



Conference call

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Investor Relations

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Claus Ingar Jensen – Head of Investor Relations

Good morning, everyone. Welcome to the conference call for Danske Bank's financial results for the first nine months of 2023.

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.

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 Rasch Egeriis – CEO

Thanks Claus, and I would also like to welcome you to our conference call for the financial report for the first nine months of the year.

The first nine months of 2023 marked a period of sustained, and even increased, geopolitical risk, which combined with inflation and rate hikes has impacted the macroeconomic landscape and thereby our operating environment.

Central bank efforts to fight inflation have led to a sharp rise in interest rates however, as the increase we have seen in core inflation seems to be sticky, and given central banks' readiness to hike rates further, we may be looking at a 'higher for longer' interest and inflation rate scenario.

Although the short-term effect on most of our customers has been muted and smaller than what we previously anticipated, we have yet to see how the longer-term impact of higher interest rates will materialise. This adds to the already limited visibility for the economic outlook.

In this environment, bank profitability in general has benefited from more normalised interest rate levels and from lower-than-normal loan losses, mainly attributable to model-driven charges.

This is also the case for our performance in the first nine months. The return on shareholders' equity was 12.5 per cent for the period, driven by a satisfying development in profitability as our cost/income ratio improved from above 67 per cent for the same period last year to now 49 per cent, supported by a loan loss ratio of only 2 basis points.

When measured against the financial targets of our 2023 plan, I am pleased to see that we are on track to significantly exceed our revised targets set at the end of 2022. Although the year has not yet come to an end, I dare to say that the outlook for the financial result for the full year is not only a solid contribution to our efforts to restore profitability, but also a promising start to our upcoming new strategy period.

Our performance is based on sustained execution of our commercial agenda, at the same time as customer activity has held up well. A strong proof point is the positive trend for income generated by our customers' daily banking activities, which clearly illustrates the resilient nature of our business. Investment and housing market activity slowed, impacted by the uncertain economic outlook, however investment-driven income improved in the second and third quarters. The same goes for capital markets activities, which not only improved relative to the same period last year but also quarter-on-quarter. This was clearly based on our ability to benefit from more constructive market conditions and strong delivery on our sustainability-related ambitions.

Our lending and deposit business was fairly stable in the third quarter, however with a clearly positive trend for some of our focus segments. I will just mention two observations before I comment in more detail on the next slide.

We have seen continued progress for our mortgage business in Denmark. In a market characterised by low activity, I am pleased to see that we have grown our share of new lending in Q3 for both the business and the retail segment, and for the latter, our front book market share exceeded the back book market share in Q3. The decline in lending at Large Corporates & Institutions, which was not unexpected, should be seen in the context of the recovery we have seen in capital markets activities.

Deposit volumes remained relatively stable in the third quarter when measured in terms of stable and operational deposits, whereas non-operational deposits at LC&I saw an increase. In Denmark, we continued to see an increase in retail deposits in Q3 that was primarily driven by our well-recognised offering within savings products.

Credit quality remained strong with limited credit deterioration impairments recognised, which led to a net charge of 0.3 billion recognised in Q3. As we had no changes in our previous report, this also represents the charges for the first nine months.

We have maintained a strong capital position, and at the end of Q3, our capital ratio improved to 18.8 per cent.

On the basis of the satisfying performance for the first nine months, we narrow our financial guidance for the full year and now expect net profit to be between 19.5 and 20.5 billion for 2023.

Slide 2, please.

Despite the economic slowdown in the regions in which we operate, we continued to see progress across our three main business units.

At Personal Customers, the operational performance was strengthened further by a continued expansion of deposit margins, and as a result, profitability more than doubled from the level a year ago.

As a result of healthy household finances and good customer activity, activity-related fees remained solid. Sentiment on the housing market

has improved throughout the year so far, although transaction and remortgaging activity remained low relative to the same period last year. The higher interest rates and uncertainty related to the new property tax appraisals in Denmark will likely continue to be an overhang affecting customers.

In respect of volumes, deposits at PC remained strong despite seasonality effects related to summer spending and the expected natural attrition from PC Norway. In Denmark, we continue to see a positive trend, and our diligent pricing measures also contribute to our holistic value proposition and improvement in overall customer satisfaction. As investment products in the light of higher interest rates have become more attractive, we have also seen a steadily higher inflow during 2023 in Asset under Custody.

In terms of our recognised deposit savings products, migration has moderated during Q3, where the inflow amounted to 5 billion. Overall, a solid testament to the quality of our offerings and applicable solutions for self-service in our Mobile Banking app.

In terms of lending volumes, the stabilisation of the housing market in Denmark added support in the third quarter, and we continue to see strong demand for our flexible product offerings, with more customers opting for our "Danske BoligFri" home loan product, for which volumes were up another 3 per cent this quarter.

Along with the traction on front book market shares at Realkredit Danmark that I highlighted earlier, this progress is particularly pleasing as we continue our efforts to regain our fair share of the Danish retail mortgage market.

We continue to execute on our digital and non-digital initiatives, and during the third quarter, we added more customer-friendly Mobile Banking features, such as the possibility of opening high-yield savings accounts and making automated monthly investments.

At Business Customers, we saw solid financial results, with profit before impairments up 17 per cent from the same period last year. In the third quarter, NII was impacted by the allocation of MREL costs.

Engagement with our business customers is gaining traction, and volumes developed favourably in the third quarter despite the overall economic slowdown as both lending and deposit volumes were up another 1 per cent in the quarter.

In respect of fee and trading income, we saw the impact of lower seasonal activity for FX as well as lower service and property market-related fees. Despite this, we still saw the benefit of our subscription-based fee model, which along with our cash management offering, remains a key example of increased customer engagement and the potential to improve our share of wallet among our business customers further.

Optimising our pricing structure is a priority at Business Customers, and we are working diligently to align the pricing of our services and products to market levels, with a holistic customer focus in mind.

To ensure a better customer experience and a faster lead time for customer inquiries related to daily banking services, we have harmonised our customer support setup across the Nordic countries. We have also launched targeted District webinars with significant take-up from our business customers, which increases self-service awareness and adds to our digital and advisory value proposition. As a result, customers are highly satisfied with our support and offerings.

And then finally, LC&I.

During the third quarter, the capital markets became more constructive, and we generally saw improved activity across our franchise. Particularly the debt and equity capital markets started to see improved conditions, and we are pleased to have helped our customers capitalise on this opportunity. In Debt Capital Markets, we saw a high volume of deals during the quarter, including more than 10 billion raised in sustainable bonds and sustainability-linked notes, solidifying our number one position in Bloomberg league tables among Nordic banks.

Our ability to provide advice and relevant product offerings no matter the condition in the financial markets is testament to our tier 1 LC&I franchise. Customers opting for debt financing in the capital markets naturally affects our balance sheet volume, which was further affected by a normalisation of liquidity facilities from the situation a year ago when energy prices were very volatile. Despite the lower lending volume in the third quarter, we saw a stable development in NII on the back of continually improved deposit margins.

Fee income at LC&I was a particularly positive contributor in the third quarter as the DCM activity I referred to before, along with generally solid activity within cash management and transaction banking, mitigated the seasonality-related decrease in trading income in Q3.

Investment fees also made a positive contribution in the third quarter. Assets under management has shown steady recovery through 2023 so far, driven by an improvement in the financial markets. Higher AuM was further supported by traction within net sales, where particularly our private wealth management business improved in Q3. For the year to date and in Q3, Danske Invest has seen a net new inflow above its back book market share, thereby improving our market share and position further. Finally, the majority of our fund strategies have outperformed benchmarks, which also supports future inflows.

So overall, another strong quarter for LC&I, and our penetration to corporate clients continues to improve, with added mandates and new relationships that are underpinning our new strategy and bodes well for a sustainable uplift in performance, regardless of the conditions in the capital markets.

I will now hand over to Stephan for a detailed walkthrough of the financials.

Slide 3, please and over to Stephan.

Thank you, Carsten.

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

As Carsten just mentioned, we saw a strong financial performance when comparing with the first nine months of last year. Net profit more than doubled, when excluding the effect of the provision for the resolution of the Estonia matter and goodwill impairment charges in 2022.

Net interest income saw strong progress in line with expectations. NII was up 46 per cent from the level a year ago, as the normalisation of interest rates and our own efforts to optimise pricing structures had a strong positive impact.

The improvements continued in the third quarter, where NII was up 10 per cent from the preceding quarter - 6 per cent adjusted for a one-off - as deposit margins in particular continued to benefit from normalised interest rate levels.

Net fee income came in lower than the level a year ago. The decline was driven by overall lower housing market activity as well as a decline in fees from lower assets under management. In Q3 however, fee income improved from the preceding quarter, due mainly to an increase in investment and capital markets activities whereas lending and general activity-based fees were stable relative to the level in Q2.

Net trading income recovered from a low level a year ago, when the financial markets struggled with the impact of the Russian invasion of Ukraine. In the first nine months of this year, market conditions have been more supportive at the same time as our fixed income franchise has benefited from a new strategy. Please note that Q3 included the impact of the release of a loss of 0.8 billion from Other comprehensive income following the exit of the retail business in Norway.

Net income from insurance improved from the low level last year when financial market uncertainty led to negative valuation effects. In the third quarter, the result improved slightly relative to the preceding quarter, however, an increase in claims in the health and accident business and a provision for potential customer compensation had an adverse effect on the result.

The underlying business improved due to an increase in premiums of 12 per cent on the basis of an inflow of new business relative to the year-earlier period.

Other income amounted to 0.4 billion in the third quarter as the result included a gain of 0.1 billion on the Infosys transaction.

Operating expenses came in 4 per cent lower than the level a year ago, which included one-off costs related to the debt collection case. The

impact we have observed from higher inflation and elevated remediation costs has been more than mitigated by lower staff and remediation costs.

In Q3, expenses fell 2 per cent relative to Q2, primarily as a result of lower costs for remediation of legacy issues.

Against this background, our cost/income ratio in Q3 showed good progress and stood at 48 per cent, against 68 per cent a year ago and down from 52 per cent in Q2.

Loan impairment charges came in lower than expected and reflected continually strong credit quality, which led to only modest impairments of 0.3 billion in the third quarter. I will comment on impairments in more detail later.

Finally, the tax expense in the third quarter of 1.2 billion included a payment from the tax authorities of 0.6 billion due to a correction of taxes for earlier years.

Net profit for the first nine months thus amounted to 15.5 billion, more than twice the result from the same period last year and up 6 per cent from the preceding quarter.

Slide 4, please.

Let me take you through the recent development in net interest income.

NII continued its positive trajectory with another 10 per cent increase in the third quarter, adding to the year-on-year uplift of 46 per cent. While the strong trend benefited from the 0.3 billion tax-related contribution we have flagged previously, it also indicates continued margin expansion as we have diligently adjusted our deposit pricing, including attractive savings products.

Our total deposit volume remained strong, well diversified and with the majority of it being classified as stable or operational deposits.

In the third quarter we saw a positive inflow from our corporate and institutional customers, and outside the expected effect of our announced PC Norway divestment, the trend at Personal Customers remains solid. At PC Denmark, the level was supported by another 5 billion in inflow to our Danske Indlån and Danske Toprente savings products during the quarter.

As a reflection of the overall slowdown in the economies, the trend in lending volumes has been subdued throughout the year. In Q3, credit demand was overall stable despite the impact of the run-off of credit and liquidity facilities related to the utility and energy space that spiked a year ago. In addition, the pick-up in the debt capital markets has naturally led to a shift where we as a leading Nordic investment bank have advised our customers in relation to bond transactions instead of utilising our own balance sheet.

Lending margins remained impacted by the catching up to higher short-term funding costs and the lagging effect due to notice periods and the timing of repricing of loans in general. In addition, the allocation of capital costs is now reflected at business unit level and was the main driver behind the lending margin drag in the third quarter.

Along with the impact on business unit deposit margins from the overall management of interest rate risks in the banking book, this treasury allocation had no Group impact. This Q3 effect has been communicated previously, most recently in our pre-close call.

Finally, on our NII sensitivity, we have seen a natural moderation as we have gotten more firmly into positive territory, with the pricing considerations that follow. For the next 25 basis points uplift, we thus see around +600 million. However, as the balance sheet effects from our hold-to-maturity portfolio and unhedged fixed rate assets are gradually taking hold, we would, all else equal, expect to see a year 2 and year 3 benefit of another DKK 300 million and DKK 200 million, respectively.

Slide 5, please

Next, let's have a look at fee income.

While the higher interest rates and the economic slowdown have led to lower housing market activity and credit demand, which impacted fee income from lending and guarantees relative to the same period last year, we saw a stabilisation in the third quarter. In fact, overall fee income was up 5 per cent from the preceding quarter as activity-driven fees continued to benefit from stable consumer spending along with good corporate activity related to our cash management services and transaction banking.

As I alluded to on the previous slide, DCM activity is trending in the right direction, and we have been actively optimising the capital position of our customers with appropriate bond financing. In addition, we saw a gradual improvement in ECM activity, while the execution of IPOs remained low, despite a healthy pipeline.

On investment fees, the development since last year was driven primarily by lower customer activity, lower assets under management and lower performance fees.

When comparing with the preceding quarter, customers' investment activities rebounded and we saw a recovery in fees generated by Asset Management due to an increase in assets under management, also supported by higher net sales to private banking customers.

Slide 6, please.

And then moving to the final income line that I will comment on, namely net trading income.

Net trading income improved significantly in the first nine months and amounted to 2.9 billion, which is a significant recovery from the low level in the same period last year. Higher customer activity, more supportive financial market conditions and the benefits of the implementation of our new fixed income strategy have all been positive drivers for trading income.

In the third quarter however, net trading income at LC&I declined somewhat, due mainly to seasonality over the summer.

At Personal Customers and Business Customers, we report lower combined net trading income as activity levels normalised, for instance within customer demand for FX hedging solutions.

The interest rate hedge in Northern Ireland led to a positive impact both year-over-year and quarter-over-quarter, reflecting a combination of interest rate expectations and the reduced remaining life of the hedging instruments.

Trading income at Group Functions was negatively affected by the reclassification of 0.8bn from OCI, related to the CET1 FX hedge following the exit of the retail banking business in Norway.

Slide 7, please,

Now moving on with a closer look at our operating expenses.

Overall, our cost development continues to progress according to plan. Consequently, we reaffirm our full year outlook for costs between 25 and 25.5 billion.

Expenses came in 4 per cent lower than the level a year ago, which included one-off costs. As our cost base this year is impacted by increasing inflationary pressure and elevated remediation costs, I am pleased to see that we continue to benefit from a disciplined approach in our cost management.

Relative to the same period last year, lower staff costs, reduced spending in general and, as expected, run-off of transformation costs drove costs down in the first nine months. Due to the gradual normalisation of financial market conditions, performance-based compensation increased.

In the third quarter, expenses came in 2 per cent lower than in the second quarter, primarily as a result of a continued decline in staff costs and transformation spend but also from lower costs for the remediation of legacy issues.

Slide 8, please

Let us take a look at our credit portfolio and the development we have seen this year so far.

Nine months into the year, credit quality remains strong, seeing accumulated impairment charges of 0.3 billion. This modest number is clearly below normalised charges and reflects the robust credit quality of our portfolio, backed by a macroeconomic environment that has developed more favourably than we initially expected for this year.

For Q3 in isolation, the charges amounted to 0.3 billion, based on an adjustment of scenarios in our macroeconomic models, and minor credit deterioration related to very few single-name exposures within more cyclical sectors.

Against this background, we have decided to repurpose a small part of our buffers to the more cyclical sectors, including Commercial Real Estate, and in addition, we have released 0.1 billion in an overall assessment related to the few single-name cases we have seen this quarter. We maintain our prudent approach in terms of management overlays with PMAs equivalent to more than 4 years of normalised loan losses.

In respect of commercial real estate, we maintain our conservative approach, and as of this point, actual credit deterioration in this part of our portfolio remains limited.

Given the strong credit quality, recoveries in the first half of the year and lower than initially expected model-driven charges related to the macroeconomic outlook, we have revised the 2023 full-year impairment guidance. We now expect impairment charges up to 1 billion, significantly less than the initial guidance of up to 3 billion when we started the year.

Now, let us have a look at our capital position.

Slide 9, please.

Our capital position remained strong level and was further supported by the capital generation in the third quarter that took our reported CET1 capital ratio up to 18.8 per cent.

The increase in the CET1 capital ratio was primarily a result of the increase in net profit and a lower deduction related to Danica Pension, as well as the capital effects of the FX unwind related to PC Norway as this was recycled from OCI and thus already reflected in our capital.

Our CET1 capital ratio includes the retained net profit for the quarter after accrued dividend of 60 per cent in line with the high end of the range of our dividend policy, as usual.

Our CET1 capital requirement increased to 14.3 per cent as the Norwegian Systemic risk buffer has now been implemented. Our fully phased-in CET1 requirement is now at the same level as the reported number but based on our current balance sheet composition, including the exposure to retail customers in Norway. Recently, the Danish systemic risk council announced a new 7 per cent capital add-on related to Commercial Real Estate. As we have prudently managed our

Commercial Real Estate exposure and reserved a significant amount of PMAs as highlighted on the previous slide, we find this approach much too simplistic and pro-cyclical. But if implemented in this form, it will add around 40 basis points to our fully phased-in requirement.

We remain very comfortable with Danske Bank's healthy buffers to current and future regulatory requirements.

Slide 10, please

And finally, I would like to comment on our outlook for 2023, which has now been narrowed. We now expect net profit for the full year in the range of 19.5 to 20.5 billion, including the impact of the new Danish bank tax and various one-off items recognised during the first nine months.

We continue to expect a positive trend in net interest income based on the full-year effect of the normalisation of interest rates as a result of announced central bank rate hikes and our continued efforts to drive commercial momentum.

Fee income is expected to be below the level in 2022.

Net trading income is expected to be at a normalised level including the release from Other comprehensive income of a loss on the CET1 FX hedge attributable to the sale of our personal customer business in Norway.

Income from insurance business is expected to be lower than the normalised level due to negative valuation effects, higher health and accident claims and a provision for potential customer compensation.

We maintain our outlook for operating expenses in 2023 to be in the range of 25 to 25.5 billion, including continually elevated remediation costs of approximately 1.1 billion. The outlook reflects our continued focus on cost management despite increasing inflationary pressure and initial investments as part of our Forward '28 strategy.

We now expect loan impairment charges of up to 1 billion due to continually strong credit quality, recoveries in the first half of the year and lower-than-expected impact from model-driven charges related to the macroeconomic outlook.

The outlook is, as usual, subject to financial market conditions.

Slide 11, please and back to Claus

Claus Ingar Jensen – Head of Investor Relations

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 within the next few days.

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

Q&A

Jakob Brink (Nordea Markets): Just one question on capital. So, 4.5 percentage points buffer to the minimum requirement; you say 40 basis points potentially from your new CRE buffer in Denmark, but I guess there are also a few positives from when you sell the personal banking business in Norway. The systemic risk buffer here will be lower and also potentially part of it will go away. So at least 4.5%, I would say, buffer adjustment. I do not know if you agree on that.

But then, following up on that, you mentioned in the Q2 report that there would be some discussion with FSA around capital markets and capital requirements in connection with payouts. Could you maybe elaborate on that in the light of the potential investments minimum requirement and [inaudible], please?

Carsten Egeriis: Hi, Jakob. Thanks for the question. You broke up a little bit at the end, but I think I got the question. So you are right; the buffer is 450 basis points. You are also right to say that we expect, of course, capital upside from the sale of PC Norway, which, of course, is an offset to the likely CRE buffer that we will get in the summer next year. Obviously, that has not been finally approved, but that is the expectation. I think the guidance I will give you is the same that we also gave you in Q2: that we continue our discussions with the Danish FSA around both our Danish FSA stress testing and also where we believe the buffer should be. And I think, both as part of Q2 and as part of the strategy discussion in June, we have guided towards wanting to come out to the market with an updated view on capital target and buffer in the summer, and next year would be a good time for that. But we continue, as we say, to feel very good about our capital position, the buffer. And as we also said in June, we do believe that there is opportunity, over the strategy period that we set out, to distribute excess capital.

Jakob Brink: And do we have to wait till summer to see more than ordinary dividends? So you have 450 basis points buffer, and that will probably increase in Q4 as you do not reserve for 100% payout in Q4, so even higher buffer in Q4. So would you have to wait for the discussion with the FSA to do buybacks, or do you feel so comfortable that you can do something already before?

Carsten Egeriis: I think, for now, I will leave it at saying that we will update you on the buffer in the summer.

Jakob Brink: Okay. Fair enough. Then, just on net interest income and your sensitivity, you gave on the NII slide on page four, I believe it is, on year two and year three. So if we add those DKK500 million additional in year three relative to year one, times the 16 times the rates have been raised 25 basis points, that gives us around DKK8 billion support in year three relative to year one. With that in mind, do you see any way where net interest income will only be flat from 2023 to 2025? Can you imagine anything negative enough to offset that support – migration or whatever?

Carsten Egeriis: I would say, Jakob, so just for everybody, you are talking about the year two and the year three sensitivity and extrapolating, based on the interest rate increases that we have had over time, what the uplift in income is going to be over the next coming years. I think that is the right way to think about it directionally. Obviously, that is all else equal with our best views on deposit betas and the behaviours that we are seeing right now. I do not know, Stephan, if you want to comment any further?

Stephan Engels: Yes. I think the year three disclosure is obviously a further detail that we have not given so far. We have spoken about the DKK300 million as a long-term benefit already at the Investor Day. And in that sense, multiplying the DKK200 million by the 15 or 16 rate hikes, it gives you more like DKK3 billion for 2025. And in that sense, I think that is the right way to look at it. As always, it is a constant balance sheet and a number of other assumptions, but directionally, that is right. So what we are saying is basically no, the NII has not peaked, and yes, we expect positive NII momentum going forward.

Sofie Peterzens (JP Morgan): So, just going back to the net interest income and the new guidance, so, I mean, how should we think about net interest income? Maybe first of all, given that if I look at the divisions in large corporates, net interest income was down quarter-on-quarter. In business banking, it was down quarter-on-quarter. In personal banking, it was up only 2% quarter-on-quarter, and in Northern Ireland, it was up only 2% quarter-on-quarter. And when I look at the slide, it seems that, clearly, you had the DKK300 million benefit, but also everything else basically seems to come from treasury. So could you maybe just talk about, like, should we see a reversal, for example, of the minus 7% quarter-on-quarter decline that we saw in business banking in coming quarters, or how should we think about the divisional net interest income going forward?

And also, with your new guidance of DKK200 million NII benefit in year three, could you also maybe just talk about is there any new hedges that you have put in place? How much is coming from Finland, where the mortgages are longer, or one-year fixed basically, and it takes longer time to reprice it? So maybe if you could just talk a little bit about that.

And then my second question would be around asset quality. We saw now DKK300 million of provision this quarter. It seems that the asset quality, or there was a deterioration in the credit quality, and you guide for up to DKK1 billion for the full year. But does it mean that we should expect cost of risk to double to close to DKK600 million in the fourth quarter, and what is the run rate cost of risk for 2024?

Carsten Egeriis: Thanks, Sofie. Let me give it a shot on NII, and Stephan, please add on. The way you should think about NII in Q3 – and I think we have given a little bit more detail on page 8 of the presentation – is that, if you take off the one-off related to these tax liabilities, then that treasury income is income that should be seen as part and parcel of the overall net interest income for the business units as well. So although you see business unit, BC and LC&I down to slightly down in Q3, one, there is a one-off MREL recharge, which we basically do as part of our funds transfer pricing, and then you should see the treasury income as income that over time gets distributed out to the business units. So, going back to our guidance of year one, year two, year three and our

view on where NII and net interest margins are, we expect, both for the Group but also for the business units, that we will see increasing NII and increasing NIM into next year.

Then I think you asked about some of the balance sheet dynamics. We do have the hold-to-collect portfolio. That continues to replenish over time, if you will, so lower yielding rolling off and higher yielding coming in. It is average maturity of 3.5 years. So that, of course, continues to support NII, and again, gets distributed back to the business units. And then you mentioned the other balance sheet effects, the fixed rate loans in Finland and Sweden, and again, of course, those are also rolling off. They were unhedged. They are rolling off, and they get replenished with higher-yielding assets and also gets distributed back to the BUs, where, obviously, that NII belongs. So hopefully that was clear.

Sofie Peterzens: Just on the fixed-rate loans in Finland and Sweden and in terms of the hedge, is it fair to assume that roughly half of the DKK300 million in year two comes from the hedge and the other half from the fixed-rate loans, or has the mix changed?

Carsten Egeriis: What I can say is it is about DKK300 billion in total. Half of it is hold-to-collect. The other half is a split between these two loans. So hopefully that is helpful and answers the question.

Stephan Engels: Sofie, to your question, so we have not taken any new hedges. We are just following, call it, the programme. You can debate whether the assumption of higher-for-longer rates is a change, and that helps the numbers a bit because there is the assumption that we can replenish the books with higher rates for longer. But as such, we have not changed the strategy or anything. And again, in that context, the lending margins in the segments are stable quarter-on-quarter, if you exclude this allocation effect, which we have done to make sure that the segments price and steer their businesses correctly. And as Carsten said, on Group level, it is neutral anyway.

Carsten Egeriis: Then on asset quality, Sofie, so the DKK300 million year-to-date is clearly a low loan loss rate. We continue to see pretty stable asset quality on Personal Customers. And on the business side, we do see some negative rating migration, mainly in construction building development area. That is also where you see the bulk of the provisions, and the increase in stage three is driven by a few names in development and construction.

We continue to see that the transmission effects of higher interest rates will impact impairment higher, and they will normalise and increase into next year. It is incredibly difficult to say where we land next year. We will give an update on that as part of our year-end guidance. Our best view right now is up to DKK1 billion for this year, which obviously would mean roughly DKK700 million in Q4. But it is not that we have anything specific where we see that that will happen. We obviously have a robust post-model adjustment in place. We also used that ongoing, so you saw a slight increase in post-model adjustments in Q3, which is basically construction names going from stage one, stage two into stage three, so we see that mechanism working as it should.

Johannes Thormann (HSBC): Some follow-up questions first. Just on NII, a more general one. Do you expect the Danish National Bank to really follow every ECB move and stick to the pack, or could you imagine, due to a different economic environment in Denmark, that they cut the rates earlier than expected?

And secondly, on your asset quality, again, could you add some more colour where the few single cases, was this in an industry cluster, or was it really across the landscape of different industries, and what would be needed to see a normalised cost of risk in the next two years? What scenario do you need to run? And then, probably last but not least, just some more colour on the relatively strong performance of investment products despite the lower asset base. Did you do any fee changes or anything?

Carsten Egeriis: Yes. Thanks for that. So, on the question on the Danish National Bank and following ECB, obviously there is a 40 bps difference today - 4% ECB, 3.6% Danish National Bank. The clear expectation, or my clear expectation, is that the Danish National Bank will continue to follow the ECB within that kind of range. There is no question that the Danish National Bank is very clear on focusing on inflation targets, and is just as clear, I think, as the ECB that that is their absolutely foremost and biggest priority. But, Johannes, if your question is would I expect that there would be a bigger range between the ECB and the Danish National Bank, I would not expect so. I would expect that this range is more or less as wide as it gets plus/minus.

Asset quality, it is a few names. It is in development and it is in construction. That is basically what is driving the increase in stage three and the provisions we see. So to your question, is it broad-based, it is not broad-based. We do not see any broad-based deterioration. We see deterioration in some of these interest-rate-sensitive industries, construction and development, and that is what is driving. What scenario would drive more normalised impairments? Look, incredibly difficult to say, because you have a lag effect from the rising interest rates to how that is going to play out in the portfolio. So normalised going forward is that you see more clarity on inflation and you see, I think, rates coming back down to, let us say, a more normalised level that - we have used 2% in our plan. I mean, right now, I think there is a lot to be said about interest rates maybe having peaked but the interest rate path being higher for longer, and that would clearly impact interest-rate-sensitive sectors. And so, the higher interest impairments that we thought we would get this year, it is not unlikely that those higher impairments will come in in the coming years instead, but I will wait until the year-end to give more detailed guidance on that. On the investment side, the investments business is a business that we focused a lot on improving over the last couple of years. We have clearly underperformed on the retail side of our investments business, where new flow market share has been under stock market share. It is something that we worked on, and through increasing customer flows, through better digital solutions, through more focus, through more advisory time, those are the type of things that are improving the flows, and that is part of our strategy. It is part of our focus. So, to your point, it is not that we are doing anything on the pricing as such.

Martin Birk (SEB): Just coming back to your initial comments, Carsten, on rate environments almost changing by the hour. So if we assume that rates by 2026 is going to be 100 basis points higher than the 2% to 2.5% that you set out in the 2026 target, what is the sensitivities to the DKK56 billion total income number that you have put in there? That is my first question.

Carsten Egeriis: I think it is an interesting question, because I think it is very uncertain how deposit betas and pricing plays out, should rates remain so high for so long. My clear steer would be that that would, from an NII perspective, from an income perspective, clearly be supportive for the business and would clearly be a tailwind for the business. It goes without saying that that, of course, needs to be done in a way that the economy still performs and that it does not flow through in a negative way into the real economy. And I think that is a lot about - it could be that rates stay long and inflation rates stay elevated, but if the path is more transparent, is more visible, is less volatile, I do think that you could have a balance where the economy still performs and you still have reasonable growth while having higher rates, and that scenario will clearly be supportive to the business.

Martin Birk: Okay. And then perhaps a couple of questions on today's numbers. First of all, on your lending development, also deposit development, what do you see from the postponement of Danish VATs and corporate taxes?

And then the second question on your FTE bridge. It seems like the number of FTEs is coming down by quite a lot in Q3. Do you have any explanation for that?

Carsten Egeriis: Yes. On the FTEs, I would say FTEs are pretty flat, and the reduction in FTEs is solely driven by our sale of Danske IT to Infosys, and the partnership we have with Infosys. So those FTEs, they move off our books and move on to Infosys. And again, remember, the partnership with Infosys is a very important part of our strategy. I believe, and we are already seeing, that Infosys can help us not only accelerate our digital and technological transformation, but also help us scale up to meet the goals that we have as part of our strategy. But yes, the FTE changes there is driven by that.

Then in terms of VAT taxes on the business side, look, obviously it should be a mild positive. I think it is too early to say, Martin, to what extent and how much that will have an impact.

Riccardo Rovere (Mediobanca): I have two questions. The first one is on the risk-weighted assets, which went down a little bit in the quarter. It is mostly market risk, if I understand it correctly, but besides that we see in other countries, in Scandinavia, we see risk-weighted assets are going up and up and up for various reasons. I was wondering whether, in the discussions you are having with the Danish FSA with regard to capital strategy, capital update, whatever, should we expect, let us say, any kind of change in the amount of risk-weighted assets going forward because of regulatory changes other than Basel IV, so some other additions or whatever?

And the second question I have is on the digital euro. The ECB wants to go ahead with the project, and I was wondering whether you see this as an opportunity, as a challenge, whether you plan eventually to have more investments related to that over the next few years? Any thoughts on that would be, let us say, helpful.

Carsten Egeriis: I think, on the REA side, we already, over the last few years pre-empted some of the big regulatory changes, the EBA guidelines, and so that is included in our REA number. Then, as you know, the REA number is not that sensitive to smaller macro moves because it is already seen from a kind of through-the-cycle modelling perspective, and therefore the relative sensitivity is not that large, and I think that is important to understand. So we would not see any big shifts

in REA, and we do not see any immediate regulatory pieces other than, as you said, Basel IV, which is further out. And then, yes, as you noted, we saw some reduction in market risk REA, which is driven by a decision to hedge some of, let us say, the tail risks and some of the positions that we have, which we believe gets us a better return and at a better optimisation of the trading book, including capital, of course.

Then on digital euro, look, I think it is too early to say. If you look at the Nordics, the Nordics is extremely digital already, right? I mean, digital payments is the norm in the Nordics. And so, from a consumer experience perspective, it is less clear what the pain point is. I think it is clear that ECB is moving towards a digital euro. I think it will take some time. The Danish Central Bank is obviously watching as well and looking at it, and we are, as a sector, as well. So we are sticking close to it, and we will see how it goes, but I do not have any other insights on it at this time.

Jan Erik Gjerland (ABG Sundal Collier): I have a question on the cost side. You have shown some nice development on the cost side, and I just wonder how much are left of your remediation costs and excess costs today versus your expectations of what will go out next year. And also, back to Martin's question on the FTEs. Did these FTEs go out late in the quarter or early in the quarter? And how should we think about your FTEs on your financial crime and prevention side? When is they going to come off a little bit, as I think we were guided from on the Capital Markets Day in June?

Carsten Egeriis: Yes, thanks for that, Jan. Yes, on the costs, the remediation portion of that is roughly DKK1.1 billion annualised. That is related to debt collections, and you should see that that cost would come substantially down into next year, so there is still some tail but substantially down from the DKK1.1 billion. Then the other cost component, which is, let us say, structurally or short-term higher is, as you point out, the financial crime costs. And the FTEs, as you see, from financial crime has been fairly stable over the last two, three years. We have said that those costs and FTEs will come down to '25. So, if I take it from a cost perspective, we said that the financial crime costs were DKK2.3 billion roughly this year, a little bit lower, coming down to a range between DKK1.5 billion and DKK1.7 billion in 2025. So I think your question on FTEs and will they come down - they should come down roughly in line with that cost trajectory, so between 20% and 30% over the next two years. And that is very much in line with our clear guidance, which is that we will largely close the financial crime remediation plan end of this year and into January. And then we will continue, obviously, to work on all the initiatives we have around automation and digitisation in that space. But hopefully that gives you a steer.

Jan Erik Gjerland: Just one more follow-up. On the inflation side, when it comes to cost inflation, will these takeout of costs, as you said, the remediation of DKK1.1 billion on other cost structure, take your cost base down, or do you think the inflation and general wage inflation will make it flattish from here?

Carsten Egeriis: No, I think, when you then look at costs going into next year and also over the strategy period, we very clearly said we are going to invest in the business. It is a growth and an investment case. So we will invest roughly DKK1 billion more a year in automation and

digitisation. Then, of course, we will see some inflation, and I think you could probably say inflation next year somewhere is between 3.5% to 4%. And then you will, of course, see some offset from automation and digitisation.

You all have seen that the guidance for 2026. We gave DKK56 billion of income and DKK26 billion of costs, so that is out to 2026. We will give you more detail on cost guidance at the end of the year. So you should not just take the cost today and take those costs out. You should take those costs out, then you should add inflation and some investments as well, as you look at costs for next year. But we will come back with more details on that.

Jacob Kruse (Autonomous): Can I just try to clarify a little bit on the net interest income side? When you talk about the application of rate hikes, I think you said 15 to 16 rate hikes on the DKK200 million in year three, which I guess should start coming through next year and the year after, but we also have the initial DKK300 million. Just how much of the benefits are already in the numbers as of Q3 2023, and how much is left to be done or left to be capitalised on in 2024 and 2025? And then maybe back to capital, you are at 18.8% capital. You have a 16% target level. There seems to be relatively few things impacting your regulatory requirements. So is this still just a question of moving slowly and being mindful of your history when it comes to capital distribution, or is there anything more sort of tangible that you are looking at?

Carsten Egeriis: Jacob, just on the capital, I think we said in June target above 16%, and that will come back this coming summer. I think that you should see that the ongoing discussions around capital buffer and capital targets is very much also a clear correlation to a very uncertain environment, where the regulators, of course, are looking at stress testing and looking at the environment closely and are looking at the general dynamics. So there is no other specific regulatory pieces I can point to. Obviously, the CRE buffer is a new one since June, but there is nothing else I can point towards.

Then, Stephan, maybe you want to just talk to NII?

Stephan Engels: Yes, very briefly on this NII question. What we currently see, Jacob, is less of a drag from the hedges rather than a positive contribution to the NII in the sense of supporting it. So I think I gave you a bit of a hint on what is going on in Northern Ireland, where the hedge is running off, and in that sense, the NII starts to benefit. But on a Group level, it still is a drag that will then turn into a positive support in the future.

Carsten Egeriis: All right. Well, thank you very much, everyone, for your interest in Danske Bank, and for your questions this morning. And as always, please reach out to Claus and the team in Investor Relations if you have more questions. Thanks very much.

[END OF TRANSCRIPT]