Conference call

Q4 2023

02 February 2023

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 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 25 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 2023.

2023 turned out to be an eventful year for Danske Bank. Firstly, our operating environment continued to be impacted by a high level of geopolitical risk and the associated effects for the economies and our customers.

Secondly, we succeeded in making significant strategic progress. We have now completed our Financial Crime Plan, and most of our legacy cases are therefore behind us. This is an important achievement that allows us to put an even greater focus on driving the commercial performance in the years to come.

This was very clearly expressed through our Forward '28 strategy which my colleagues in the Executive Leadership Team and I presented in June at our CMD. The strategy includes clear financial targets for 2026, where we aim to deliver a return on shareholders' equity of 13 per cent.

Financially, 2023 also turned out to be a year with a strong improvement in performance. Net profit came in at 21.3 billion, equivalent to an RoE of 12.7 per cent, significantly above our outlook from the beginning of the year and in line with our most recently revised outlook from December.

The result is supported by a strong trend for NII that was underpinned by margin expansion, strong credit quality and improved cost efficiency. The nominal cost level of 25.4 billion is as expected and in line with our guidance from the beginning of 2023.

We maintained a strong capital and liquidity position throughout the year. Earnings in the second half of 2023 contributed to an increase in our core capital ratio that stood at 18.8 per cent by the end of the year. Against this background, the Board of Directors is proposing a dividend payment of 7.5 kroner per share based on earnings in the second half of the year. Added to the dividend of 7 kroner paid out for the first half of

2023, this is equivalent to a full-year dividend payout ratio of 59 per cent.

As announced in our company announcement yesterday and based on our financial results for 2023, the Board of Directors has decided to initiate a share buy-back programme of 5.5 billion kroner.

The programme, which has been approved by the Danish FSA, will start on 5th February and be completed no later than 31st January 2025. The payout will reduce our CET1 capital ratio by around 66 basis points, all else equal. Together with the ordinary dividend, this will take our total payout ratio to 85% of net profit for 2023.

For 2024, which Stephan will comment on in more detail, we expect a net profit of between 20 and 22 billion, driven by an uplift in income but also by loan impairment charges at more normalised levels and a slight increase in costs as a result of the investments we announced in our presentation of the Forward '28 strategy.

Slide 2, please.

2023 was the final year for our Better Bank plan that we launched in 2019.

The strategy was prepared in times of significant challenges for Danske Bank and had a bespoke focus on issues related to customer satisfaction, compliance, cost management and sustainability as well as employee engagement. An important part of the plan was the financial targets, where we aimed for a gradual improvement in profitability from a low level.

I am proud to say that we have successfully delivered on our priorities. Time does not allow for me to elaborate on the many results today, so instead, I refer you to the detailed review we provide in our annual report for 2023 or to our IR team for more information. However, it is important for me to emphasise that our achievements over the last four years provide a strong foundation for our ability to execute our new Forward '28 strategy.

We have now entered our new strategy period, and we have set targets for how we will measure progress.

Our overall financial ambitions for 2026 are well-known and were clearly communicated at our CMD in June. We are targeting a return on shareholders' equity of 13 per cent, with a core capital ratio of more than 16 per cent and improved cost efficiency.

We confirm our ambition for capital distribution and significantly higher investments as important elements of our strategy execution.

Since June last year, our business units have put a lot of effort into defining how to measure progress on our new strategy. Needless to say, the focus areas differ between the BUs, however, the common goal is to drive growth and profitability across Danske Bank.

As our catalogue of key performance indicators for internal steering is comprehensive and detailed, we have made a selection for each business unit in order to provide updates to our investors on a regular basis in our external reporting.

Slide 3, please.

Now, let us turn to the progress we have seen across our business units.

Starting with Personal Customers, we had a year with a strong uplift in profitability as the return on allocated capital more than doubled to 28 per cent.
Our financial performance benefited from the interest rate environment and strong credit quality and was supported by commercial momentum in Denmark. Our focused efforts to stay relevant and adjust our product offerings to customers' changing needs contributed further and have also been recognised externally.

Let me highlight the following examples of the commercial momentum we have seen:

Firstly, the healthy deposit flows, particularly in Denmark, where our tailored customer offerings, including the recent rate pass-through, led to further migration into our high-yield savings products. The trend reaccelerated in the fourth quarter, after our rate pass-through, and another 10 billion in inflows into Danske Toprente and Danske Indlån accounts took the total for the year to 35 billion.

Secondly, lending advisory services and offerings: While demand across the Nordic countries has been impacted by the slowdown in the economies, namely housing markets, and PC Norway is further impacted by the divestment, we continued to stay relevant for our customers with flexible home loan offerings. I am pleased to see the progress in PC Denmark in particular, where the Danske Bolig Fri loans were up another 7.5 per cent this quarter, supporting our improving bank lending market share, which is at the highest level in many years.

And thirdly, our momentum within Private Banking where we saw solid improvement throughout the year, evidenced by an inflow of new customers, positive net sales for AuM and an improved market share for Danske Invest.

At Business Customers, the strong financial performance continued throughout the year, with the return on allocated capital improving to 23 per cent.

Deposit levels were supported by a stable trend in Denmark. And in terms of lending volumes, we saw positive trends across the Nordic markets, both Q/Q and Y/Y, except in Sweden, where credit demand was impacted by a weaker operating environment.

Our focused advisory capabilities have now led to 750 Business Customers advisers having completed their ESG training in 2023, which clearly contributes to higher customer satisfaction scores across our markets. In the fourth quarter, we also launched solutions to further enhance digitalisation and security efforts. Increased access to self-service offerings remains a strategic lever, and District Marketplace is now available in all markets. The upskilling and the enhancements ultimately enable a deepening of wallet, and we have seen improved ancillary income through cash management, insurance and pensions, and within asset finance, just to give a few examples.

Let us move to LC&I.

2023 was also a satisfactory year for LC&I as we generated a markedly higher profit before tax – profit was up 32 per cent relative to 2022, and the ROAC increased to 22 per cent. This was driven by NII and trading income as well as continually strong credit quality. Trading income recovered from the level in 2022, driven by the fixed income strategy implemented towards the end of 2022, which has resulted in more stable trading income generated on the basis of solid customer activity.

I am pleased that we continued to execute our strategy and win new corporate customers in Sweden, and we also saw an increased market share in cash management as new house bank mandates were added in all Nordic countries.

Moreover, the debt and equity capital markets started to see improved conditions, especially in the second half of the year, and we are pleased to have a diversified franchise that is positioned to advise our customers and take advantage of the opportunities in the capital markets. As activity started to recover during the year, we managed to strengthen our M&A position in Sweden and Finland, and we are the Nordic leader within M&A and ECM advisory services in Denmark.

Our Asset Management business saw an increase in assets under management during 2023 and in the fourth quarter, partly due to recovering financial markets but also due to strong net sales in the institutional segment. This trend was supported by most of our funds outperforming benchmarks and is expected to benefit further from the execution of our new strategy.

To sum up on all three main business units, we have made significant progress in 2023, and this leaves Danske Bank in a strong position to deliver on our Forward '28 strategic ambitions and on our value proposition as a focused Nordic bank.

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

Slide 4, please and over to Stephan.

Thank you, Carsten.

Now let us have a look at the most important trends in our income statement and reserve comments that are more detailed for the following slides.

As Carsten just mentioned, we saw a strong improvement in our performance during 2023. Profit before tax almost doubled and came in at 26.7 billion. Relative to 2022, we saw stronger income, lower costs and significantly lower loan impairment charges based on continually strong credit quality.

The improvement in total income was driven by stronger net interest income, good momentum and better financial markets conditions.

Furthermore, total income was supported by a recovery in our insurance activities, which came back to a normalised level.

Compared to last quarter, profit before tax amounted to 7.2 billion, an increase of 12 per cent, which clearly confirms the positive development we have seen throughout the year.

Based on this positive development, 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.

Compared to the initial net profit outlook for 2023 of 15-17 billion presented a year ago, the final result came in stronger and represents a good starting point for our new strategy period.

Slide 5, please.

Let's take a closer look at the recent development in net interest income.

NII has benefited significantly from the expansion of deposit margins during the year and continued its positive trajectory with another 200 million uplift in the fourth quarter if you adjust for tax one-offs. The uplift is a testament to the continually positive trend, even in a quarter characterised by significant deposit repricing on the back of the September rate hikes by the ECB and the Danish central bank.

Our total deposit volume remained elevated and well diversified. Overall, the migration we have seen has been in line with our anticipated sensitivities. The composition of our deposit base and migration to higher-yielding savings products naturally tapered margins. The pass-through that took effect in the fourth quarter should be seen in light of the many previous rate hikes we have seen and is also outweighed by the positive contribution from our balance sheet effects that are gradually taking hold.

As a reflection of the general slowdown in the economies, growth in lending volumes levelled off towards the end of the year.

In the fourth quarter however, credit demand was supported by a positive development in retail Denmark, despite the housing market uncertainty caused by the rate volatility and the new property tax appraisals impacting sentiment. Corporate lending demand held up well, with encouraging signs in the SME segment in almost all countries and a normalisation of balance sheet lending to LC&I clients.

Finally, on our NII sensitivity, we have seen a natural moderation, also in light of the recent pricing adjustments we have made. For the next 25 basis points move up or down, we expect around plus or minus 500 million. However, as the balance sheet effects from our hold-to-maturity portfolio and unhedged fixed rate assets are gradually coming in, we still anticipate, with the current forward rates and all else equal balance sheet, a year 2 and year 3 effect of another DKK 300 million and DKK 200 million, respectively.

Slide 6, please.

When looking at fees, the full-year level has clearly been impacted by the subdued housing market activity and less remortgaging activity, as well as the financial markets impact on asset prices we saw in the first half of the year.

The recovery in fee income we saw mid-year has been sustained. In the fourth quarter, fee income increased sequentially again and was up 10 per cent, driven by credit demand from both retail as well as corporate customers. Investment fees also contributed positively, primarily due to a strong performance in asset management in the fourth quarter.

As alluded to earlier, capital markets fees were supported by more constructive markets and gained momentum in the second half of the year. Our DCM franchise continue to accommodate customers' preferences between balance sheet and bond financing, and fee income benefited from a recovery in M&A activity in the fourth quarter.

Slide 7, please.

Now, let me briefly comment on net trading income.

Net trading income improved significantly in 2023 from the low level in 2022 and amounted to 3.7 billion for the year. Factoring in the impact from one-offs during the year, this is in line with our expectations for a normalised trading result. The improvement was driven by higher customer activity and the benefits of the implementation of our fixed income strategy at LC&I in 2022.

In the fourth quarter, trading income was impacted by seasonality in customer activity, but nevertheless increased compared to the preceding quarter as Q3 was impacted by a one-off of DKK 0.8 billion related to a CET1 FX hedge in Group Functions following the exit of the personal customer business in Norway.

That concludes my comments on the income lines – let's now move to expenses.

Slide 8, please.

Let's take a look at our operating expenses.

Reported expenses were 4 per cent lower in 2023, and I am pleased to see how we have managed to keep costs in line with our plans and have mitigated the inflationary pressure to end the year within our guided range.

The cost development in the fourth quarter reflected known seasonality for staff costs, including higher performance-based compensation.

With our release today, we have also provided cost guidance for 2024. As highlighted here, we have made it a priority to reallocate resources and invest in future-proofing our business in accordance with our Forward '28 strategy.

We will continue with stringent cost measures, and efficiency gains will partly mitigate the impact of expected inflation. In addition, in 2024, costs will be temporarily impacted by the relocation to our new domicile and by minor costs for divesting our personal customer business in Norway.

Slide 9, please.

Next, let us look at the development we have seen in 2023 in our credit portfolio.

Macroeconomic conditions developed more favourably than initially expected at the start of the year. Moreover, the credit quality of our portfolio continued to be strong. During an economic slowdown caused by higher rates we would naturally expect a migration in the portfolio, but so far, the slight increase in stage 3 exposures have been related to very few single names and has been countered by reversals and positive migration in other parts of the portfolio.

In sum, we had net reversals in the fourth quarter, and consequently, loan impairment charges for the year amounted to 0.3 billion, equivalent to a loan loss ratio of just 1 basis point. This result is clearly below our normalised through-the-cycle expectations.

We maintain our prudent approach in terms of management overlays, with PMAs equivalent to more than 4 years of normalised loan losses.

With respect to commercial real estate, our prudent underwriting approach and modest risk appetite over the past many years have formed the solid credit quality of our book, and actual credit deterioration in this part of our portfolio remained limited throughout 2023.

Now, let's turn the page and cover our capital position.

Slide 10, please.

Our capital position remained strong, with our reported CET1 capital ratio standing at 18.8 per cent.

Retained earnings after deduction of the announced ordinary dividend largely mitigated the impact from higher REA and an increase in the deduction from our insurance operations.

The increase in risk exposure amount related primarily to the end-of-year calibration of operational risk REA, which is scaled by level of income.

Our CET1 capital requirement stood at 14.2 per cent and continues to include the Norwegian retail exposures.

Slide 11, please.

And finally, I would like to comment on our outlook for 2024.

We expect total income to grow, driven by higher NII and fee income based on our continued efforts to drive commercial momentum. For NII specifically, and based on the current forward rates, we expect NII to peak around mid-year.

Income from trading and insurance activities will be subject to financial markets conditions.

As mentioned earlier, we expect operating expenses to be in the range of 26 to 26.5 billion, reflecting increased investments in line with our financial targets for 2026, which also entail a continued focus on cost efficiency measures. The outlook includes non-recurring items of approximately 0.6 billion related to the relocation to our new domicile and minor costs for the divestment of our personal customer business in Norway.

Loan impairment charges are expected to reflect the assumptions in our financial targets for 2026 of approximately 8 basis points per annum.

Net profit is expected to be in the range of 20-22 billion.

Our outlook is as always subject to macroeconomic uncertainty and financial markets conditions, however, I would like to emphasise that we consider net interest income as well as loan impairment charges to be subject to an elevated level of uncertainty in 2024.

Slide 12, 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

Sofie Peterzens (JP Morgan): The first question would be around the DKK5.5 billion share buyback. How should we think about potential further share buybacks in 2024? Is DKK5.5 billion the full amount that we should expect for 2024? Or can we expect more share buybacks? And also, if you could kind of discuss if there are any limitations to pay more than 100% of your profits to shareholders? That would be my first question.

And then the second question would be on net interest income. There was quite a lot of deposit margin pressure this quarter. Could you maybe just discuss the kind of how much you are paying on the deposit side? What deposit betas you are seeing? And have the deposit increases being done and we should expect a stable cost of deposits going forward? Or how should we think about this?

Carsten Egeriis: Morning, Sofie. Thanks for your question. Let me take the buyback and capital distribution question. I mean, the way I think about it, first of all, we are, of course, pleased that we can start our share buyback programme again. I think that reflects, one, that we have a robust set of results and a very robust balance sheet.
Clearly, these discussions are done with our regulators, and it also reflects that we have finalised our financial crime plan, and also, to some extent, reflects a belief that the macro situation is somewhat more stable.

What I will say today is that, we confirm our ambitions that we presented in June at our Capital Markets Day, which is that, we would distribute over DKK 50 billion in dividend over four years, e.g., the higher end of our dividend distribution range, but also that we would distribute excess capital. And we mentioned in June roughly 3% of RWA over the period.

So the third thing probably to think about is that the buyback that we do today that we announced today is really focused on 2023 earnings, and is a function of the earnings that we have done in 2023 and not a focus on existing excess capital. We will update the market in summer, which I think is also what we have been regularly saying and updating on. So we will come with a more fuller update on capital targets, capital position and as much detail as we can give at that point on future thinking on capital distribution. So that is hopefully answering the capital and buyback question.

Then on the deposit question, the fourth quarter was a quarter, where, one, in the Danish market, you saw a 25 bps, so from zero to 25 bps on the transactional accounts. And then we also passed through a significant amount of the Q4 rate cut to ensure that we maintain the most competitive saving accounts for our customers. We believe that, that has shown to be a positive for our customers. We have seen overall inflows in deposits.

Then your question around, what do we expect as we go into 2024 and what deposit betas are? We expect deposit betas to continue to be within the expectations that we have given and within the sensitivities that we have given. I do not want to go much more into pricing aspects because clearly, we cannot give forward-looking pricing pieces, but I can say that deposit migrations have been well within our assumptions and NII sensitivities.

Jakob Brink (Nordea): On the guidance for this year, I read, obviously, your details in the slides, and I heard what you said, Stephan, about NII this year. So would it be possible to give a little bit more detail on the revenue side of things? It seems like your loss guidance and cost guidance, net-net, is roughly in line with consensus, if we add the two together. The top end of your range is typically quite cautious this time of the year. Last year, I think you beat at 30%. So could you just give us some details on your comfort on the revenue lines in 2024, please? That would be my first question.

And the second question is related to Danica and maybe also part of relating back to my first question. I see that you lost almost DKK 900 million on health and accident in 2023, and especially in the second half of the year in Danica. Is there any progress to close that hole? Or should we expect a similar big loss in 2024?

Carsten Egeriis: Thanks, Jakob. In terms of your questions on guidance, one, we do guide to increasing income, core income NII and fees. I would say, as much as that we do not disagree with the current consensus on NII, and we expect that there would be a pickup in fees driven by healthier activity, not least in capital markets. So hopefully, that is helpful.

Danica. Correct that a big headwind for Danica has been the generally increase in society in sickness, not least driven by stress leave and other things. And that has caused us to revisit the provision that we have in health and accident. And as you say, that is DKK 900 million for the year. As we look forward, we did see a slight better trend towards the end of Q4, not least in terms of reactivations. And the provision that we have taken through the year is set to cover expectations that we have seen and the latest trends being a stabilisation and slight improvement. So hopefully, that answers your question.

Stephan Engels: And maybe a short addition since you mentioned that we almost misguided you by 30% last year. I think we are also trying to improve ourselves, so I would not expect that again.

Jakob Brink: No. I probably agree on that. But on the Danica, just so I understand 100%. So the DKK 900 million also includes some strengthening of reserves?

Carsten Egeriis: No. I mean, how I would say it, Jakob, is that, basically, we reserve based on some view on the latest trend. So basically, the reserve reflects a heightened level of provisions against a heightened level of sickness trends in society and also a poor reactivation level. So what I am saying is the provisions already reflect a heightened level, and we see the levels slightly improving at the end of Q4, and therefore, we should feel comfortable at this stage that we are comfortably or correctly provisioned is probably the right wording. And we continue to be focused on reactivations and also on proactive helping our customers in the health and accident space.
Does that answer your question?

Jakob Brink: Yes, I think that is fine.

Johannes Thormann (HSBC): Also some questions from my side. First of all, a follow-up on the capital distribution. Your official dividend policy is 55%, now it is 59%. Should we model in this is a future level? And then will the total payout in the future be rather closer to 100% or less than the current 85%? So I guess, you would not say any specific numbers, but just give me a relative feeling, please.

And secondly, a follow-up on insurance income. Is the current level more something you would consider a normalised level in insurance income or were there also some effects you would describe as positive in it or one-off positive? And probably one question for me as well is on the slide three, where PC satisfaction level, where you are just top four. What are the countermeasures to get to a better level?

Carsten Egeriis: Thanks, Johannes. Three questions. Capital distribution policy, we have said that dividend policy is between 40% and 60%. And we have said in our strategy that we would pay in the higher end of that over the next four years, including 2023, and the 59% reflects that. Total payout this year of 85%, really, that should reflect the fact that we decided to carve out the potential risk buffer for commercial real estate, which is likely to come in this summer to show that we are prudent and taking that into consideration. Otherwise, there would not have been any particular reason not to have paid out more of this year's, e.g., 2023 earnings.

Insurance income normalised level, roughly DKK 1.6 billion is what we guided to in June Capital Markets Day. We would continue to believe that. Clearly, the income this year was heavily impacted by one-offs, both the health and accident that we just discussed, but also a very, very solid investment result, given the decreasing rates in Q4, particularly.

And then on personal customer CSAT, customer satisfaction, that is something that we work on ongoing. It has, in fact, improved the last couple of years quite significantly, particularly when we look at the bilateral interactions with customers. So our own measures that customers tell us on bilateral interactions, but also when you look at things like Trustpilot, and really the strategy that we presented in June is all about how do we make customer experience better through better digital solutions, through better advisory. And that is part of the investments we are making, but also part of some of the things that we have just rolled out.
For example, just this week, we rolled out a pure digital account opening for new customers in Denmark, which will take account opening from 10 days to roughly two hours, just to give one example.

Jan Erik Gjerland (ABG): Thank you for taking my questions as well. When it comes to the capital level, you talked about some updates after the second quarter results in July. How should we think about the RWA of 3% distribution versus when you are and how you are selling Norway out of this? Will that be an extra dividend or extra capital relief after that? Or how should you think about Norway in this context when it comes to the 3% of the RWA distribution for the next four years? And my second question was to the NII. Have you added some hedges when interest rates was high, so you can keep a stronger for longer, so to speak? Or how should we think about your sensitivity into 2025 and 2026, when it comes to the 25 basis point changes? Or is this just that the old hedges are gone again, so there are no new hedges at the top?

Carsten Egeriis: Yes. Thanks, Jan Erik. On capital levels, you should think about Norway as being separate. Clearly, we had not announced the sale at the time of the June announcement and the 3% of RWAs. So you should think about Norway as being separate. And again, proceeds around Norway we will clearly look at either investment or distribution when it comes to Norway, and we will update on that in due course.

And then in terms of the hedge, we do have a hedge. We do have a deposit hedge. And that is a deposit hedge that we replenish ongoing. And it has roughly a three-year average maturity. So you should think about that as continuing to pick up some yield.

Johan Ekblom (UBS): Just two questions, if I may. One, just to continue on the net interest income and the hedge. I mean, given the number of rate hikes we have seen over the last two years, there should be quite a continuing tailwind in certainly all of 2024 and partly in 2025 as well. Can you quantify what the yield differential is on your hedge versus spot rates or something to help us gauge how much tailwind there is to still come through there?

And then maybe secondly, just on the cost side. So you are flagging DKK 600 million or so of one-off items in this year. Are these going to be lumpy one-offs? Or is it kind of an increased cost level relating to relocation, etc., that will be, I guess, harder to disentangle from the headline numbers?

And also on the cost side, you are using some of the benefits to boost investment levels. Should we view this as a permanent increase in investment levels? Or is it a temporary effect from taking advantage of some of the benefits you are seeing this year?

Carsten Egeriis: Just on cost, and then I will hand the hedge yield question over to Stephan. On cost, the DKK 600 million that is a one-off related to domicile and then the sale of Norway, those are lumpy and will not be recurring again in 2025.

And then on investment level, we guided towards an incremental investment level of roughly DKK1 billion a year throughout the strategy period. I think you should see that as a reasonable ongoing level to continue to invest in the digitisation and automation of our business as well in advisory and sustainability.

So I think the guidance that we gave in June on ongoing incremental investments is probably right. But we will obviously always want to invest in our business and those levels could, of course, change over time.

Stephan Engels: So, on NII, my first simple answer would be all what you have been asking for Johan is properly reflected in the sensitivities that we have given you. And again, it is the hold to maturity book. It is the unhedged fixed rate loans in Sweden. And we have also talked about the unhedged fixed rate loans in Finland. Please keep in mind that the Finnish has been on six-month and 12-month reset models, which means most of that portfolio has been reset. And then it depends on rates move, how that will go.

You find some more detailed information about our fair value portfolios in the Note G33 in the Annual Report, page 166 I think it is. I do not want to discuss a detailed yield. Again, think of the portfolio of a duration of, call it, 3-point and a bit yields, 20% probably below one-year, 60% in this three-year duration bucket, then another 20% possibly above five years, which means we have been continually picking up yield.

If you compare year-end 2022 with year-end 2023, you can also see that the position has grown a bit. But in general, it is a hedge. So this is more a consistent replenishment model as Carsten has also said before. And again, it is reflected in the sensitivities, specifically year two and three.

Geoff Dawes (Société Générale): Just one question from my side, and that is looking at volume growth. Obviously, as we go through the various operations and the various divisions, it is hard to find as you have already guided. Can you just give us a couple of thoughts? First of all, on whether there are any areas within the business where volume growth is starting to emerge when you are starting to see those famous green shoots?

And then second of all, when you look at your guidance, is that pretty much predicated on volume growth remaining where it is now, so very stagnant, or do you see some uplift as we go through the year? So those would be the one/two questions.

Carsten Egeriis: Yes, thanks for that. There is no question that lending growth has been somewhat subdued. I mean if you look at both Q4 and for the year, we were flat in Personal Customers in Denmark. If you look throughout the whole year, roughly 1% growth increase in Business Customers overall, and then lending growth down in LC&I, but clearly offset by pretty okay capital markets activity.

If you look in 2024, our expectations is that, lending will pick up somewhat, so we should expect housing activity to pick up. I am talking over the whole year. I think Q1 may still be somewhat subdued when it comes to housing, but if you look at across the whole year 2024 and with the assumptions that we have here around interest rates coming down, then I would expect housing to pick up over the year.
I would expect business customers to see slight growth, but again relatively subdued in line with the growth expectations that we see in the Nordics.

And then I think on the LC&I space, I think there are arguments for seeing pickup in lending, not least when we look at activity, when we look at pipeline and also when we look at the PE space is one example that I think is likely to pick up during 2024. So, all-in-all, yes, we do expect some pickup in lending still relative, of course, to an economic environment where we are seeing 1% to 2% growth across the various different Nordic markets. And all of that is what is also the basis for the 2024 outlook guidance that we are giving you.

Riccardo Rovere (Mediobanca): Just capital clarification, if I may. First of all, I just wanted to be sure I understood it correctly that you expect that NII to peak around the mid-2024, and then as you stated that, overall, you do not disagree with NII consensus as it is visible on your website and that NII in any case, is subject to elevated uncertainty? That is my first question.

The second question I had is a general one on impairment in your guidance, in the 8 basis points that you mentioned, is there any assumption about using the post model adjustments or post model adjustments are expected to remain where they are? And in general, does the guidance include the Norway because the conclusion of the transaction or not?

Carsten Egeriis: Thanks, Riccardo. You are correct on NII, exactly, as you said. Impairment assumptions, 8 basis points is the normalised impairment that we are guiding towards. Your question around, would that use post-model adjustments? The answer is, it depends because some post model adjustments are, of course, directly linked to certain sectors and certain names.

So in the cases where the PMAs are more specific and granular, in those cases, it would include them. But of course we also have a significant amount of more general post model assumptions, where it would be unlikely that those would be used as part of the guidance. And then the guidance that we are giving includes all of our assumptions around how Norway will run off and leave our books towards the end of the year as we migrated to Nordea.

Martin Gregers Birk (SEB): Two questions from my side. The first one being, if I look at your deposit margin and lending margin disclosure, it seems like the deposit margin is making a little bit of a pivot here in Q4, which is, of course, totally understandable. But it seems like your lending margins are not really moving either. Is not it time to start to push those lending margins now that deposit margins are seeing a little bit of pressure? That is going to be my first question.

My second question, it comes back to trading. Five-year Danish swap rates are down roughly 100 basis points in Q4, and you are still making what you call the normalised trading results. And actually, if I look at your LC&I result, it is actually looking worse compared to last time, Danish five-year swap rates were up by 100 basis points. Is this a satisfactory level for you guys?

Carsten Egeriis: Hi, Martin. Thanks for that. If I take trading first, there is no question that Q4 and the end of Q4 was a bit slower on trading. I do not think you should make any correlations to the five-year swaps because what we have done is, significantly reduce overnight risk, if you will. And really, you should think about the trading income as being correlated to customer activity, much, much more so than in previous. In general, we believe that the result for 2023 is a solid trading result that shows really good customer activity and also strong market shares when it comes to our trading activity. But no question that December particularly was weak in terms of activity. I can say that we have started the year with good activity on the trading side.

Deposit margins, there is no question that lending margins are at the lower end, right, across the sector. And so, if you are asking me, would you expect deposit margins to come somewhat down over time and lending margins to come somewhat up over time, yes, I would expect there will be some normalisation. But I would not expect any larger increases in lending margins, but more a gradual, let us say, normalisation of both.

Stephan Engels: And maybe some of a more technical comment, if you look at the slide, you can obviously see in the deposit margin, as you mentioned, the re-pricing of our deposits, as we have discussed before. But keep in mind, we have technically the same effect on the lending margin to a certain extent because not all the loans are reset within the quarter, and the latest rate hike was relatively late. So we have seen a technically somewhat lower pass-through rate, we expect that to pick up in Q1.

Martin Gregers Birk: Just coming back to your trading line. I mean I understand your communication around trading in a normal quarter, but when you see extreme effects like this, and I assume you still have a roughly 25% within Danish fixed income, and that also requires you to hold a sizable amount of inventory and that inventory will see positive fair value adjustments. What should we expect as a normalised trading from here on?

Carsten Egeriis: But I think we do not actually hold sizable inventory. We still maintain market shares and maybe have even improved market shares, but the inventory we hold is just at a much, much shorter period of time. So we do not hold the same amount of inventory overnight, not even close versus what we did, but the market in general has also shifted towards trading on the basis that we and others would not hold as much inventory.

Shrey Srivastava (Citi): My first is, based on your symmetric NII sensitivity, is it correct to assume that you would be able to reprice downwards at the same rate as you reprice upwards and rates are coming down? And additionally, on deposit mix shift. How do you see this progressing and as rates come down? Is this sort of a multi-year headwind, or do you see this significantly slowing as we reach the end of the hiking cycle?
My second one is, given the recent discussions you have had around the FlexLife loans, has this affected your lending appetite? And do you intend to further alter the specific features of this product?

Carsten Egeriis: If I got the first question, it is around symmetric NII sensitivities, e.g., it is plus/minus DKK 500 million, DKK 300 million and DKK 200 million in year one, two, three, both up and down. Those are clearly assumptions used for modelling purposes. And to give that sensitivities, we believe that it is fairly robust. Like I said, the deposit betas that we have seen on the way up have been well within our assumptions. So I think that is what we can say at this stage.
We have not changed our lending appetite on Flex loans. Clearly, the discussions with the Danish FSA mean that we need to go back and look at certain loans in terms of the documentation that we do, but it is not a risk appetite question or issue for us whatsoever, process issue.

Claus Ingar Jensen: Then I think we are ready for the last question, please.

Jacob Kruse (Autonomous): Two questions. First, just on your capital. Could you say anything around what you see as day one Basel IV effect in January 2025? You can have an idea there. And then second, on the NII and the hedges. So could you just help us understand, we have had, I guess, 14 or 15 rate hikes. And you talked about the year two and three sensitivities or additional benefits coming through from the hedge for the reputation portfolio and the loan repricing. How much of those benefits do you expect in 2024, just mechanically, given that that period has already happened when you think about the consensus level of NII being roughly correct? Just to understand your building block there.

Carsten Egeriis: Thanks, Jacob. I will let Stephan answer the NII and hedge dynamics. I did not get your first question on capital. Can you repeat that?

Jacob Kruse: Just the Basel IV, with the implementation in January 2025. Do you have any estimate for how much that will impact your capital level?

Carsten Egeriis: I mean that has largely already been incorporated in the risk-weighted assets that you see today. So there should be no Basel effect or a very minor Basel effect if any, in January 2025.

Stephan Engels: Yes. And then on the NII hedges, again, I am just trying to build a very simple model. The rate hikes started like, call it, mid last year. And what we are saying is every 25 bps over three years is worth DKK 1 billion. So if we had 15 hikes up and have five hikes down, the DKK 15 billion total volume goes down to DKK 10 billion total volume, and then it spreads over time with this 50%, 30%, 20%, which means that, in simple terms, what you have been seeing so far is mostly short-term sensitivity.

What you will see gradually moving in is more of the long-term sensitivity. As I have mentioned earlier, the benefits of the Finnish book are basically in already, so there is some. And I think that is as close as we can get because otherwise, you get down to modelling each and every rate hikes separately. And I think this is going to get us out of the timeframe of this deal.

But the simple version is DKK 1 billion for three years, and then you need to think a little bit in slices, which means the short-term stuff is early and the other one comes later.

Carsten Egeriis: Thanks very much. And Jacob, please do reach out to us or to Claus, if any other questions. Thank you everybody for your interest as always in Danske Bank and for all your questions. Much appreciated. And as always, you are welcome to contact Claus and the team in Investor Relations. Thanks a lot. Take care.

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