Danske Bank Additional Tier 1 Capital

Investor presentation
November 2016

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Executive summary: Danske Bank in brief

Macro-economic environment	Operates in solid Nordic economies.
Diversified business model	Nordic universal bank, diversified by line of business and country.
Profit	Net profit 9M 2016 of DKK 14.3 bn, corresponding to ROE of 12.6%. Outlook for net profit in 2016 to exceed the level in 2015.
Credit quality	Very low level of loan impairment charges. Loan loss ratio of 1 bps for for core activities for 9M 2016.
Capital	Danske Bank Group CET1 ratio of 15.8% and total capital ratio of 21.0% as of end Q3 2016.
Funding and liquidity	Robust funding position with LCR of 137% as of end Q3 2016.
Dividend and share buy-back	Ordinary dividend target of 40-50% of annual profits. Share buy-back programme of DKK 9 bn for 2016*.
Solid rating position	Moody's A2 (positive) / S&P A (stable) / Fitch A (stable).

*Run for no more than 12 months, beginning on 4 February 2016.

Executive summary: Additional Tier 1 Notes

Nature of transaction	DKK transaction.
Structure	Perpetual, non-call [5]-year with a temporary write-down provision.
Trigger	The notes will carry a 7 % transitional CET1 trigger at both the Bank and Group level.
Distance to trigger	Significant 12.7% distance to trigger at the Bank level and 8.8% at the Group level.
Distance to MDA restriction	Significant distance to MDA restriction and ADI in excess of DKK 100 bn.
Expected rating of the notes (S&P/F)	BBB - / BB+.
Rationale	Continued process to achieve efficient capital structure under CRD IV. Support of the Group's ratings.

Overview: Danske Bank has a strong Nordic franchise

Facts

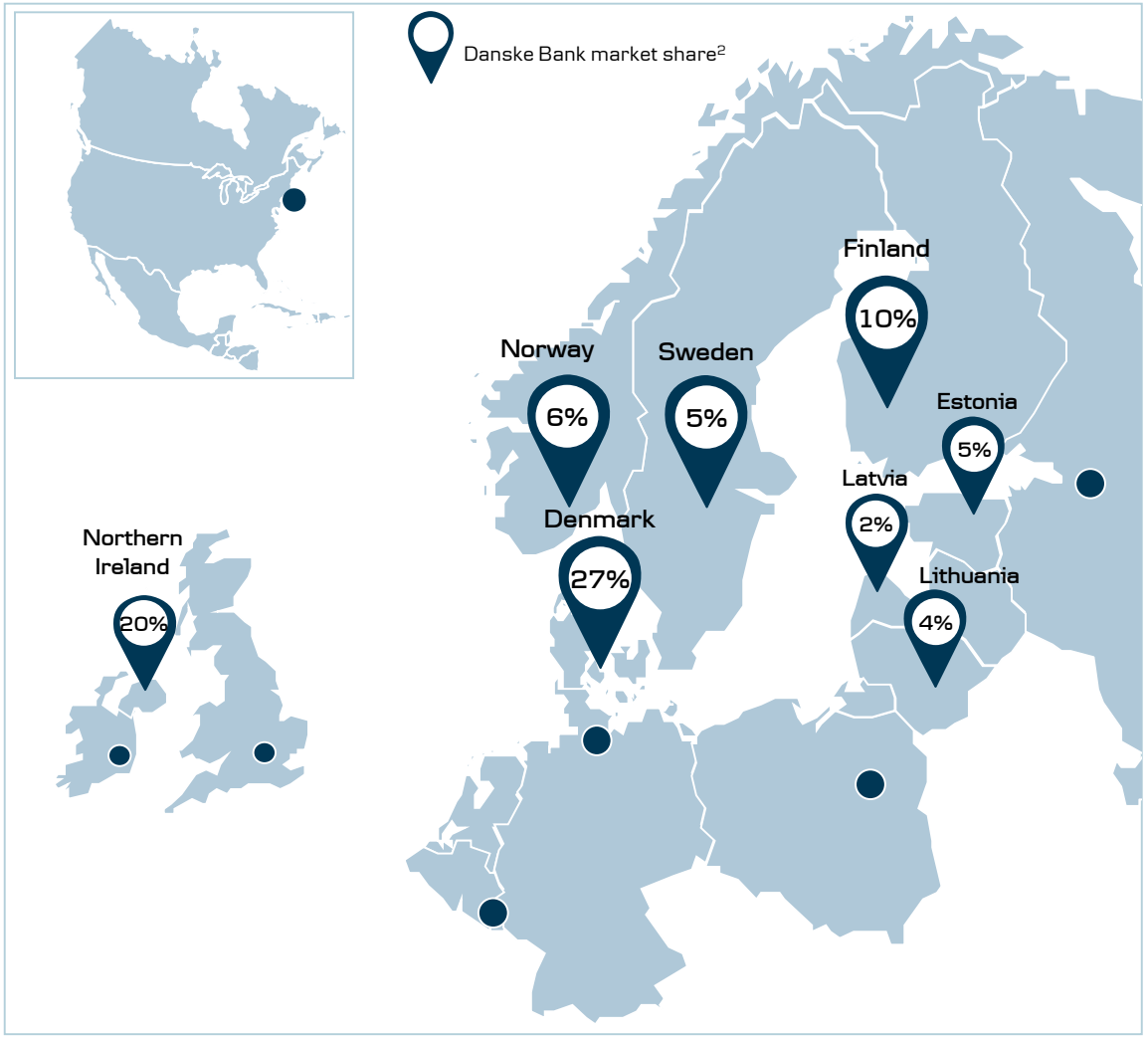
- **3.4** million customers
- **280** branches[1]
- **15** countries
- **19,433** full-time employees

Business units

- Personal Banking
- Business Banking
- Corporates & Institutions
- Wealth Management
- Northern Ireland

For divestment

- Non-core (Ireland & Conduits)
- Personal banking activities in Estonia



[1] Excluding agricultural centres in Denmark [2] Market share by lending

Net profit: DKK 14.3 bn, up 9% from first nine months of 2015

Income statement and key figures (DKK m)

	9M 2016	9M 2015	Index	Q3 2016	Q2 2016	Index
Net interest income	16,239	16,123	101	5,492	5,489	100
Net fee income	10,151	10,978	92	3,414	3,354	102
Net trading income	6,284	5,348	117	2,549	2,138	119
Other income	2,383	1,575	151	589	562	105
Total income	35,057	34,023	103	12,044	11,543	104
Expenses	16,586	16,964	98	5,471	5,805	94
Profit before loan impairment charges	18,471	17,059	108	6,573	5,738	115
Loan impairment charges	157	197	80	264	22	-
Profit before tax, core	18,314	16,862	109	6,309	5,715	110
Profit before tax, Non-core	5	33	14	-42	65	-
Profit before tax	18,318	16,895	108	6,267	5,780	108
Tax	4,050	3,808	106	1,362	1,362	100
Net profit	14,268	13,087	109	4,905	4,418	111
Return on avg. shareholders' equity (%)	12.6	11.5		12.9	11.8	
Cost/income ratio (%)	47.3	49.9		45.4	50.3	
Common equity tier 1 capital ratio (%)	15.8	15.7		15.8	15.8	
EPS (DKK)	14.4	12.9	112	5.0	4.4	114
Lending (DKK bn)	1,675	1,590	105	1,675	1,664	101
Deposits and RD funding (DKK bn)	1,644	1,566	105	1,644	1,611	102
- of which deposits (DKK bn)	872	824	106	872	855	102
Risk exposure amount (DKK bn)	814	832	98	814	800	102

Key points, 9M 2016 vs 9M 2015

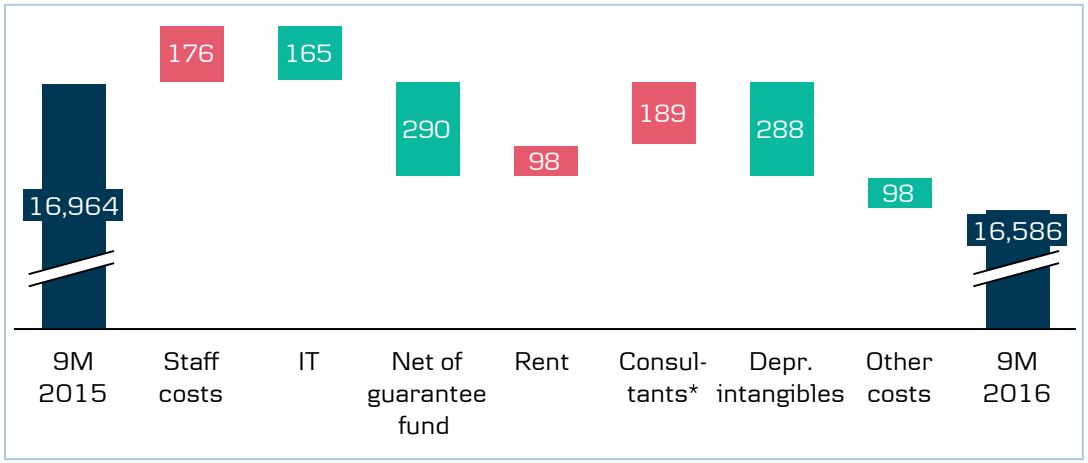
- Return on equity of 12.6%
- Total income up, reflecting higher trading income and other income
- Property sale in Q1 and sale of VISA Europe in Q2 and Q3
- Negative credit value adjustments (CVA) of DKK -0.6 bn in Q2
- Expenses down 2%; cost/income ratio of 47.3%
- Lending volume up 5%

Key points, Q3 2016 vs Q2 2016

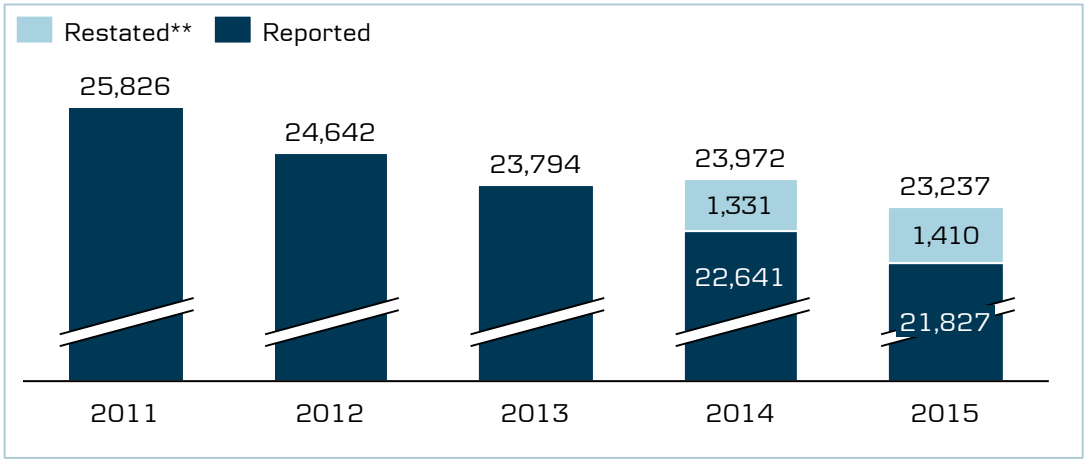
- Fee income up 2% owing to increased re-mortgaging
- Trading income up 19%, driven by strong client activity at C&I
- Expenses down 6% after higher regulatory costs in Q2
- Lending volume up 1%
- CET1 capital ratio at 15.8% as REA rose to DKK 814 bn

Expenses: Down 2% despite upward pressure from regulatory costs

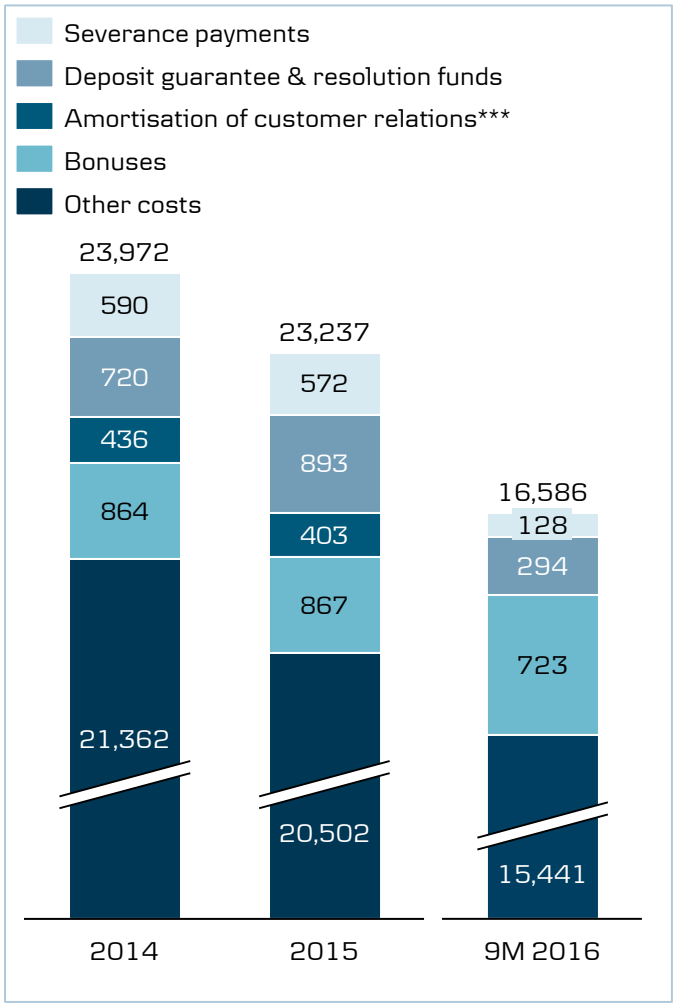
Change in expenses (DKK m)



Total expenses ex goodwill charge, 2011-2015 (DKK m)



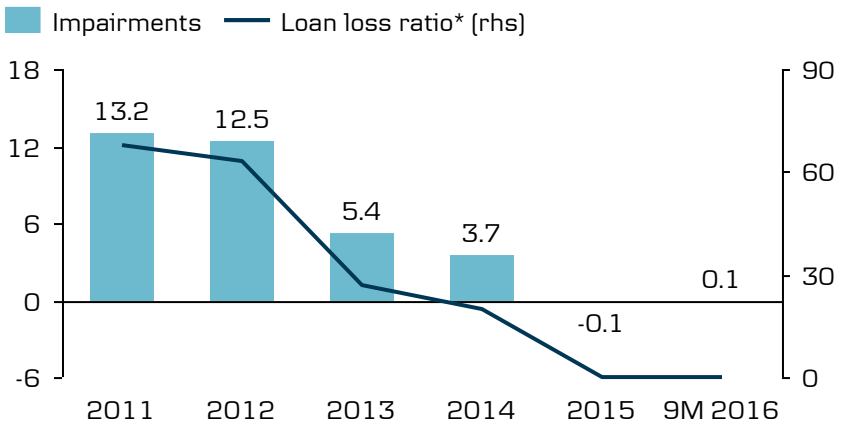
Total expenses ex goodwill charge (DKK m)



* Owing mainly to increased regulatory requirements. ** Expenses for 2014 and 2015 are restated to reflect the new Wealth Management unit. ***2015 charge represents 11 months of amortisation because of write-down in December 2015.

Impairments: Loan loss ratio of 1 bp ex Non-core in first nine months of 2016

Group impairments,* 2011 to 9M 2016 (DKK bn/bp)



Impairment drivers, Q3 2016 vs Q2 2016

- Impairments remain low despite increased impairments for oil-related exposure; overall, credit quality remains sound
- Personal Banking and Wealth Management continue to benefit from improved macroeconomic conditions and stronger collateral values, especially in Denmark
- Net reversals at Business Banking and Northern Ireland driven by increased commercial property prices. In Denmark, the agriculture sector remains challenged
- Increased impairments for oil-related exposure at C&I, including DKK 0.2 bn in collective charges. Total collective charges against oil-related exposure amount to DKK 0.7 bn

Impairments (DKK m)

	9M 2016	9M 2015	Q3 2016	Q2 2016
Personal Banking	-289	455	-110	-14
Business Banking	-54	173	-31	5
C&I	789	-	468	125
Wealth Management	-82	-39	-8	-23
Northern Ireland	-211	-393	-60	-71
Other activities	5	-	5	-
Total core	**157**	**197**	**264**	**22**
Non-core	-98	-81	-17	-82
Group	**59**	**116**	**247**	**-60**

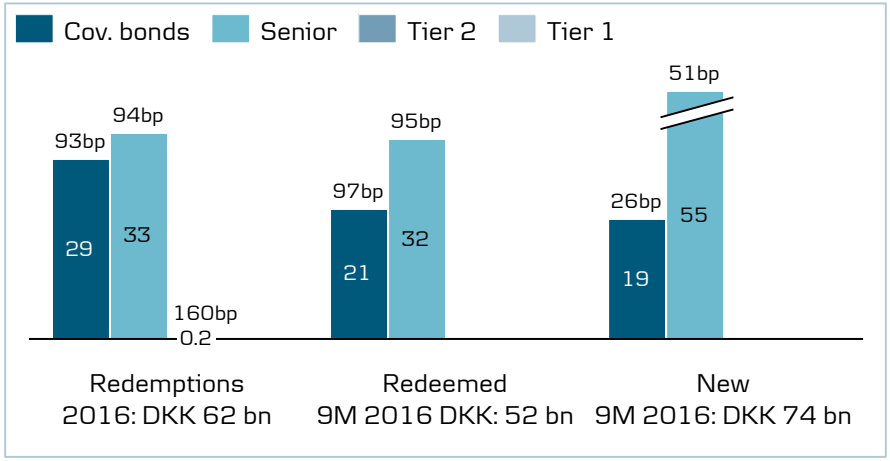
Loan loss ratio,** annualised (bp)

	9M 2016	9M 2015	Q3 2016	Q2 2016
Personal Banking	-5	9	-6	-1
Business Banking	-1	4	-2	-
C&I	26	-	42	11
Wealth Management	-16	-7	-4	-13
Northern Ireland	-56	-113	-54	-61
Other activities	20	-	78	-
Total core	**1**	**2**	**5**	**0**
Non-core	-55	-35	-33	-143
Group	**0**	**1**	**5**	**-1**

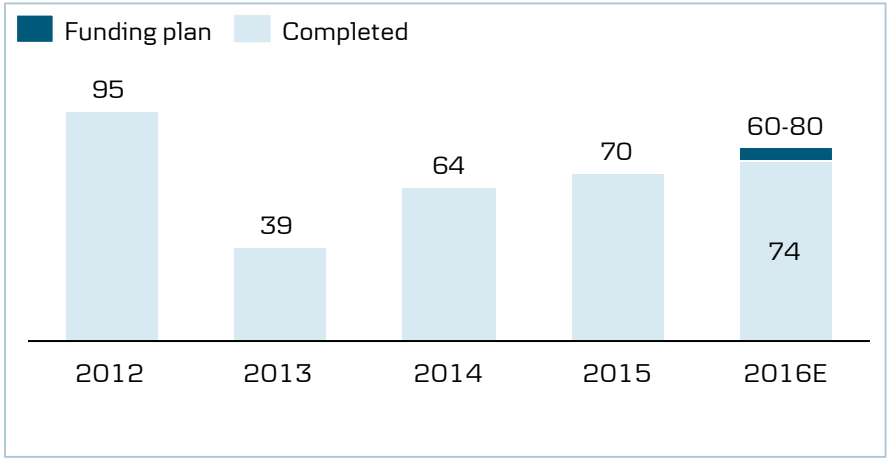
* Incl. Non-core **The loan loss ratio is defined as annualised quarterly impairment charges as a percentage of loans and guarantees.

Funding and liquidity: DKK 74 bn of long-term funding issued in the first nine months of 2016; LCR-compliant at 137%

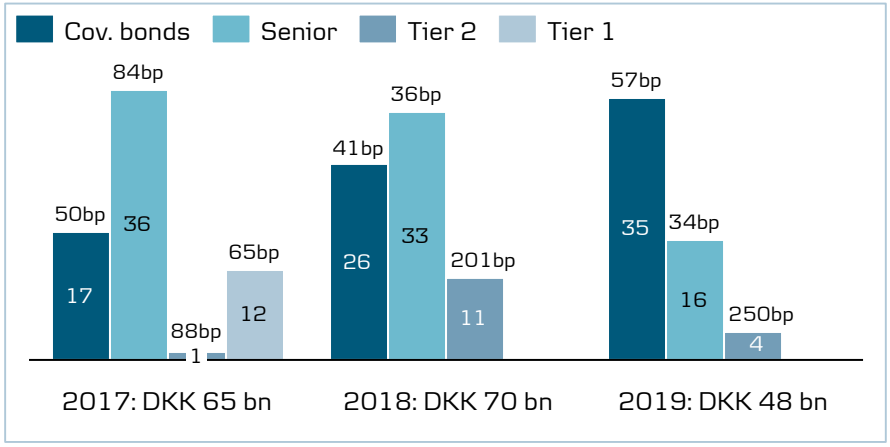
Changes in funding,* 9M 2016 (DKK bn and bp)



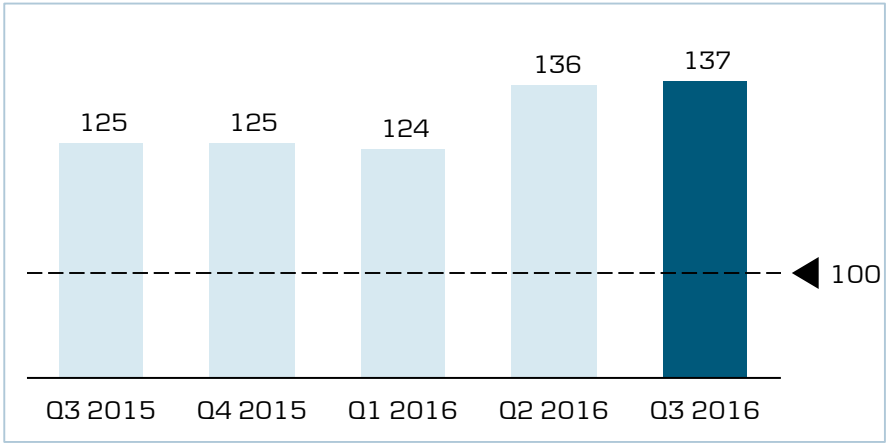
Long-term funding ex RD*** (DKK bn)



Maturing funding,* 2017-2019 (DKK bn and bp)



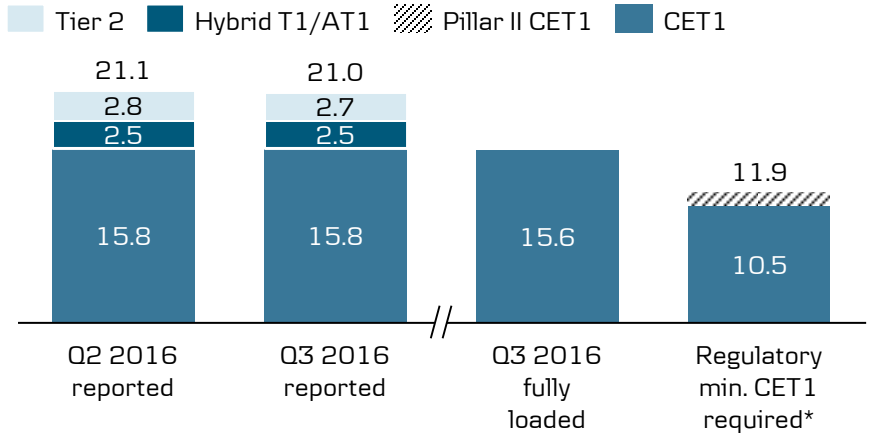
Liquidity coverage ratio** (%)



* Spread over 3M EURIBOR. ** Until Q3 2015, LCR was calculated according to the Danish FSA's specifications and included holdings of covered bonds and Danish mortgage bonds, including own issued bonds. Since October 2015, LCR has been calculated according to the new EU standards. ***We expect the funding need for 2017 to be at a level similar to this year's.

Capital: Strong capital base; CET1 capital ratio unchanged at 15.8% as REA increase offsets earnings

Capital ratios, under Basel III/CRR (%)



Capital highlights, Q3 2016

- Market risk up from a low level in Q2, leading to higher REA, partly because of CVA hedging
- Leverage ratio of 4.3% under transitional rules and 4.0% fully phased-in
- Effect of CRR/CRD IV on fully loaded CET1 ratio is a drop of 0.2 of a percentage point from the Q3 2016 level
- Capital targets: CET1 in the range of 14-15% in the short to medium term in light of regulatory uncertainty, and total capital ratio target of around 19%

CET1 capital ratio, Q2 2016 to Q3 2016 (%)



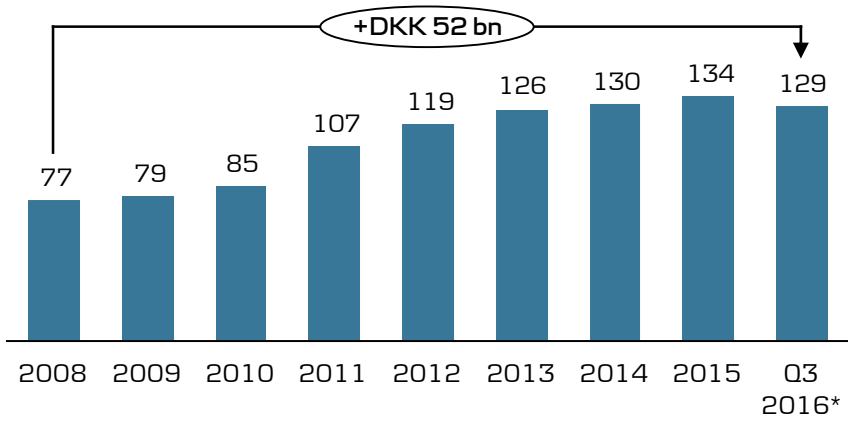
Total REA, Q2 2016 to Q3 2016 (DKK bn)



* Pro-forma fully phased-in minimum CET1 requirement in 2019: min. CET1 requirement of 4.5%, capital conservation buffer of 2.5%, SIFI requirement of 3%, countercyclical buffers of 0.5% and CET1 component of Pillar II requirement.

Strong CET1 capital build-up since 2008

Common Equity Tier 1, 2008 – Q3 2016; DKK billion



Key points

- Nominal CET1 has increased by DKK 52 bn and the CET1 ratio has almost doubled from 8.1% to 15.8% from 2008 until today
- Profits generated since 2013 have allowed us to distribute DKK 29.6 bn back to the shareholders while maintaining a strong CET1 ratio
- Available Distributable Items (ADI) in excess of DKK 100 bn

REA, CET1, profit and distribution (DKK bn, %)

	2008	2009	2010	2011	2012	2013	2014	2015	9M2016
REA	960	834	844	906	819	852	865	834	814
CET1 ratio	8.1%	9.5%	10.1%	11.8%	14.5%	14.7%	15.1%	16.1%	15.8%
Net profit**	1.0	1.7	3.7	1.7	4.7	7.1	13.0	17.7	14.3
Distributed to shareholders	5.9	0	0	0	0	2.0	10.5***	17.1***	-
Total assets	3,544	3,098	3,214	3,424	3,485	3,227	3.453	3,293	3,549

*On June 30 2016, Danske Bank Group stopped consolidating Danmarks Skibskredit A/S and LR Realkredit A/S for the purpose of regulatory capital. This lead to a drop in CET1 of DKK 3 bn and a simultaneous drop in REA of DKK 16.2 bn.**Before goodwill impairment charges ***Based on year-end communicated distributions

Danske Bank's credit ratings

Danske Bank's long-term issuer rating and outlook

Moody's Positive	S&P Stable	Fitch Stable
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA
Aa3	AA-	AA-
A1	A+	A+
A2	**A**	**A**
A3	A-	A-
Baa1	BBB+	BBB+
Baa2	BBB	BBB
Baa3	BBB-	BBB-
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Rating agency issues

S&P Global upgrades SACP rating

- On July 8 2016, S&P raised Danske Bank's SACP (Stand-Alone Credit Profile) rating from 'a-' to 'a' as a result of Danske Bank's improved capitalisation.

Moody's upgrades Danske Bank's deposit rating – outlook changes to positive

- On 12 October 2016, Moody's upgraded Danske Bank's long-term deposit rating from A2 to A1 and affirmed all other ratings. Moody's also changed the outlook from stable to positive on Danske Bank's ratings.
- The upgrade of Danske Bank's deposit rating reflects an increase in the volume of deposits since end-2015 resulting in two notches uplift under Moody's Loss Given Failure (LGF) analysis compared to previously only one notch uplift.
- The positive outlook reflects Danske Bank's improvements in financial metrics to date and the expectation of a continuation of the positive trend.

Rating affirmed by Fitch

- On August 22 2016, Fitch affirmed Danske Bank's rating with a stable outlook. The asset quality and profitability score were raised from 'a-' to 'a'.

Transaction rationale

CRR/CRD IV efficiency	A strong CET1 ratio is supplemented by Additional Tier 1 capital. This serves to adjust the Group's capital structure in line with our capital targets and in a manner that is efficient under CRR/CRD IV. Grandfathered "Hybrid Tier 1 capital" of DKK 12 bn will lose regulatory efficiency in 2017.
Rating	Strengthens the bank's capital as measured by rating agencies by enhancing the Group's loss-absorbing capital, supporting the group's overall rating ambitions.
Leverage ratio and Pillar II	Full recognition for the leverage ratio and beneficial in relation to Pillar II requirements.
Support for senior creditors	Increases protection to senior creditors.

Mandatory, automatic distribution restrictions

Key points

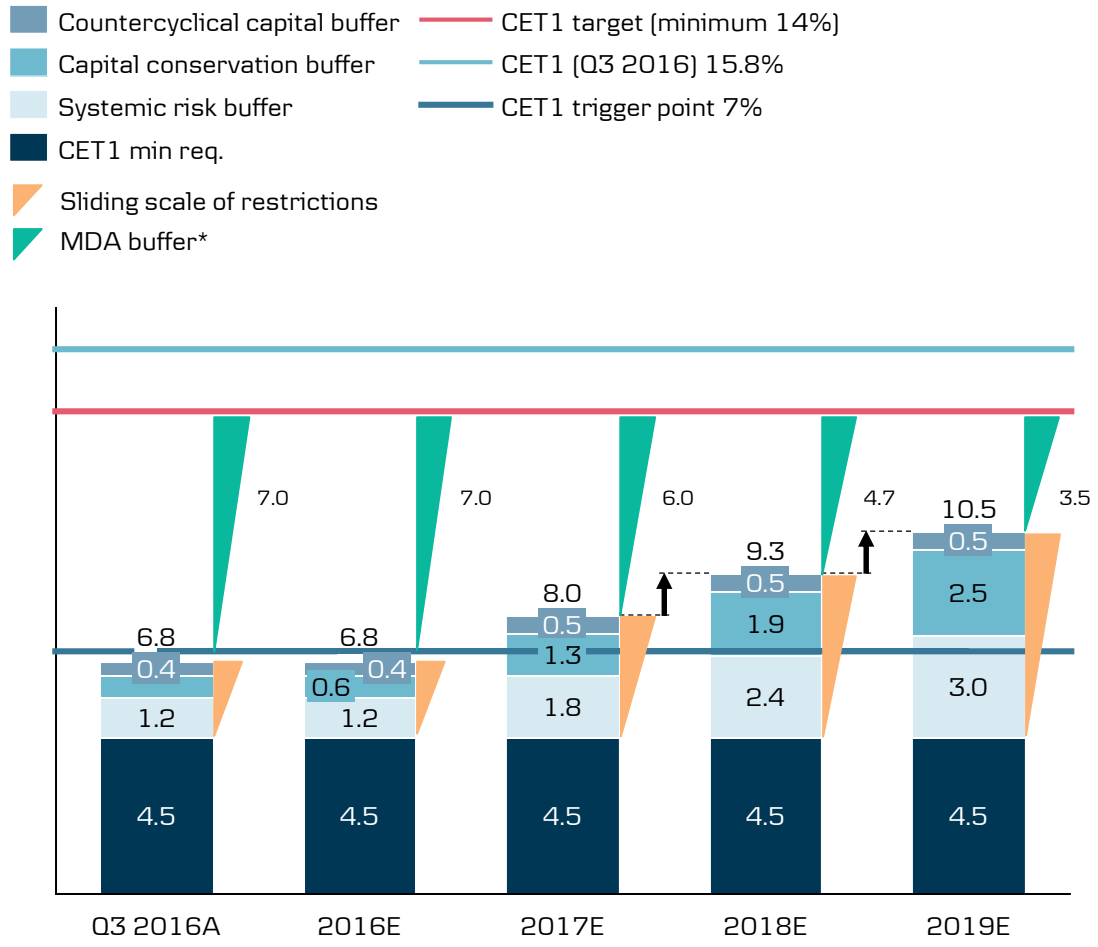
- Mandatory, automatic restrictions to discretionary distributions* will apply to all European banks under CRD IV. The Maximum Distributable Amount ("MDA") is calculated in relation to the combined capital buffer requirement ("CBR").
- CBR is defined as the capital conservation buffer extended by the systemic risk buffer (SIFI capital add-on) and countercyclical capital buffer.
- Danske Bank's fully phased-in CBR of 6.0% consists of a 2.5% capital conservation buffer, a 0.5% countercyclical capital buffer mainly reflecting the exposures in Norway and Sweden and a 3.0% systemic risk buffer.
- According to the current Danish implementation of CRD IV, the Pillar II requirement is not relevant for the mandatory, automatic restrictions on MDA.

Danske Bank intends to manage its CET1 capital ratio to provide a prudent cushion to its CBR to mitigate against the risk of distribution restrictions under CRD IV

*Dividends on ordinary shares, coupon payments on AT1 instruments and discretionary variable compensation

Mitigating mandatory distribution restrictions

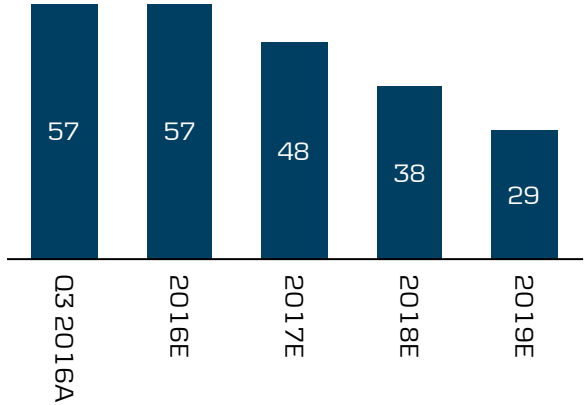
Estimated capital buffer structure, %



Key points

- Significant headroom to the automatic MDA restriction point is anticipated, assuming CET1 target of 14-15%
- By 2019, when the CRD IV transitional rules are fully phased in, the automatic restrictions on MDA are expected to kick in at a CET1 ratio of 10.5%

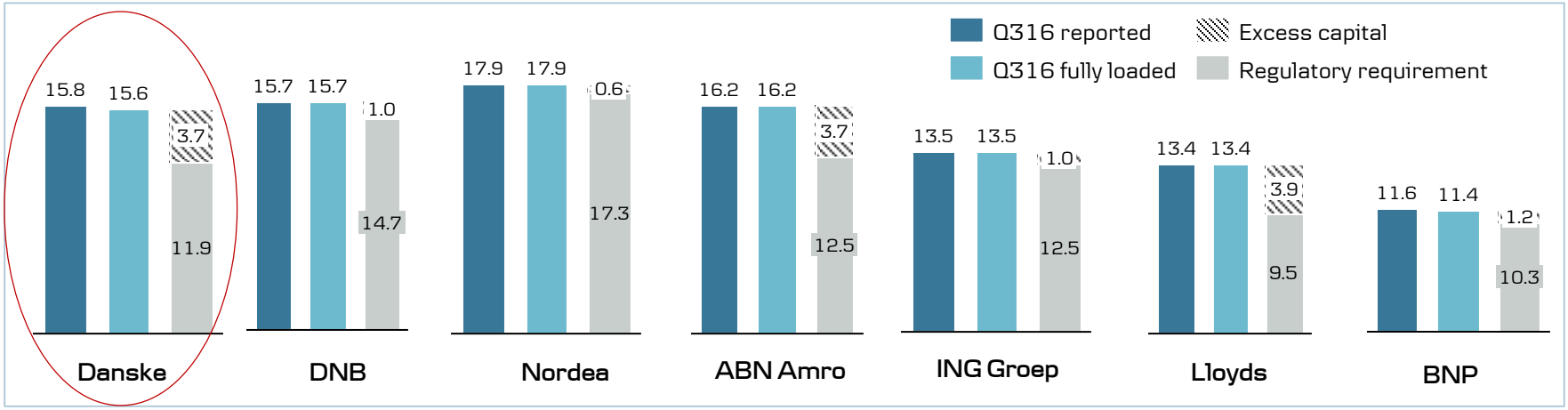
Phased-in MDA buffers*; DKK billion



* Assuming REA equal to Q3 2016 of DKK 814bn, CET target of min. 14% and that min. requirements are covered by relevant capital instruments. Note that with CET1 at 15% (the upper limit of the CET1 target), the MDA buffers would increase by 1 percentage point, equal to some DKK 8bn. Under current Danish rules, Pillar II does not count towards automatic MDA restrictions.

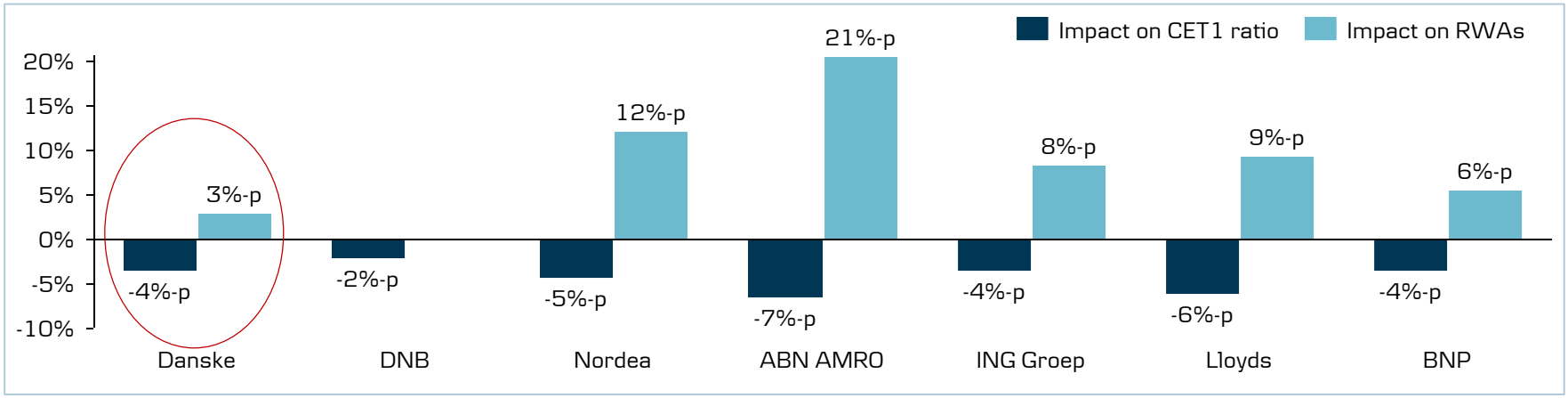
Danske Bank peer comparison

CET1 ratios vs minimum requirements (in percent of REA)



Source: Company Interim Reports (Q3) except ABN Amro (Q2) / Danske Bank

EBA Stress Tests: Impact of Adverse Scenario (2018 Adverse vs 2018 Baseline)



Source: EBA 2016 EU-wide stress test results (July)

New issue: Terms and Conditions 1/3

Issuer	Danske Bank A/S
Issuer's Senior Ratings (M/S/F)	A2 (Positive) / A (Stable) / A (Stable)
Instrument Ratings (S/F)	[BBB - / [BB+] (expected)
Description	DKK [ ] Perpetual Non-cumulative Resettable Additional Tier 1 Capital Notes (the "Notes")
Maturity	Perpetual
Optional Redemption	[] November [2021] ("First Call Date") at the Outstanding Principal Amount or on any interest payment date thereafter subject to regulatory approval.
Interest	[*Fixed Rate Note*: [ ]% p.a. payable semi-annually in arrear up to the First Call Date. Thereafter reset to a new fixed rate, payable semi-annually in arrear, based on the underlying swap rate plus the margin, in [2021] and every [fifth] anniversary thereafter.] [*Floating Rate Note*: 3-month CIBOR plus the margin, payable quarterly in arrear.]
Interest Cancellation	Any payment of interest in respect of the Notes shall be payable only out of the Issuer's Distributable Items and (i) may be cancelled, at any time, in whole or in part, at the option of the Issuer in its sole discretion, or (ii) will be mandatorily cancelled to the extent the relevant payment would cause any Maximum Distributable Amount to be exceeded or if otherwise so required by the CRD IV*, including the applicable criteria for Additional Tier 1 Capital instruments.

Note: The terms are outlined in their entirety in the full terms and conditions of the Notes. In case of any discrepancy, the Base Prospectus prevails.
* **"CRD IV"** means, as the context requires, any or any combination of the CRD IV Directive, the CRR and any CRD IV Implementing Measures.

New issue: Terms and Conditions 2/3

Status/Subordination	Notes are eligible to constitute Additional Tier 1 Capital under CRD IV. Subject to any Loss Absorption Following a Trigger Event and Reinstatement of the Notes as detailed below, the Notes will constitute direct, unsecured and subordinated debt obligations of the Issuer, and will rank (i) *pari passu* without any preference among themselves, (ii) *pari passu* with any other Additional Tier 1 Capital of the Issuer (including the Existing Hybrid Tier 1 Capital Notes) and obligations or capital instruments that rank or are expressed to rank equally with the Notes, (iii) senior to all classes of Issuer's share capital and obligations ranking or expressed to rank junior to the Notes and (iv) junior to all other obligations of the Issuer
Special Event Redemption	The Issuer may redeem the Notes at the Outstanding Principal Amount at any time in case of a Tax Event (future additional amounts or loss of deductibility) or a Capital Event (exclusion from or reclassification to a lower form of regulatory capital) (each a "Special Event") subject to regulatory approval
Substitution and Variation	If a Special Event has occurred, the Issuer may substitute all (but not some only) of the Notes or vary the terms of all (but not some only) of the Notes, without any requirement for the consent or approval of the Holders, so that they become or remain Qualifying Capital Notes Qualifying Capital Notes must (i) comply with the then current Additional Tier 1 Capital requirements and provide the same amount of regulatory recognition as the Notes, (ii) carry the same rate of interest, (iii) have the same original and outstanding principal amounts, (iv) rank *pari passu* with the Notes, (v) not immediately be subject to a Special Event Redemption, (vi) have terms that are not materially less favourable to an investor and (vii) maintain listing

Note: The terms are outlined in their entirety in the full terms and conditions of the Notes. In case of any discrepancy, the Base Prospectus prevails.

New issue: Terms and Conditions 3/3

Loss Absorption following a Trigger Event and Reinstatement	If at any time the Common Equity Tier 1 ("CET1") Capital Ratio of the Issuer and/or the Group has fallen below 7%, the Outstanding Principal Amounts shall be reduced (in whole or in part) Subject to CRD IV and BRRD requirements the amount of the write down shall be the lower of (i) the amount that would cure the Trigger Event taking into account the CET1 generated *pro rata* by all Parity Trigger Loss Absorbing Instruments (if any) and Other Loss Absorbing Instruments (if any), and (ii) the amount that would reduce the Outstanding Principal Amount to DKK 0.01 Following any such reduction of the Outstanding Principal Amounts, the Issuer may, at its discretion, reinstate some or all of the principal amount of the Notes subject to compliance with CRD IV Reinstatement would be on a pro-rata basis with all other Parity Trigger Loss Absorbing Instruments that feature similar reinstatement provisions
PONV	The Notes may be subject to statutory loss absorption as more fully described in the risk factors in the Base Prospectus
Governing Law	English Law, except subordination, interest cancellation, loss absorption and reinstatement, special event redemption and enforcement events which will be under Danish Law
Denominations/ Listing/Clearing	DKK 2m+10k/Nasdaq OMX Copenhagen/ VP
Neg. Pledge/ Cross Def.	None

Note: The terms are outlined in their entirety in the full terms and conditions of the Notes. In case of any discrepancy, the Base Prospectus prevails.

Q&A session



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This presentation does not imply that Danske Bank has undertaken to revise these forward-looking statements, beyond what is required by applicable law or applicable stock exchange regulations if and when circumstances arise that will lead to changes compared to the date when these statements were provided.

