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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 2022.
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 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.

Thanks Claus, and I would also like to welcome you to our conference call for the annual report.

We have now put 2022 behind us and unfortunately it turned out to be a completely different year from what we expected at the time of this conference call a year ago. The outrageous Russian invasion of Ukraine brought war to Europe and sparked geopolitical tension to a level we have not seen for decades.

In 2022, a rapid increase in inflation re-emerged as a major macroeconomic challenge. We started to see pockets of inflation already in 2021, driven mainly by supply chain issues caused by the pandemic. However, energy prices soared at the outbreak of the war in Ukraine and drove inflation up more broadly including food prices. On the basis of this, we saw a prompt response from a number of central banks, and many years of negative interest rates were reversed back to a more normalised territory inside very few months. The initial reactions in the economies were a decline in consumer confidence and house prices followed by a more bleak economic outlook, which I will come back to later in this call. Although energy prices and long term interest rates have peaked uncertainty remains high.

In this challenging environment, we have done our utmost to support our customers both financially and with strong advisory services. Fortunately, the starting point for most of our customers was good in 2022, against a backdrop of strong macroeconomic conditions with record-high employment and strong activity for most of the year, despite increasing costs for both businesses and consumers.

2022 also marked a year in which we made further progress on our plans. In order to increase our focus on customers and execution we adapted our new organisational setup in 2022. We continued the progress in terms of enhancing our digital solutions and simplifying our business which supported the strong commercial momentum we saw across our business units and within the corporate customer segment in particular. This resulted in solid growth and improved market shares in many parts of our business.

Another strong focus area for us has been – and still is – our work on compliance remediation. The significant amount of resources we have invested in recent years has enabled us to make good progress on our Financial Crime Plan. A couple of examples are increased automation of processes for KYC and transaction monitoring as well as our ability to close regulatory observations.

Progress has also been made on reaching solutions for our legacy cases and in this context, I am especially pleased that late in the year, we were able to reach a final resolutions with the U.S. and Danish authorities in relation to the Estonia matter. We have learnt from our mistakes and we have taken the steps necessary to ensure that Danske Bank has robust measures in place to do everything possible to prevent such failures from taking place again.

Sustainable progress is at the core of our strategy and our purpose as a bank. We recognise that sustainability and especially sustainable finance is critically important for us as we can play a pivotal role by providing capital for the green transition. With our clear ambition to lead on sustainable finance in the Nordic countries, we were delighted to see tangible progress on our sustainability ambitions in 2022. For instance, we provided project financing for the consortium behind the Hornsea 2 wind farm - currently the world's largest offshore wind farm, and we continued to ranked number 1 among Nordic arrangers in Bloomberg's Global League Table. In addition, just 2 weeks ago we raised our ambitions when we launched our new comprehensive climate action plan, which I will discuss in more detail later in the presentation.

Financially, the result for 2022 included a significant impact from the provision for the Estonia matter and we therefore posted a net loss for the year of 5.1 billion kroner including one-offs, which is in line with our guidance.

The underlying result for the year was based, among other things, on strong customer activity following the re-opening of societies after the pandemic. Against that background we saw a solid uplift in lending and improving market share positions for retail as well as corporate bank lending in Denmark. Towards the end of the year however, housing market activity declined as a result of higher uncertainty and corporate lending demand retracted from a very high level.

The return to a more normalised interest rate environment we saw during the second part of the year was a very important contributor to our result. In combination with stringent execution of strategic pricing initiatives, this enabled us to re-establish deposit margins.

The turmoil in the financial markets impacted our result in different ways. The significantly higher uncertainty led to lower activity and thereby lower income from our capital markets business however, partly mitigated by a shift in preference towards bank lending.

Within our trading and insurance activities, the full year result saw an impact from very difficult market conditions due to significant repricing of almost all assets. As I explained in our previous conference call, this repricing happened over a relatively short period of time during which we continued to provide liquidity to our customers, and with a magnitude we usually only know from stress test scenarios. The underlying insurance business performed well, and we are pleased to note that the recovery in the financial markets in the second half of the year translated into more positive results not only for insurance activities but also for trading income. I am also pleased to see this has continued into January this year.

Our operating expenses, came in at 26.5 billion including the provisions for the accelerated solution for the debt collection case. Net of the provision underlying costs amounted to 25.6 billion, in line with our guidance. Costs for the remediation of legacy cases including the Estonia matter have been elevated throughout the year partly mitigated by good progress on underlying cost efficiency. We expect sustained elevated costs for remediation of legacy issues of approximately 1.1 billion in 2023. Compared to the level at the end of 2021, salary costs are down more than 3 percent underpinned by a decline in the number of FTEs of more than 5 per cent when disregarding our AML ramp up.

Credit quality remained strong and the loan loss ratio for 2022 came in at 8 basis points including the effect from the accelerated solution for the Debt collection case.
Despite a high degree of macroeconomic uncertainty, the credit quality of individual customers was strong and our impairment charges consisted mainly of model-driven effects, including additional post-model adjustments.

That said, I will now comment in more details on what we see ahead of us in 2023.

Slide 2, please.

Given that 2022 turned out to be a very turbulent year given the rising geopolitical tensions and changes in the macroeconomic landscape, I believe it is worthwhile to provide an insight in how we see 2023 and how we believe we are positioned to navigate in this more uncertain environment.

During primarily the second half of last year, various economic forecasts, including our own Nordic outlook, were adjusted towards deteriorating, or even mild recession scenarios.

In this context, the outlook for unemployment is of particular interest for us as it plays an essential role for credit quality. We have noted that unemployment in Denmark is expected to rise but only modestly and from historically low levels.

Also in Denmark, we consider the economy to be well prepared after several years of financial consolidation for our customers and strong public finances. Against this strong backdrop, Danske Bank is well-positioned to face a scenario with lower growth as we have a robust and well diversified balance sheet derived from prudent credit policies and comfortable impairment buffers including a solid capital position.

When it comes to our exposure against Commercial Real Estate we have maintained a prudent approach post the GFC and over the past 3 years reduced exposure to the non-residential segment. Our conservative approach has ensured that our exposure in Sweden has remained stable despite market growth and well diversified with lower concentration risk over the past years. PMA's for the Commercial Real Estate exposure were increased in 2022 to address increasing uncertainties and now stands at 1.8 billion.

For 2023, we may see loan impairment charges of up to 3 billion kroner primarily driven by weaker macroeconomic outlook affecting our models.

In this operating environment, we expect a net profit of 15 to 17 billion, and I will leave it to Stephan to comment in more details later in this call. As we look into 2023 we will continue to focus on driving our commercial agenda and build on the many improvements we have seen in 2022.

Slide 3, please

As mentioned earlier we have a clear ambition to be the leading bank for sustainable finance in Denmark and among the market leaders in the Nordic countries. Further to this, two weeks ago we raised our ambitions as we launched our new climate action plan. This plan outlines how we will reduce CO2 emissions across all customer segments in order to accelerate our customers' green transition. A key element of this plan is an ambitious increase and expansion of our 2030 targets. For instance, we have increased reduction targets for Power generation from 30% to 50% and for Shipping from 20-30% to around 50%. We have also expanded the scope of our targets to now also cover Commercial Real Estate, Cement, Steel and Personal mortgages.

Our commitment to sustainability and net zero is not new, but we are now specifying our starting point and our roadmap to reaching this goal and with around 2,800 billion in invested capital and lending, we have a unique opportunity to contribute to solving the climate crisis.

The journey ahead of us will undoubtedly be challenging, but we are committed to supporting the sustainability transformation, and we will continue to play the role that we have always played: helping our customers adapt to new circumstances and benefit from new opportunities.

Slide 4, please.

Now let's take a closer look at our three core business units.

At Personal Customer we have generally seen high customer activity, particularly related to the Danes ability to remortgage which has supported our fee income and more than mitigated the lower AuM related fees.

Additionally, the solid improvement in profit before impairments clearly benefitted by the improved deposit margins driving NII up 11 per cent year-on-year and 26 per cent q-on-q.

Given the economic uncertainties and the slowdown in the housing market, the lending trend was more muted towards the end of the year. This also affected our ability to regain further market shares at Realkredit Denmark, however we continue to focus on improving our front book market share which is supplemented by growth in market shares for bank lending, including the growth for our Danske BoligFri loan product of almost 60 per cent in 2022. It is a strength of our franchise that we are able to accommodate our customers' needs by offering both traditional mortgages through RD and competitive mortgage-like bank products.

We also see a steady improvement in the customer flows in Demnark, in high priority segments such as young customers and the mass affluent segment and for the Private Banking segment. Furthermore, the recent Voxmeter survey on customer satisfaction showed significant improvement with Danske Bank improving in 2021 and the most in 2022.

At PC Nordic, we have taken steps to strengthen our advisory services further and have a clear ambition to continue to improve profitability, also through our renewed partnership agreements which include improved re-pricing possibilities. This will support our efforts across the region on both lending and deposits and our ability to expand our wallet through cross-selling and more holistic customer relationships.

Throughout the year, we continued to expand and improve our digital offerings to our customers. This includes the ability to open transaction and savings accounts directly in the mobile banking app and 53 per cent of all new accounts were opened digitally. Another proof point was our customer's preference for online bank meetings with 70 per cent of meetings in 2022 conducted online.

No doubt, these initiatives enhance customer satisfaction and contribute to further improving efficiency and thereby lowering our cost to serve.

For our Business Customers, we continue to see positive lending volumes across regions which is a testament to our ability to help clients navigate the current uncertainties. Furthermore, our tiered service model gained further recognition among customers, with associated activity within FX and cash management.

Our fee initiatives and cross-selling of products through our District platform, together with improved deposit margins, bolstered our core income throughout 2022 and created sustainable profitability enhancement.

We continue to expand our digital "ecosystem" through 3rd party integrations and new in-house solutions that will allow us to further tap into new revenue streams and improve our value proposition towards customers. It will also allow us to further harvest efficiency gains going forward. This also contributed to the significant uplift in profitability through lower FTEs, and from core banking income that benefitted from improved deposit margins that drove NII 13 per cent higher in the

quarter alone as well as higher ancillary income supporting a fee uplift of 5 per cent in Q4.
With an uncertain year for the SME segment ahead we are pleased to see improved customer satisfaction which is a testament to our commitment and, this includes a number 1 on CSAT in Sweden and Finland as we continue to invest in our digital channels and expert advisory services.

Let us now turn the focus to LC&I.
2022 saw high customer activity and was a busy year for LC&I. We experienced strong demand for credit, advisory services and risk management solutions as we supported our customers in managing an uncertain environment.

Our strong balance sheet and advisory expertise, coupled with the significant demand for credit, enabled us to support customers with more than DKK 40 billion in additional lending during 2022. Measured in relative terms, lending volumes at LC&I increased 21 per cent from the level the year before. Overall, our customers have utilised new and existing facilities against the backdrop of a challenging operating environment with, for instance, the rapid increase in energy prices and challenging access to capital markets, but the growth also reflects our strategic ambition to grow – especially in Sweden.

The strong growth in lending volume as well as higher deposit margins were key drivers of NII, which increased 18 per cent year over year. Total income in our General Banking activities have grown with a CAGR of approximately 5 per cent over the past three years, and I am pleased to see that Q4 was the highest ever income quarter in General Banking. Notwithstanding, the increase in NII, total income in LC&I was down 12 per cent from the level in 2021 as a result of lower fee income and significantly lower net trading income.

The decline in fee income of 15 per cent from last year stemmed from lower capital markets-related activity, primarily lower deal volumes in Equity Capital Markets and lower income from Asset Management following a decline in assets under management and lower performance fees. However, strong traction for our M&A offering and continually strong activity within everyday banking services, such as cash management, partly mitigated the decline.

The turmoil in the financial markets had a significant impact on our trading income in 2022, especially in Q2 within our fixed income business. As a leading Nordic fixed income house, we continued to support our customers through this volatile period. In the second half of the year, net trading come recovered as market conditions became more supportive.

Slide 5, 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 good progress for our core banking activities in 2022, as a strong commercial momentum led to an increase in lending volumes, primarily with our corporate customers followed by implementation of pricing initiatives.

Income from core banking activities performed well and was in line with expectations. NII was up 14 per cent from the level in 2021, as the normalisation of interest rates had a positive impact on deposit margins as well as from an increase in lending volumes. The positive development in volumes more than mitigated margin pressure from lending activities. The improvements accelerated in the fourth quarter where NII was up 18 percent from the preceding quarter as the effects from normalised interest rates materialised in our numbers.

Net fee income came in lower than the level in 2021. Fee income benefitted from high customer activity throughout most of the year however, the turbulence and uncertainty in the financial markets had an adverse impact on fee income from capital market activities as well as on investment fees. In Q4, fee income was up 2 per cent however driven by an increase in fees from capital market activities and from remortgaging activity in Denmark.

The decline in net trading income from the level in 2021 reflects the impact of volatile and difficult financial markets on our rates business, primarily in the first half of the year. In the second half, however, income recovered as market conditions became more supportive. Trading income was also impacted by various valuation effects which I will comment on later.

The difficult conditions in the financial markets had a significant impact on our insurance business. As Carsten mentioned earlier, the underlying business at Danica Pension performed well with high premiums and a modest level of claims. However, net income from insurance business came in significantly lower due to negative investment results on life insurance products where Danica has the investment risk.

Other income amounted to 1.9 billion in 2022, including the gain of 0.8 billion from the sale of our business activities in Luxembourg and MobilePay.

Operating expenses came in 3 per cent higher than the same period last year due to a one-off provision related to the accelerated solution for the debt collection case of 0.9 billion in total. Excluding the one-off, expenses were in line with our guidance for underlying cost for the full year of around 25.5 billion. Of the total provision, 0.3 billion was recognised in Q4 which explains the increase from Q3. Remediation and litigation costs remained elevated during 2022, however, we continue to improve our underlying costs quarter by quarter.

Loan impairment charges reflect continually strong credit quality and amounted to 1.6 billion for the full year. The charges include the one-off effect of 0.7 billion relating to the debt collection case recognised in Q3. In Q4, loan impairment charges were driven by updated macroeconomic scenarios and post-model adjustments. Overall credit quality continued to be strong resulting in reversals in Q4 related to individual customers.

Finally, the tax expense of 2.8 billion reflected mainly non-deductible items including the provision for the Estonia matter and the goodwill impairment charge in Danica

Net profit for the year thus amounted to a loss of 5.1 billion including one-offs and in line with our guidance. For Q4 in isolation, net profit was 4.2 billion.

Slide 6, please.

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

Overall, NII saw a healthy improvement of 14 per cent for the full year and 18 per cent quarter on quarter driven by deposit margins as well as robust growth in lending volumes primarily driven by our corporate customers. The positive effect was partly countered by various lending margin effects.

On the deposit side, the uplift was driven by a normalisation of interest rates as a result of the rapid change in central bank rates in the second half of the year but also from the optimisation of deposit pricing we implemented in the first half of the year. Deposit margins at the end of the year clearly reflect that we have moved away from the negative interest rate territory and have to a high degree been re-established.

Total deposit volume were stable throughout the year with a slightly varying development between segments.

On the contribution from lending, the increase in volumes added positively to net interest income. As I just mentioned, this was driven primarily by unusually strong demand from our corporate customers however, as expected the trend slowed towards the end of the year. This effect was however, offset by various margin effects, including delay effects, lower margins on mortgages in Denmark, and an impact from credit facilities that had been floored at zero.

The credit demand we saw throughout the year includes liquidity facilities to some of our larger and better rated corporate customers, which is contributing positively, but at the same time lowered our average lending margin.

Our interest rate sensitivity for rate hikes has been changed to 700 to 800 million reflecting that we now are in a positive rate environment and we expect higher migration to savings accounts and potential effects from quantitative tightening.

And finally, given the resolved status of the Estonia matter, we resumed our wholesale funding activities in the beginning of this year. Confirming our good access to the capital markets, we issued both preferred senior and non-preferred senior bonds in different maturities and currencies equivalent to 23.5 billion. Against this background we expect the remaining funding need in 2023 to be approximately 60 - 80 billion.

Slide 7, please

Next, I will comment on our fee income development.

We report lower fee income, down 7 per cent year on year. However, the underlying development differed between segments, underlining the benefits of our diversified business model.
In general, activity driven fees saw a strong development whereas the volatile conditions in the financial markets had an offsetting impact in the form of lower fee income from our capital markets-related activities.

The increase in activity related fees was to large extent driven by our everyday banking services at all business units and reflects, among other things, that the economy gained momentum after the pandemic related lock-down periods. In addition, there was a positive contribution from good remortgaging activity as a result of the changes in interest rates. Repricing of service fees during the year, also had a positive impact on fee income. During Q4, we continued to benefit from remortgaging activity whereas other activity-related fees were more in line with the previous quarter.

As mentioned previously, fee income from our capital market related activities, was impacted by the very volatile and unpredictable conditions in the financial markets. Hence, capital markets income came in lower than the year before which benefitted from our participation in a land-mark transaction. Income in Q4 however, came in higher than the preceding quarter due to good activity within M&A advisory services.

The difficult financial market conditions also led to a decline in investment fees. The decline in investment fees was due to lower asset under management and lower investment appetite among our customers. The annual performance fees in Asset Management came in significantly lower than in previous years, as this item relates mainly to the performance of certain fixed income funds that were operating under difficult market conditions in 2022.

Slide 8, please.

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

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

The negative impact came primarily from our Rates business during the first half of the year when lower liquidity in the Nordic fixed income markets made the market making services and the management of the risk held to support our fixed income franchise difficult. The effect was partly mitigated by our FX business that saw a positive development.

As market conditions became more supportive in the second half of the year, trading income in our Rate business improved to a more normalised level supported by initiatives taken to lower risk utilisation.

Higher trading income from the banking units contributed positively and confirms the strong customer activity we saw in 2022 within other types of income.

The result of other activities was negatively impacted by various value adjustments including mark-to-market effects in Group Treasury and from the accounting treatment of directly owned securities issued by Danske Bank. The interest rate hedge in Northern Ireland had a negative impact for the full year, but recovered significantly in Q4 due to lower interest rates. Please note that this should be seen in the context of a strong uplift in NII in Northern Ireland, which more than countered the valuation of the hedge.

Slide 9, please,

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

Total costs in 2022 were clearly affected by the additional Estonia-related provision and the goodwill impairment charge in Danica booked in Q3.

Outside of these effects, operating expenses came in higher than in 2021 due to the provision for debt collection case of 0.9 billion. The provision was increased by 0.3 billion in Q4 driven by further validation of the customer compensation model to ensure that our total provision is sufficient to cover the expected cost of the solution. We expect sustained elevated costs for remediation of legacy issues of approximately 1.1 billion in 2023.

Excluding this item, operating expenses came in slightly lower than the year before, due mainly to progress on structural cost take outs and efficiency gains, resulting in lower staff costs among other things. During 2022, the total number of FTEs came down by more than 700, despite the planned up staffing within AML/Compliance.

Throughout 2022, costs continued to be impacted by elevated legacy remediation costs, which however, were almost in line with our expectations. The increased Swedish resolution fund contribution, and an increase in inflation and IT costs driven by expenses of a one-off nature also drove costs higher.

Expenses in Q4 were, as I just mentioned, impacted by the additional provision for the debt collection case of 0.3 billion. Staff costs increased due to inflation and higher severance pay. In addition, we saw slightly higher costs for legacy related cases in particular.

Finally in Q4, the final settlement in December with the U.S and Danish authorities led to an adjustment of provisions of 0.2 billion.

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

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

Slide 10, please

Here we outline our strong credit portfolio and trends in impairments.

While the macro outlook deteriorated further during Q4 and the implications of the higher interest rates are expected to impact both corporates and households, the quality of our lending book remain strong. We continued to see limited downward migration of exposures. As a result of recoveries in our Oil & Gas portfolio as well as post-pandemic recoveries in general, the share of net exposure in stage 3 continued to trend down, as single-name deterioration remained very modest.

Net new single-name impairments resulted in reversals for the quarter which were however mitigated by the updated macro scenarios in our models which led to charges of 0.8 billion as well as additional Post-model adjustments of 0.6 billion to provide a further cushion against potential credit deterioration through 2023 not yet evident in our portfolio or captured through our macroeconomic scenarios.

The total impairments of 774 million booked in Q4 bring our full year loan losses to just under 1.6 billion which is in line with our expected through-the-cycle loan loss level of around 8bps. However, over the course of 2022, these charges were by and large driven by the adjusted macro scenarios to reflect the higher inflation rate and lower growth expectations as well as additional PMAs, and the 650 million impact from the debt collection case.

With the mentioned addition to our post-model adjustments, our buffer now stands at 6.6 billion. So while we are cautiously looking at a year of high uncertainty and take this into account in our outlook, we remain comfortable with our well-diversified and low risk balance sheet, which is further supported by healthy household finances and generally low leverage. Headwinds in the corporate segment could naturally be expected with the current economic sentiment, and we are prudently managing accordingly to mitigate any tail risks that could emerge which is also reflected in our financial guidance that I will outline in a moment.

But before that, let's have a look at our capital position on the next slide, please.

Slide 11, please

Let me now focus on our capital position and the development in Q4.

Our reported CET1 ratio at the end of the year increased to 17.8 per cent from 16.9 per cent at the end of the preceding quarter. The increase included the full effect of the net profit in Q4 in line with the Boards proposal not to distribute dividend for 2022.

Additionally, lower capital deduction for our insurance activities in Danica Pension driven by financial markets effects and lower Risk Exposure Amount added to the increase in the CET1 ratio.

The decrease in Risk Exposure Amount was due mainly to a decline in credit risk.

Our fully phased-in CET1 requirement was 13.6 per cent at the end of Q4, unchanged from the preceding quarter.

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

Slide 12, please

And then, I would like to comment on our outlook for 2023 which of course is subject to uncertainty and depends on macroeconomic conditions and volume growth.

In respect to our income lines, we expect core income to grow, driven by higher NII and our continued efforts to drive the commercial momentum. And despite a high degree of uncertainty, we expect income from trading and insurance activities to recover from the levels in 2022.

Our costs in 2023 are expected to be in the range of 25 to 25.5 billion reflecting continued focus on cost management and despite pressure from inflation. The outlook includes sustained elevated costs for legacy remediation of approximately 1.1 billion.

For loan impairment charges, we expect up to 3 billion kroner, driven primarily by weaker macroeconomic outlook affecting model driven impairments.

And finally, as Carsten announced previously, net profit for the full year is expected to be in the range of 15 to 17 billion.

Slide 13, please and back to Claus

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

Operator

Thank you. To ask a question, you will need to press star one and one on your telephone and wait for your name to be announced. Once again, please press star one and one on your telephone to ask a question. We will now take our first question, please stand by.

Namita Samtani (Barclays): Hi, just a question on deposits in Denmark. I can see from the report most of the deposits are a maturity of one month, so what percentage of these are transaction accounts and what percentage of those which are getting paid 50 bps?
Just a follow-up on deposit rates in Denmark, Danske is currently paying 50 bps to deposit holders who have below DKK 100,000. To me, this is a sustainable level, then why is the deposit rate paid to customers not more in line with where the base rate is? Thanks.
Carsten Egeriis: Let me start and then Claus can maybe come up with some more statistical detail.
In general, in Denmark, we don't pay any interest rate traditionally on the so-called transaction on MIT accounts. However, what we have been seeing throughout the year is that there is an increased migration to more savings products or even term deposit products. Year-over-year, it's 19%; but, obviously, most of that has been happening throughout Q3 and Q4, so in that sense, we that to go on.
So far, I think the market has been relatively disciplined. However, again, going forward, and that is also reflected in the interest rate sensitivity, the ongoing pressure on disposable income, the most likely slightly uptick in unemployment as well as the possible effects of quantitative tightening will probably both affect the deposit volume in total as well as the product mix throughout the year.
Claus, is there anything you want to add?
Claus Ingar Jensen: I do not think so.
Namita Samtani: Thanks very much.
Operator: Thank you. We will now go to our next question, one moment please. And your next question comes from Sofie Peterzéns from JP Morgan. Please go ahead, your line is open.
Sofie Peterzéns (JP Morgan): Yes. Hi, here is Sofie from JP Morgan. Thank you very much for taking my question. Previously, you guided for DKK 23.5 billion, of course, and now DKK 25.0-25.5 billion. What happened with the DKK 2 billion of cross-sales that we previously should have been expected, and if you can maybe just give a bit more detail around what your expectations are, salary increases that you are seeing, any other inflationary growth across increases, and then how much the offsets are? That would be my first question.
Then my second question is on loan losses. If you look in the third quarter, your Stage 3 loans were down quarter-on-quarter. You have DKK 6.6 billion of those model adjustments. In the quarter, you saw lower risk exposure amounts from credit risk, which, to me, implies that

the credit risk was lower. So why do you guide for DKK 3 billion of loan losses in 2023? What are your assumptions for this year's, basically, [inaudible]? To me, it seems that your credit quality is quite solid, so shouldn't your loan losses not come in lower in 2023? Thank you.

Carsten Egeriis: Hi Sofie. Thanks for your questions. Just to take the loan loss rate question to start with. It is correct that we have seen a decreasing Stage 3 exposure, and we continue to see very little negative rating migration and, in fact, very little asset quality deterioration, so we remain very comfortable with our asset quality. The DKK 3 billion, up to DKK 3 billion, that we are guiding is in the light of an expectation of a mild recession and falling house prices and slightly increasingly unemployment. We remain careful in terms of what we see is a very uncertain environment, and that is why we are guiding up towards DKK 3 billion based on, sort of, the current uncertainty and those macro dynamics.

On costs, essentially you can think about two main components of the increase from the initial guidance of 23.5 to, now, 25 to 25.5. One component is roughly DKK 1.1 billion of remediation associated with a higher-than-expected remediation cost on the debt collections case as well as continued costs from, let us say, closing down the various different things we need to do on the back of the Estonia case. You will recall, we actually closed that case, so to speak, with authorities at the very back end of 2022, and therefore there is still a tail of costs there. So that is DKK 1 billion and then the other billion, roughly speaking, is inflation. Recall that the 23.5 was something given in 2021, way before we saw the much higher inflation numbers. In terms of inflation assumptions, Stephan, that we are using those costs.

Stephan Engels: Yeah. I would add, and maybe one interesting piece of information. If you already look at 2022 compared to our initial expectation, we have probably around DKK 300 million of inflationary pressure already in the cost base 2022. Secondly, if I can give you some numbers, the inflation in Denmark in 2022 was already 7.7%. I am not in the forecasting business really, but I think it gives us a bit of a flavour for 2023 as well. Then keep in mind that in Lithuania, where we have quite a substantial part of our cost base as well, inflation was well above 15% in 2022, and that will also clearly drive inflationary pressure, mainly on staff costs, but also on all the other related services and indexed contracts that we have for 2023.

Sofie Peterzéns: Thank you. That is very clear.

Operator: Thank you. We will now go to our next question. Please stand by, and your next question. Please go ahead, your line is open.

Omar Keenan (Credit Suisse): My question is related to the remediation costs. Could you please add some colour around this validation of the customer compensation model? Can you give us, really, an idea as to what the maths is around working out some of these remediation costs, just so we can get a bit of comfort as to what the final expense might be, and whether you can also give us a look for 2024 on that or can we be certain that 2023 will be the last year of that?

My second question was on interest-rate sensitivities. I was wondering if you could just give us a bit of updated view on your interest-rate sensitivities in the various geographies? Thank you.

Carsten Egeriis: Yeah. Thanks for the question. On the remediation question on debt collections. Essentially, at the end of the summer, end of August last year, we presented this alternative solution to ensure that we could compensate all the customers that we needed to compensate. We also, at the same time, said that we needed to do more sample testing to validate that model. Our primary aim is, of course, to compensate all the customers that need compensation as quickly as possible, which is why we are doing a model-based solution to compensate the customers.

In the process of doing those additional sample tests, it turns out that particularly the older customers, customers that have been with us before 2004, it is very difficult to do that extrapolation, and therefore we have decided to provision a further amount to ensure that we have a robust compensation amount. This is, of course, a process that we also, ongoing, discuss with our independent expert who is overseeing this work; and I think I can say that we feel as comfortable as we can that we now have provision for the costs. We would expect, if anything, a substantially lower remediation cost in 2024.

On our interest-rate sensitivities, we guide to DKK 700 to 800 million. Clearly, there is lots of assumptions around behavioural aspects to this. Amongst others, ongoing pricing competition, to what extent customers will move more of their deposits into saving products, both saving accounts and saving products. Then I think there is also an aspect of an expectation of further savings depletion as unemployment increases and inflation persists.

I do not know if you want to say anything on NI sensitivities across geographies, Stephan?

Stephan Engels: Yeah. The only little comment I would make, that DKK 700 to 800 million is the 25 bps parallel shift of the curve theory and across all currencies; and without, again, getting into forecasting, I think you need to keep in mind that there is probably differences in what we can expect in rate moves going forward between SEKs, NOKs, euros and also the UK pound, which our Northern Ireland operation is in.

Omar Keenan: However, can you tell us how the DKK 700 to 800 million is split between different currencies?

Stephan Engels: That is very assumption-driven.

Claus Ingar Jensen: However, you can say, Omar, that this is very much linked to the deposit positions we are having and that is why a majority is against Danish krone and euros.

Omar Keenan: That is great. Thank you very much

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

Riccardo Rovere (Mediobanca): Good morning, everybody. Hope you can hear me. Couple of questions, if I may? The first one is on the guided loan [inaudible] – sorry, credit losses of 2023. The roughly DKK 3 billion indication that you provide, does this include some new release[?] of overlays or do you expect this [inaudible] to remain part of the furniture for the whole 2023 and maybe onwards, and if you can share a little bit of your thoughts around this topic?

Then the second question, just for me to understand it correctly, the DKK 1.1 billion remediation costs that you see in 2023, is this a number that we can say is written in the stone or can there be wobbles around this number, given that, this quarter, there is another DKK 300 million? Is DKK 1.1 billion your best and maybe final assessment of where we should land on this line, on this topic? Thanks.

Carsten Egeriis: On the remediation costs, the approximately DKK 1.1 billion is our best estimate of the total remediation costs, after having, of course, worked on this for quite some time now and with quite a high degree of confidence. As I mentioned, any tail remediation costs into 2024, we see as being substantially lower, if anything.

On your question on to what extent the up to DKK 3 billion would include also releasing post-model adjustments, that really depends. The up to DKK 3 billion depends on, sort of, a recession with falling house prices and higher unemployment, and it would require, of course, that we saw quite large decreases in housing, some increasing unemployment and defaults that lead us to actually have to then transfer some of the post-model adjustments, because that is what they are there for, to actual Stage 1/Stage 2 provisions, if you see what I mean.

Thus, it is a question mark, the DKK 3 billion and potential PMAs. That would be the total worst-case scenario, if you will, based on our current macro outlook; but, again, that is based on a very uncertain environment and, of course, again, quite a deterioration on many of the different macro variables, if you see what I mean.

Stephan Engels: I would probably like to add, just for reference, that our local regulator has been public with a clear statement that they would not think that anybody should use PMAs in 2023 to cover what they would think of as being normal losses. That is something that remains to be seen throughout the year then.

Riccardo Rovere: Thanks. Very clear, thank you**.**

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

Johannes Thormann (HSBC): Good morning. Johannes Thormann, HSBC. Two follow-up questions, please. First off, all on your NI and the whole beta story. Probably make it more simple, can you give us the share of the retail deposits which are currently in transaction accounts with zero interest, and probably just some which are interest-bearing accounts now or year-end 2022, and what you expect, how much shift to the end of 2023?

Secondly, on the loan losses, why do you have such a negative picture on unemployment? We currently see first of all in most markets unemployment data, except for, probably, UK, being better than expected. Secondly, also on the macro model changes was all the data being better than expected. What triggered the macro model change in your view? Thank you.

Carsten Egeriis: If I can take the macro model change. I think it is clear that there is still an extremely uncertain environment with still very high inflation, expectations of increasing rates with house pricing falling in all Nordic countries and with an expectation clearly as we see the macro weakening that unemployment will go up. If you look at car sales during 2022, this is Denmark examples, we were down 20%; that is the level of just around financial crisis. If you look at housing activity on new mortgage loans in Denmark, it was one-tenth of the activity in Q4 versus Q1. If you look at new openings of S&B companies in Denmark, it's probably down by about 20%. We see consumer spending down in December in Denmark 9.3% when you adjust for inflation and energy consumption. There is plenty of data that unfortunately supports a weaker macro environment that we are going into, and we want to be very vigilant around that and also careful in terms of how we navigate through that. That is why we say up to 3 billion. Clearly if things change to the more favourable, that will be a benefit for our customers and for the business.

Do you want to just mention on the split on transactional accounts versus...

Stephan Engels: Yes, happy to do so. We have on a group basis approximately a 1000 billion in transaction accounts and 125 billion sitting in time deposits. The time deposit has increased by approximately 25% or approximately 25 billion from the end of '21 to the end of '22. We do not have it on a country basis, but I think that the changes on the time deposit reflects that we are returning to a normalised interest rate environment where there is a focus on getting a positive interest rate on time deposits again

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

Maria Semikhatova (Citi): Yes, hello. Thank you for the presentation. A couple of questions. First of all, on your outlook for 2023, you expect higher core income. Maybe you could give us a little bit more flavour. On NII, what is your assumption for the dollar shift rate at the ECB and the Danish Central Bank?

On the NII sensitivity that you provided, this is for the 25 basis points, do you expect to have a similar impact, let's say, for the consequent 75 basis points, or there should be a diminishing impact here?

On fee income, if you have any view on let's say direction, if we take into account very elevated to aging activity last year and also expected pressure on consumption?

Second minor question, just to clarify your comment on the regulatory stance on this TMAs. In what cases you can actually utilize this 6.6 billion of post model adjustments this year?

Carsten Egeriis: Let me just take a couple of things and then I'll hand it over to Stephan. Thanks for the question. No, on the post model adjustment, there's no regulation around that we cannot release those post-model adjustments when we actually see losses. I mean, clearly that's important to note. I think the signal from the Danish regulator is more to say that they believe that the macro environment will be tougher and that banks should be extremely careful around releasing post-model adjustments with high uncertainty, which is not unusual. However, just to be clear, of course we can release those PMAs as we see increases in stage one and stage twos in the different segments. On fee income, I would say we probably expect roughly flat fee income, all depending on market conditions, probably slightly up. Overall, on core banking income, so both NII and fee, we're guiding that income will increase.

Stephan Engels: Yeah. Again, on NII sensitivity, 700-800 per 25 bps for the next rate hikes is the assumption, again with the reflecting on the discussion which we had earlier, split between the different currencies. Thus, ECB is the important one for us, but keep in mind there's also other currencies where, at least from today's point of view, I wouldn't see too many rate hikes coming any time soon most likely.

Operator: Thank you. We will now take your last question. Please stand by.

Jan Erik Gjerland (ABG Sundal Collier): I have two questions. The first one is the volume side. Could you shed some light into what you think about volume growth into 2023?

The second one is on the FTEs. You seem to have still a quite flat level in the area[?] of financial crime prevention full-time employees. When should we think about taking those out of your numbers? Is it in '23 or '24 or '25? Thank you.

Carsten Egeriis: On the compliance and financial crime related FTEs, we previously guided that they would flatten out into '22 and then we would expect some reduction into 2023 but not materially and then we would expect reduction going into '24 and '25. We have a financial crime remediation plan that we expect to finalize during 2023, also as part of the post-resolution obligations from closing the case, and we're very much on track on that. We continue with the trajectory on what we had earlier referred to as the AML hump, e.g., roughly flat in '22-'23 and then reducing in '24 and '25, and we still believe in that trajectory.

In terms of volume growth in 2023, clearly difficult to predict at this stage. I mean, we continue to see pretty good activity with our business customers, but lower activity certainly than the second half of last year. As I mentioned in the comment before, housing activity is clearly subdued. I think overall volume activity is a little bit mixed, but right now looking subdued. There is more clarity, you can say, around macro, despite the uncertainty picks up, then perhaps we'll see that pick up in in later quarters during the year.

Jan Erik Gjerland: Thank you. Can I just have one follow up on the FTEs? The 3.6 you have, should we think that was going down to half of it, or is it going down to zero into '25?

Carsten Egeriis: No. I think if you take the financial crime aspect of it, which is really a large part of the 3,500, we had guided to a cost going from around 2.6-2.7 billion to 1.5-1.7. You can see that as maybe a roughly 25% reduction. Most of that cost is related to FTEs. Clearly, we need to of course remind ourselves that inflation of course is higher than when we set those ranges. However, the trajectory is on course and then we'll have to see.

Claus Ingar Jensen: We have received a question over email from Jakob Brink in Nordea, and I'll just read it out loud. Regarding the 2023 guidance, I annualised Q4 revenues and subtract 25.3 billion of cost and 3 billion of loan losses and take out tax. I get 217.2. You are right NII will increase in 2023, so why only 15 to 17 billion of net profit guidance? Also, I understand no rate hikes included in guidance, is that correct? Also, using the 16 billion net profit and 16% CT one, I get to 11% return on equity. Why nine to 10% long term?

Carsten Egeriis: Long question but let me take them one by one and then we see. Thanks Jakob. I think in terms of annualizing Q4, you just need to keep in mind that there is some one-offs both in terms of the sale of MobilePay and also in terms of the adjustment of the Estonia fine. If you take that out, you need to just be sure of that when you analyse those numbers.

Then the second point is that clearly, we're guiding to an up to 3 billion loan loss rate, which is slightly higher than what you saw in Q4.

Stephan Engels: I would still say that we should be cautious whether the trading result and the insurance result in Q4 are really indicative for what we see throughout all of 2023. We have said we see a recovery year over year, but we have not said that we really expect it to return to normalised. I think the last part, I wasn't sure whether I got that right; if you divide whatever your number was, and I think it's quite a bit too high, then you need to still apply a call it proper equity level, which we still guess or which we still think will be in the range of 170 billion, as we have also previously guided.

Carsten Egeriis: I think you had a question on the nine to 10% ROE that we set in Q3 2021. We will look at what we believe is the updated longer term ROE guidelines. We will do that as part of our strategic update probably before summer, so we will not sort of guide on the longer-term ROE today.

Stephan Engels: However, just to give you clearly some credit; it is clear if you at least take the midpoint of the range that we are giving, we are slightly ahead of the 8.5 to 9 that we have so far discussed.

Carsten Egeriis: All right. Thank you all for your interest in Danske Bank and your questions, much appreciated. As always, please reach out to Claus in our IR department if you have any other questions. Thank you.

[END OF TRANSCRIPT]