway.

As it appears from the financial report we have presented today, we see good traction for our income from core banking activities and on this basis we continue to expect this income to be higher for the full year. Higher net interest income driven by good economic activity will more than offset lower capital markets and investment related fee income. The announcement from yesterday's central bank rate hikes will provide further tailwind to our net interest income.

Net income from insurance business and trading activities are expected to be below normalised levels based on the significant lower income observed in the first half of the year and expectations for a modest income recovery in the second half of the year. This is of course subject to market conditions and with a degree of uncertainty higher that is than usual.

For operating expenses, we now expect costs in 2022 to increase from around 25 billion to around 25.5 billion driven by continually elevated remediation costs.
We will maintain a strong focus on cost management initiatives in order to continue the structural decline in underlying costs we consistently have delivered during the last couple of quarters.

Finally, we maintain our expectation for loan impairment charges to be below normalised level, given overall strong credit quality for the remainder of the year.

Slide 13, please and back to Carsten

Carsten Egeriis – CEO

Thank you Stephan.
Before we go to Q&A, I would like to wrap up by taking a step back and shortly reflect on the substantial progress we have made since we launched our 2023 Better Bank agenda. The journey that Danske Bank has been on since 2019 make me confident that we have the platform and advisory services to fulfil our potential as we operate with a more robust and efficient organization, and improved commercial momentum including our competitive edge within sustainable finance.

After I took over as CEO, we decided to adjust our plan for 2023 to reflect mainly the extended scope of our compliance and financial crime prevention agenda. While the first half of this year has been characterised by a rapidly changing economic landscape, where we have seen significant financial market volatility impacting trading and insurance income, the strength of our diversified business model and the traction we are gaining on our core banking operations makes me confident that we will deliver on our financial ambitions going forward.

Furthermore, having optimised the organisation and as we build on our solid foundation, we are approaching a more normalized state of business operation, which will undoubtedly enable us to sharpen our commercial execution even further. So going forward we will focus on continuity and sharp execution of our commercial priorities, to enhance our value proposition to customers and continue to play a key role in the society we operate in to the benefit of all our stakeholders. All these factors enable strong underlying traction as we position ourselves to deliver on our 2023 ambitions.

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

Claus I. Jensen – Head of Investor Relations
Thank you, Carsten

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

Operator

(Operator instructions). Our first question comes from the line of Johan Ekblom from UBS. Please go ahead your line is open.

Johan Ekblom (UBS): Maybe just starting on net interest income. So, after the hike we saw yesterday and the pricing action you took, I guess, we are getting back to zero rate quicker than we had expected. Can you talk a bit about how we should think about the rate sensitivity for the 50 basis points we had yesterday, where there is a full pass-through on deposits and how that changes for subsequent hikes that are expected later in the year?

And the second question will be on the costs side. I think in the bridge that you have helpfully provided, there is a net DKK0.1 billion savings from inflation and underlying savings. What is your thinking around inflation for next year in terms of what are you seeing on wage negotiations and general expenses? Just to get a sense for what your baseline is on the gross basis there.

Carsten Egeriis: Yeah. Thanks, Johan. I will just make a couple of comments, and then I will also pass on to Stephan on some of the inflation thinking and assumptions.

On NII, our expectation is that for the rest of 2022, the 50 rates changed yesterday by ECB and also by the Danish Central Bank is between DKK330 million and DKK340 million in 2022 and then around a full year impact of around DKK800 million. And then if we sort of look at the Group level, our expectation is that 25 bps hike from here on is around DKK800 million to DKK900 million on average for the next 1%. So there will be some convexity, if you will, a little bit lower for the first 25 and then it will be slightly increasing from there. And that is why I gave the range around DKK800 million to DKK900 million per 25 bps over the next 100.

But again, for the rates hike yesterday, DKK330 million to DKK340 million in 2022 and DKK800 million full year.

Then on cost, just a couple of points. I mean we have this 0.1 as you say. You will have seen that in the first half and also quarter-on-quarter, we have solely been able to in line with automation and digitisation and improvements we are making underlying to take down underlying costs. And the assumption is that that will continue.

So if you sort of look at the first half of underlying cost savings, which I think you can see in one of the bridges, you can assume that, that will be other than slightly higher rate going into 2023. And then, of course, inflation will offset that. It is too early to say exactly how much pressure there is from wage negotiations. There will be some, but Stephan, perhaps you can just talk about the inflation assumptions and how we think about it.

Stephan Engels: Yeah. Johan, we have obviously split inflation assumptions both by cost line. So the assumptions around mainly wage inflation, which is basically 60-65% of our total cost line. We expect somewhat lower inflation numbers in Denmark or wage inflation numbers in Denmark. I do not want to give a number here because I do not want to disturb ongoing negotiations.

And clearly, higher numbers in Lithuania and also in India, given that we do see quite some attrition typically for these near-shoring or outsourcing places. We already see some inflation this year because whenever you replace an existing position by somebody new, you are seeing more two-digit inflations on loans and wages already. So if I would give you summary assumption on what is the underlying number, I would say, somewhere between 4-5% already in.

It remains to be seen how things pan out going forward. And in that sense, some of the net NII inflow will probably be partly countered over specifically 23 by somewhat higher inflations, for example.

Johan Ekblom: But the 23.5 around stands, right?

Stephan Engels: Yeah. But just to be explicit on that as well, so far, 23.5 clearly is the holding point. And again, that entails some inflation assumptions. If then inflation come in higher, we need to revisit our possibilities. But 23.5 is clear the goal and then let us see how inflation pans out.

Sofie Peterzens (JP Morgan): So on the capital slide, you have DKK200 basis points deduction from Danica. Can you just clarify what this Danica deduction is and how it actually works?

And then my second question would be on your capital return policy. You guys shoved the second quarter interim dividend as well. How should we think about the potential fine from the US? How close are we, and once the fine is behind us, will the capital return policy normalise?

Carsten Egeriis: Thanks, Sofie. I will let Stephan talk to the Danica deduction. Just on the question on the ongoing discussions with US and Danish authorities. I mean we cannot say anything at this stage. There is nothing new to say. And therefore, we cannot say anything at this stage around timing or outcome. And clearly, when we do finalise, then we will come out and talk to our updated capital situation. But I mean, the dividend policy of 40% to 60% has not been changed. Stephan on Danica?

Stephan Engels: On Danica, so Danica's deduction is calculated as the difference between Danica's capital base and Danske Bank's holdings. Danica holding of Danske Bank's shares and so on and so on. So the main drivers at the Danica level is primarily due to an increase in market risk and to changes in interest rate scenarios. And also to a certain extent by the decrease in Danica's own funds, which is basically driven by the present value of future profits. So it is an extremely technical matter but that are the main drivers.

Sofie Peterzens: Okay. And maybe just to clarify on Danica. So if I want to forecast this by going forward, like what ratios in Danica should I look at? Is it the solvency ratio for Danica that fall to 184? Or what is a good proxy for this? Or is it allocated capital that increased or how should I think about?

Stephan Engels: I would, in general say, again, it depends on how markets will develop going forward. If we are in a somewhat more stable to more within expectation type of environment, I would think these deductions should be pretty stable. So the movements which we saw mainly in Q2 are obviously driven what has impacted also the trading line mainly. Again, it is a very technical matter and has a number of assumptions. But in general, I would think stable is the best I can offer for now.

Claus I. Jensen: If I may add just a little technicality, Sofie, this has nothing to do with the allocated capital that we have for Danica because there has been an increase during the quarter, but that is for other reasons. So you should not look at allocated capital when you were looking at the deduction in our capital ratio.

Sofie Peterzens: Okay. Yeah, maybe we can have a call offline. But I am still not 100% sure about this.

Namita Samtani (Barclays): My first one, back to the chart explaining how Danske is going to reach the DKK23.5 billion cost target. But I do not see a similar slide to revenues. So does that revenue guidance of DKK43.5 billion for 2023 still stand?

And then secondly, just on the cost. Why should we believe 2023 is the year remediation and legal costs will go down for Danske Bank? I think you were previously guiding to DKK0.4 billion decline in 2023 versus 2022 and now it is an even bigger decline expected at DKK1.2 billion if we include both remediation and legal. And also what type of gross cost savings are you assuming to get to the 2023 cost target? I think you previously said around DKK1 billion. Is it still the same?

Carsten Egeriis: Thanks for that. I think on revenue, yes, we continue to feel comfortable about the revenue plans for 2023, and again, feel that we see good momentum across all the business lines.

On cost, the question around why we should believe that the remediation and legal cost go out. Obviously, this is an assumption that we are making as management. And that is because, one, we have made a strong commitment to our customers to get a solution for the debt collection s case, which, of course, is a big part of the cost out here, the DKK800 million and then the legal costs are largely related to the ongoing Estonia matter. And again, it is an assumption that that can be done this year. But again, that is an assumption because we cannot say, of course, with conviction anything on timing at this stage.

But as you know, we announced that the discussions had started end of April. And therefore, we thought it was a fair assumption to think that could be done this year.

And then there was a question around the cost saving assumption of DKK1 billion. Stephan, did you pick that up? Or do you need that to clarify the question? Do you want to just repeat the last question around the DKK1 billion?

Namita Samtani: Yeah, sure. Yeah, I think in the last quarter or maybe the quarter before that, you guys were talking about DKK1 billion cost savings in 2023 compared to 2022. I just want to know if that still stands?

Stephan Engels: No. I think what we said before, and that is what we still have as part of the net underlying service, including inflation part that we expect underlying costs to meet our target, which means process optimisation, digitalisation, workforce footprint, non-personnel costs and all the other stuff of roughly DKK0.6 billion as a takeout in 2023, if you only look at that.

And then just to be complete, then you need to add MobilePay and Lux, which will be not on the cost line anymore in 2023. Assuming that all that gets finished, Lux is already finished, we expect MobilePay to finish in the second half of the year. So these two together add another DKK0.2 billion. So that is, if you want, so underlying cost takeout of DKK0.8 billion already between these two lines. And then there are some other moving parts, including transformation cost of DKK0.4 billion, which you can also see on the slide on page 8.

Jakob Brink (Nordea): The first question is regarding market shares and you are working in the initial part of your presentation about you now having posted 15% to 20% or so lower outflow than last year in personal customers' matters. But looking at your own market share graphs, it actually looks like the market share deterioration in Denmark has accelerated in the second quarter. Maybe that is due to business customers, but you are basically right in saying that you are taking market share. So can you explain that?

And then secondly, on the ROE target next year. Just trying to take your assumption implicit or residual in assumptions of the second half of 2022, given your full year guidance. It looks like you have a run rate ROE assumption of around 7% for the second half, and obviously, cost will be lower next year, according to your plan, but also the gains from MobilePay will not be there next year. And I guess, losses could be higher. So could you maybe just again fill in the gaps, how to get from maybe 7.5% to 8.5% next year, please?

Carsten Egeriis: Yeah. Hi, Jakob. Let me just answer on the market share piece. And these are obviously numbers that are also available from the Danish Central Bank. If you breakdown the market share into bank lending versus mortgage lending. Then if you take end of the year last year to year-to-date this year, Danske Bank has gained market share in private bank lending and has gained market share in corporate bank lending. And we are proud of that. And that shows, I think, the ongoing focus on regaining share and momentum.

We have also lost significantly lower amount of customers in Denmark. And in fact, if you look at our focus segments, which are the advisory heavy segments of our customer base, we have not seen customers leave us year-on-year for the first time in a long time. The overall market share is heavily impacted by ongoing stock loss in market share and mortgages. But if you look at Q2, and again, these numbers are available. If you look at Q2, net new loan market share for Realkredit Danmark, we are at 15.2% in Q2 versus, for example, 9.6% last year.

So we have actually seen now five, six quarters straight of relative improvement in that new loan market share in RD. But it is clear, of course, that given that the net flows are so much lower than the stock flows, the overall market share is impacted by that mortgage piece. And therefore, we, of course, focus on progression, progress and seeing that new net loan market shares are improving. And again, we are happy to see that trend. So that is what we relate those comments back to Jakob.

On the ROE run rate, I was not entirely sure on the different pieces, but Stephan, I think the key question is how do we get from the second half run rate ROE to 8.5% to 9%?

Stephan Engels: Yes. And Jakob, I think if you bridge from 22 to 23 on the ROE level, I think it is fair to assume that we cannot sell MobilePay as well as Lux and Danica Norway again next year. But we also, in all honestly, do not expect to see the same valuation losses and trading results that have impacted Q1 so heavily. So I think that is part of the starting point discussion on where do you think you end up in 2022 in a run rate model.

The second part of the equation is then obviously 2023. As Carsten just said, we remain comfortable with our DKK43.5 billion assumption. And in that sense, the latest rate hikes provide some tailwind to that, obviously. We have just reconfirmed our DKK23.5 on the cost side. And then the third part of the equation that you need to keep in mind that we have guided for a normalised capital ratio in 2023 around 16%, then that obviously will help the equation in a way also.

Jakob Brink: Okay. Just on the first question, Carsten, you said that the stock impact is the key negative. Do you have any overview of how much of that potential continued negative, you will see, i.e., the clients, I guess, that has moved their bank loans already or banking from Danske, but still have the mortgage loans? Did you have any picture of how much more to come?

Carsten Egeriis: No, I mean, I think the key thing here, again, is that during 2019 and 2020, the net new loan market shares have been significantly below the stock market share, right? And those are the improvements that we are making now. But even with 15.2% net new market share in Q2. And you may know this changes slightly through the year because of the different refinancing amounts. So I always compare quarter-on-quarter, so you compare apples-to-apples, and that is where I am saying

for five, six quarters straight now, we have improved our net new market share comparing like-for-like.

But clearly, even with those market shares of, again, 15% this quarter, you still reduce stock market share. But that does not mean, as I said before, we are losing significantly less customers. And again, in our advisory heavy segments, we actually are not losing customers year-on-year.

So when you see the trajectory in terms of customers coming in and customers going out, as well as the improvements that we are seeing in bank loans and RD, we feel it is going in the right direction. But the overall stock market share will continue to fall for a bit, right, because the net new market shares on mortgages are just lower than the stock. But we are working on it, as you can see.

Omar Keenan (Credit Suisse): I understand you are targeting 16% common equity Tier 1. And I just wanted to ask a follow on from Sofie's question. Can you discuss your views on the look-through CET1 hurdle? And what do you see further on the regulatory front from RWAs maybe in Basel IV? And the reason I am asking the question is, I want to understand the available capital resources to meet a fine net of any other two add-ons that might be there already for fine as well?

Stephan Engels: Let me try to offer at least some answers to your question. With respect to Basel IV, I think we have said already over the last quarters that the implementation of the EBA guidelines that we have been doing and that have led to quite some real inflation over the last couple of quarters, from our point of view, covers at least the first stage of the Basel IV implementation. So in that sense, we do not expect, at least as per now any further effect on our capital base from that matter.

Secondly, if we look at 2023 and similar to what we have said earlier on legal cost, assuming that the Estonia matter has put to rest, that also is reflecting in a way the 16% assumption, which means that whatever the fine may look like. And again, we can't say anything, we do not know anything or we do not have anything to offer on that matter right now. That will obviously be driving partly or totally or whatever, and I do not, again, want to give any indication the excess capital.

And then once that matter has been hopefully solved at some stage, I think then we can talk to more detailed action. But for now, I would think it is far too early.

Omar Keenan: Okay. So the 16% hurdle is a look-through number, whatever happens with the fine?

Stephan Engels: That is after the fine, yeah.

Robin Rane (Kepler Cheuvreux): So with the increase from the Danish Central Bank yesterday, you increased the deposit rates for customers now paying negative deposit rates. Given that banks in Denmark have implemented this when negative rates have been negative, how do you think banking systems ability to keep rates closer to zero when rates go beyond zero and turn positive? So I mean, how do you see deposit rates basically developing when rates are positive?

And then secondly, on corporate margins. I mean, we have seen corporate bond yield spreads widen during spring and do you think this will eventually maybe help corporate margins on new lending or have you seen the dynamic there?

Carsten Egeriis: Thanks for that. I will start and then Stephan, you can add. So yesterday, we passed on the 50 bps for personal customers in Denmark. If you have more than 100,000 in deposits, you still pay a minus 20 bps rate.

And then the question is, how will pricing on deposits, I took that first question, develop as we see rates go above zero? And look, obviously, we are obviously very careful around not price signalling. But I think there is historical views on how pass-through rates develop. And those are obviously the various different assumptions that we use in our NII sensitivities and we gave those NII sensitivities earlier in the call.

Corporate margins, clearly, a risk, higher risk macro scenario will typically drive lending towards probably more shorter term, more higher loan-to-value on the mortgage and real estate side, probably also some rating migrations and all of those things, I would expect to have some upward pressure on margins. Stephan, I do not know if you wanted to add on any of those two.

Stephan Engels: No, I am fine. Perfect.

Carsten Egeriis: Hopefully, that answers.

Martin Gregers Birk (SEB): A couple of questions from my side. The first one being on your thinking around deposit margins yesterday, and why you chose to follow one-to-one rather than maybe keeping some of your deposit margin. I guess the deposit margins has been a sector issue many, many years and you still earn far less on deposits than compared to what you should? That will be my first question.

And second question goes on the trading and net insurance loss. When I look at the volatility in your earnings compared to peers, it seems to be quite a lot higher. Are there any thoughts going into this? And then my last question on funding, and specifically AT1 and T2 funding. What are the plans here?

Carsten Egeriis: Hi, Martin. Thank you for those questions. Look, on the deposit margin, we set a margin to the actual rate, right? So now we are charging 20 bps on above DKK100,000, which, of course, is a margin to the 10 bps that the Danish Central Bank has. So we have maintained the margin and just passed on the rates straight and we believe that that is appropriate.

On the trading and insurance side, I think on the insure investment loss and it is always hard to make comparables. But from the peers that have been out on the insurance side, we do not believe that we have seen higher insurance investment losses at Danica.

On trading, clearly, we saw higher losses than peers on trading. And when you look back and you look at the positioning of our trading business, we have about a 50% market share in Denmark on Realkredit and on state bonds as well. And in Sweden, it is probably 30% to 40% market share. So we are significantly larger than our peers in fixed income.

But when we look ahead, wider spreads, higher rates and also steeper curves should be very supportive for our fixed income franchise. And despite the significant derisking that we did towards second half of June and into July, we feel very comfortable with the second half assumptions and also the 2023 assumptions on income also based on what we have seen month-to-date in July. But obviously, it is early days still.

And then, Stephan, perhaps you could comment on the funding question.

Stephan Engels: Yeah. As I have stated earlier, we have been active in the funding markets during the last quarter. We have been very active in the preceding quarters, also expecting or preparing for probably a period, where we want to be a bit sidelined also due to the Estonia matter. On AT1 and Tier 2 in specific, there is nothing as per now that I think we are announcing or having on our plans at all, given that the total capital position as well as the core Tier 1 position are both comfortable.

Martin Gregers Birk: Okay. But as far as I can see on the funding side, you do have some space in both the AT1 and T2 book. And basically, what also I am referring to, Stephan, is that, I guess in previous conversations with you, I mean, I guess there has been a clear hint that whatever excess capital may be Danske Bank would be look at post a settlement. And my thinking is, do you think that the Danish FSA is going to demand you to fill up those two buckets before you are able to pay out any excess capital? Would that be a fair assumption?

Stephan Engels: I do get your question. Martin, do not get me wrong, but I think we are now somewhere on the border line between guessing and crystal ball. So I think we are all well advised to see what the future holds and then let us see how we can deal with that.

Johannes Thormann (HSBC): One follow-up question, first of all, on the trading losses. You just talked about that, you have derisked the portfolio massively. How much have you reduced your inventory? So that is my first question.

And secondly, on the costs, you gave some bridge in terms of where you think the cost savings will come from legacy legal cases. Can you probably help us understand how it will impact the different cost lines like personnel, IT costs and so on, because IT costs for example, we only see rising over the last quarters. Or will these falling or going away legacy legal costs mainly affect other costs?

Carsten Egeriis: Yeah. Thanks for that. No, I mean, we do not report on the inventories in our trading books. But again, I can confirm that we have substantially derisked our positions on the back of this volatile environment and being cautious. But again, what I can say is that July month to-date looks in line with income expectations, taking all that into account and despite the derisking of the book.

Then I did not catch the whole question, but let me give it a stab and then, Stephan, you can also come in. The remediation costs, the large parts of the remediation costs are really associated with two cases, the debt collections case and then the AML case. And the cost around the AML case is legal costs and predominantly external legal costs, and that is the DKK400 million that we alluded to. And then the cost around the debt collections cost the DKK800 million that you see here is mostly related to external support to clean data, to help do calculations, to help look at how we compensate and so on and so forth.

So there is limited, if you will, additional IT costs as such related to that. Then I think you had a cost on IT costs more generally. And I believe you said increasing IT costs. And I do not know, Stephan, if you want to just comment on that.

Stephan Engels: No, I happily comment on that. There is two issues to mention here. One is we did a re-contracting of a main component of our IT, which had a one-off cost in Q1, which is DKK50 million roughly. And we expect that to coming back in a way by benefits from lower cost of that part of the outsourcing or the re-contracting going forward. And then IT costs were also slightly affected by different dynamics in capitalisation and amortisation of some of the IT costs.

You know that we have a relatively strict approach to capitalisation, which then is also visible in the very small amount of intangible assets, which gets deducted from capital anyway.

Johannes Thormann: Okay. And one question on the legal cost or external legal costs. Is it fair to assume that they will mostly go out of other operating expenses or anywhere else?

Carsten Egeriis: No, they are allocated on the respective responsible ELT members. So in that sense, they are part of legal cost. And those are also allocated largely to the segments.

Jan Erik Gjerland (ABG): Just a follow-up on Omar's question regarding the CET1. If you look at your page 11, you say that 14.4% is your fully requirement look through. What is the difference between the 14.4% and the 16% is my first question.

And secondly, the DKK10 billion, you say you have implemented into a fine level into your 17.1%. Is it taking as added REA or is it a deduction in the capital level?

Stephan Engels: Well, I think to answer your first question, the 16% is our capital target. The 14.4% you can see in the presentation is the regulatory fully phased-in CET1 requirement. And then I did not get your last question. Could you repeat?

Jan Erik Gjerland: You say in your report that you have some DKK10 billion provision inside your, say, 17.1% capital target or capital level. Could you elaborate where it is and how it is calculated?

Stephan Engels: Yeah. If you look, again, look at slide 11, in the regulatory fully phased-in, the DKK2.4 billion or the 2.4%, as you can see on top of the 12%, that is the Pillar II add-on for Danske Bank. And in that add-on, the DKK10 billion that you are referring to is included.

Jan Erik Gjerland: Okay. Just one follow-up then on the 16%. Is that included and fully phased in countercyclical buffers in the Nordics and also Denmark? And what level are you now expecting to have, including in those levels?

Stephan Engels: Yeah, it is taking the buffers as we know them today. They are included in that number.

Jan Erik Gjerland: Okay. So not any hikes from here?

Stephan Engels: No, I am not sure what you mean about hikes because we know where the countercyclical buffer is and we know that they are almost fully utilised by the authorities. So there is no further buffers coming in, in our calculations here.

Jan Erik Gjerland: Okay. So, the 16% is taken care of the fully phased-in, in the Norway and Sweden, to 2.5 and 2 percentage points each?

Stephan Engels: Correct.

Carsten Egeriis: Okay. Thank you very much, everybody, for listening in today and for your questions. And as always, you are welcome, of course, to contact Claus and our Investor Relations department. Thanks very much.