

# *Debt investor update*

Q3 2019

# Agenda

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## Executive summary: Challenging first nine months; net profit down 14% from 9M 2018; new target for ROE of 9-10% in 2023



**Lending growth of 3% y/y**, driven by growth of 3% y/y at Banking Nordic and 1% y/y at Banking DK. However, growth is at lower margins



**Trading income** significantly lower due to both structural and cyclical headwinds; management actions to restore profitability in FI&C launched



**Strong capitalisation** with a CET1 ratio of 16.4%; new capital target for CET1 ratio of above 16%; REA increase in Q3, driven mainly by market and counterparty risk; additional Pillar II add-on of DKK 4 bn included from Q3



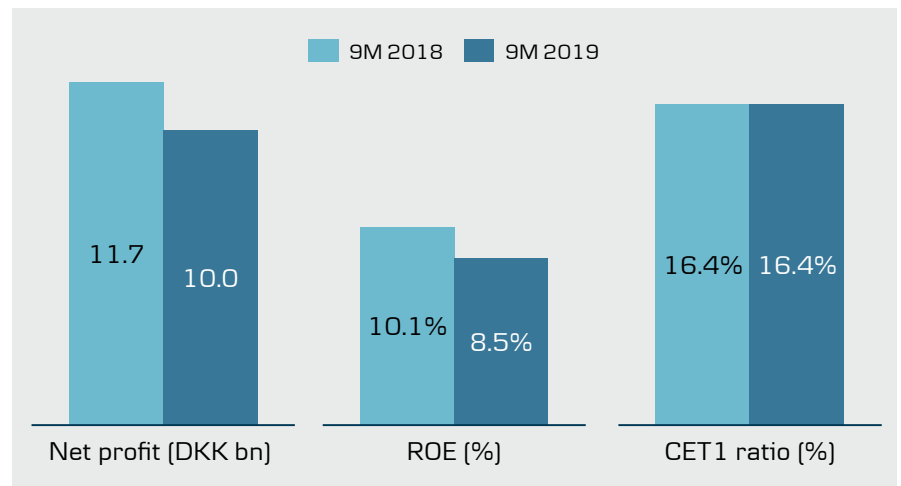
**New ROE target** of 9-10% in 2023 launched and target for cost/income ratio in the low 50s; 2020 guidance for ROE of 5-6% as a result of further investments to support our 2023 ambitions

**DKK 10.0 bn** Net profit, down 14% from 9M 2018 due to lower NII, higher expenses and higher loan impairment charges. 9M 2019 includes gain on sale of Danica Pension Sweden (DKK 1.3 bn)

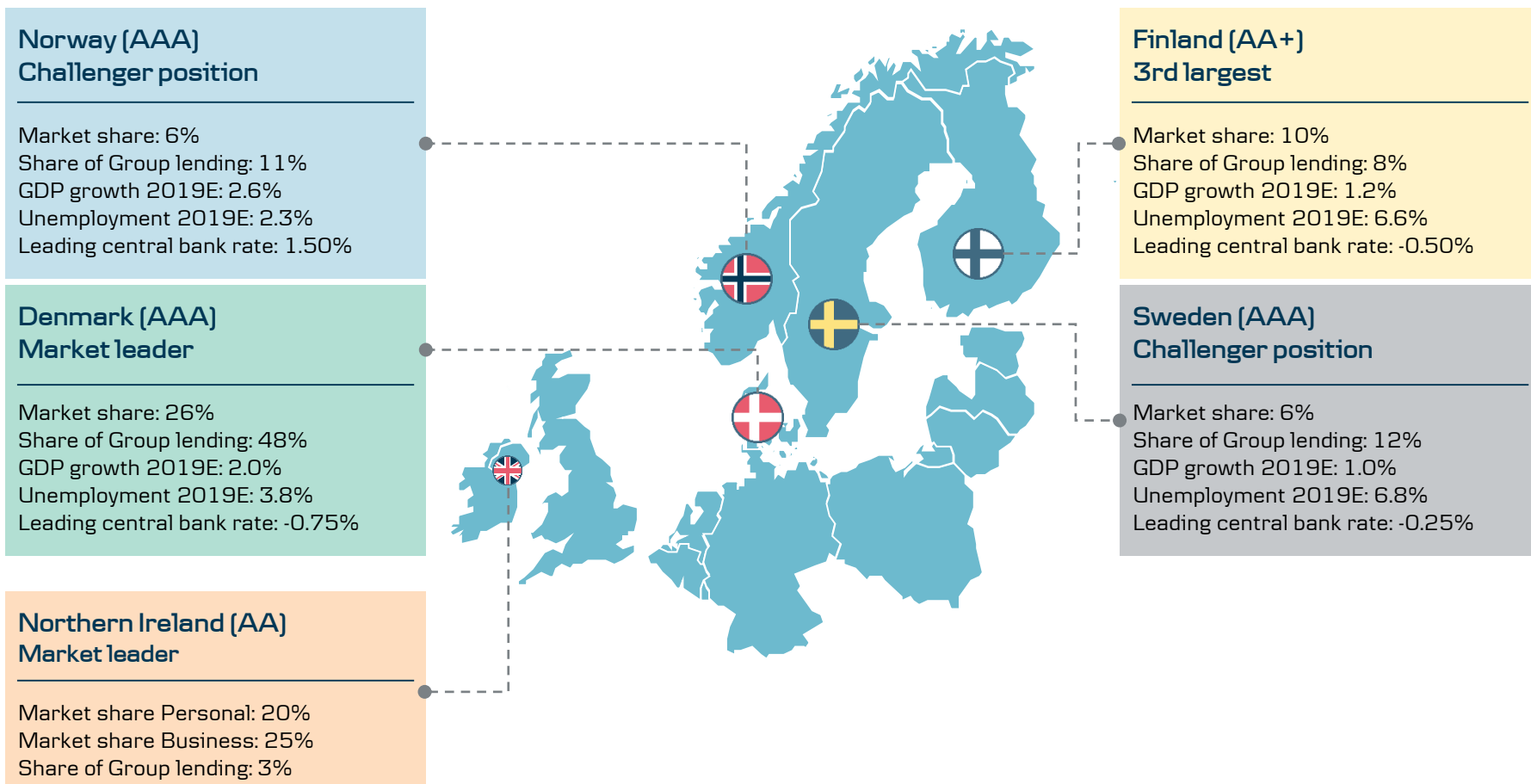
**8.5%** Return on equity after tax, including gain on sale of Danica Pension Sweden

**2%** Increase in expenses y/y due mainly to upstaffing and investments in compliance and AML-related activities, as well as the provision for compensation related to the Flexinvest Fri case

**DKK 13-15 bn (lower end)** Narrowed net profit outlook for 2019



# We are a Nordic universal bank with strong regional roots



Note: Data as per end-Q3 2019 unless otherwise stated. Share of Group lending is before loan impairment charges and excludes Corporates & Institutions (11%) and Wealth Management (4%) and Nordic Asset Finance (3%), however most of these are Nordic clients

# We remain committed to becoming the Nordic Integrator

## Our Nordic Integrator Strategy



## Our long-term promises

- We put customers first
- We deliver strong returns to our investors
- We contribute to society
- We care about and develop our employees

## Our ways of working

- We focus on excellent execution and act as one bank
- We take ownership for our performance and our progress
- We work in an agile way to deliver results faster
- We are transparent and take responsibility for our actions

# We have set ambitious 2023 targets for all of our key stakeholders



## Customers

### What we want to accomplish by 2023

*"On average among the top 2 in customer satisfaction in everything we do"*



### How we measure success

≤2.0 average CSAT rank



## Employees

*"At least 90% of our employees are engaged"*



≥90% engagement index



## Society

*"We operate sustainably, ethically, and transparently – and have positive impact on the societies we are part of"*



Quantified progress across seven specific categories<sup>1</sup>



## Investors

*"We continuously improve the profitability level, leveraging our full potential"*



9-10% return on equity

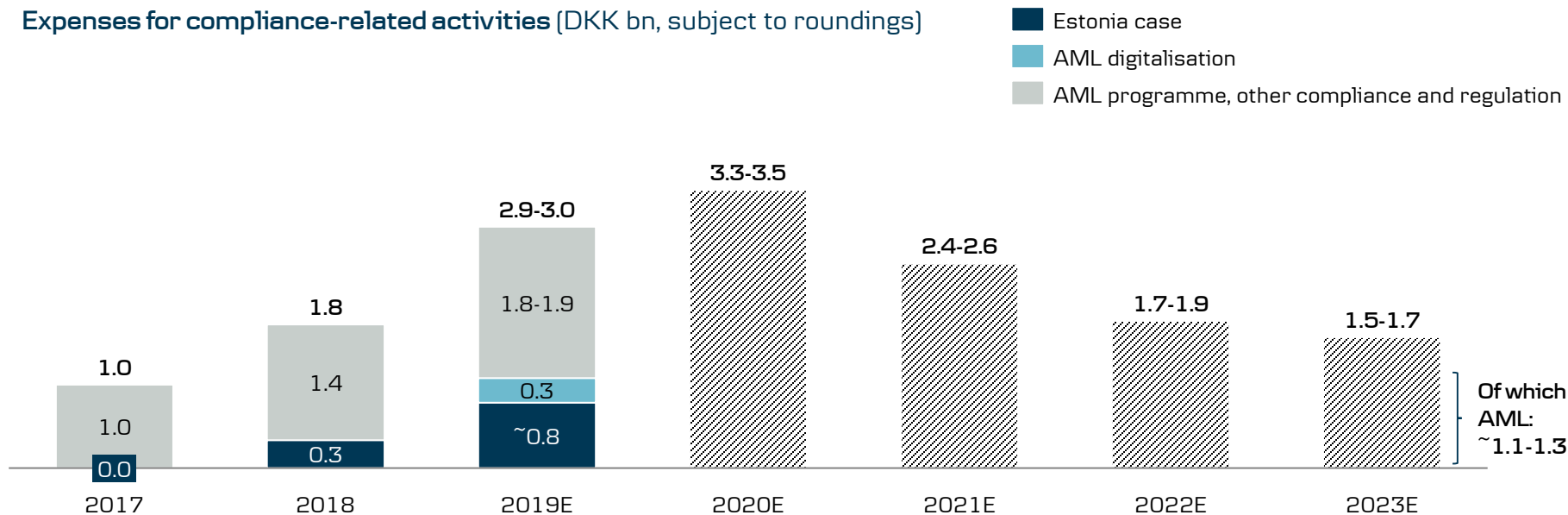
CIR in the low 50s

Dividend policy of 40-60%

1. Selected focus categories: Sustainable Investing, Sustainable Financing, Governance, Diversity & Inclusion, Environmental Footprint, Entrepreneurship and Financial Literacy

## AML and other compliance related costs to peak in 2020

Expenses for compliance-related activities (DKK bn, subject to roundings)

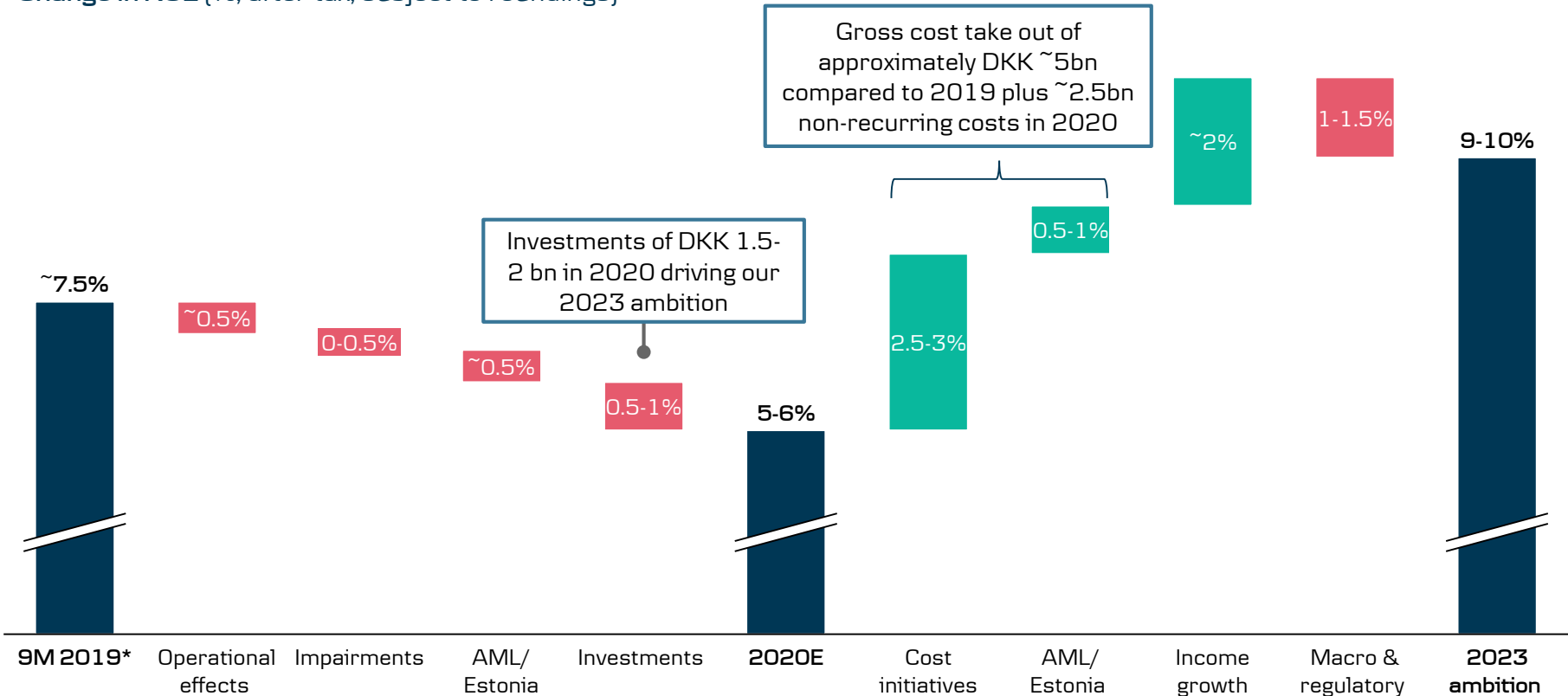


### Comments on AML-related investments

- AML investments expected to peak in 2020E, thereafter falling to reach steady-state level of DKK 1.1-1.3 bn in 2023
- AML investments are driven by FTE increase to strengthen our lines of defence and to increase the capacity for handling KYC/ODD and monitoring processes
- Increased IT investments are also planned in 2020 to secure progress on digitalisation and automation of core AML processes

# ROE ambition of 9-10% in 2023\*\* with unchanged rates and FX following significant investments expected to peak in 2020

Change in ROE [% , after tax, subject to roundings]



Dividend policy unchanged at 40-60%  
CET1 target above 16% in the short term

\* Based on actual first 9M 2019E ROE adjusted for one-off items.

\*\* For assumptions, please see appendix page 47



## Net profit: DKK 10.0 bn, down 14% from 9M 2018, including DKK 1.3 bn gain on sale of Danica Pension Sweden

### Income statement and key figures (DKK m)

	9M 2019	9M 2018	Index	Q3 2019	Q2 2019	Index
Net interest income	16,336	17,676	92	5,445	5,371	101
Net fee income	11,681	11,324	103	4,111	3,701	111
Net trading income	2,907	3,738	78	779	829	94
Other income	1,905	696	274	160	1,630	10
Total income	32,829	33,434	98	10,495	11,532	91
Expenses	19,206	18,767	102	6,382	6,679	96
Profit before loan impairment charges	13,623	14,667	93	4,113	4,852	85
Loan impairment charges	813	-607	-	343	113	-
Profit before tax, core	12,810	15,274	84	3,771	4,739	80
Profit before tax, Non-core	-248	4	-	22	18	122
Profit before tax	12,562	15,278	82	3,793	4,757	80
Tax	2,531	3,598	70	782	725	108
Net profit	10,031	11,680	86	3,011	4,031	75
Return on avg. shareholders' equity (%)	8.5	10.1		7.6	10.5	
Cost/income ratio (%)	58.5	56.1		60.8	57.9	
Common equity tier 1 capital ratio (%)	16.4	16.4		16.4	16.6	
EPS (DKK)	11.1	12.7		3.3	4.5	
Lending (DKK bn)	1,818	1,758	103	1,818	1,809	100
Deposits and RD funding (DKK bn)	1,740	1,647	106	1,740	1,711	102
- of which deposits (DKK bn)	926	909	102	926	932	99
Risk exposure amount (DKK bn)	782	738	106	782	762	103

### Key points, 9M 2019 vs 9M 2018

- Return on equity of 8.5%
- NII down 8% due mainly to higher funding costs and margin pressure
- Fee income up 3% due to high remortgaging activity and the SEB Pension Danmark acquisition
- Trading income down 22% in difficult rates market conditions
- Expenses up 2%, due mainly to upstaffing and investments in compliance and AML activities
- Impairment charges driven by C&I

### Key points, Q3 2019 vs Q2 2019

- NII up 1% as growth and FX hedge of equity more than offset margin pressure and funding costs
- Fee income up 11% due to high remortgaging activity and negative one-off in Q2
- Expenses down 4% due to lower performance-based compensation and negative one-off in Q2
- Impairments affected by increased downside in macroeconomic outlook and single-name exposures at C&I

# NII: Down 8% y/y due to margin pressure, higher funding costs and transfer to Non-core

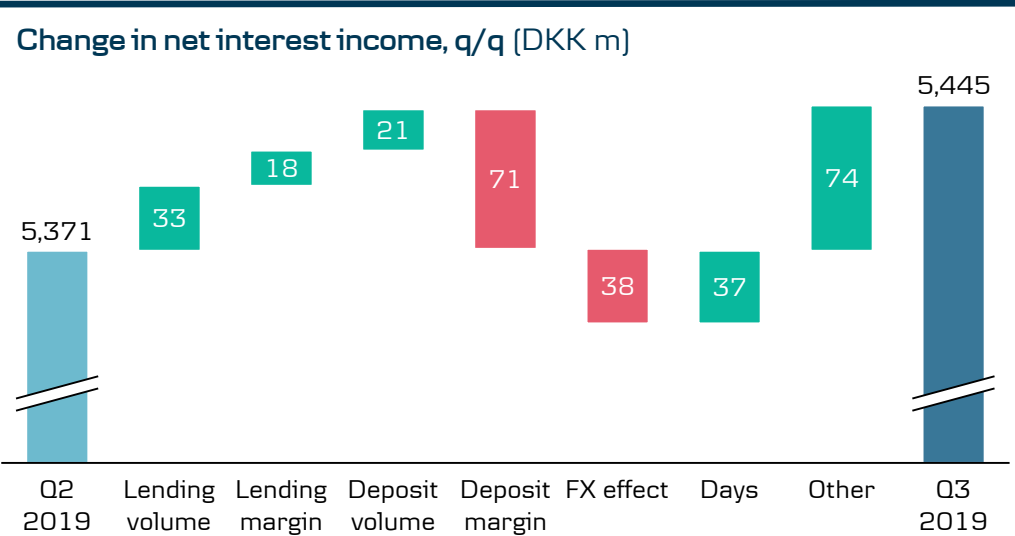
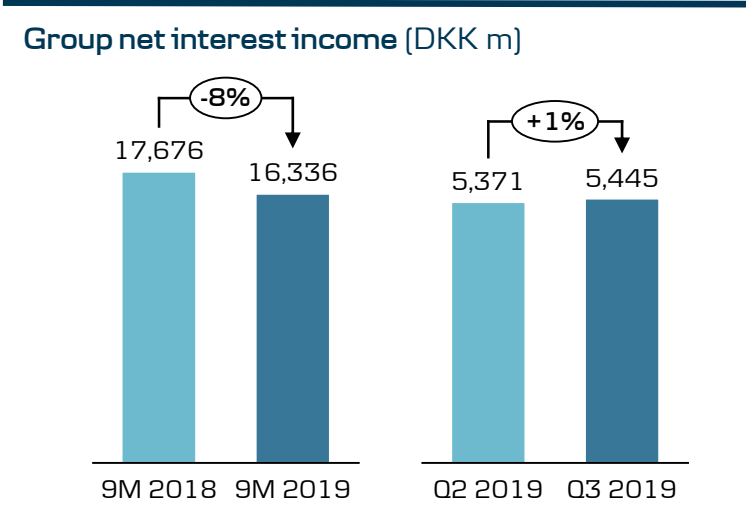
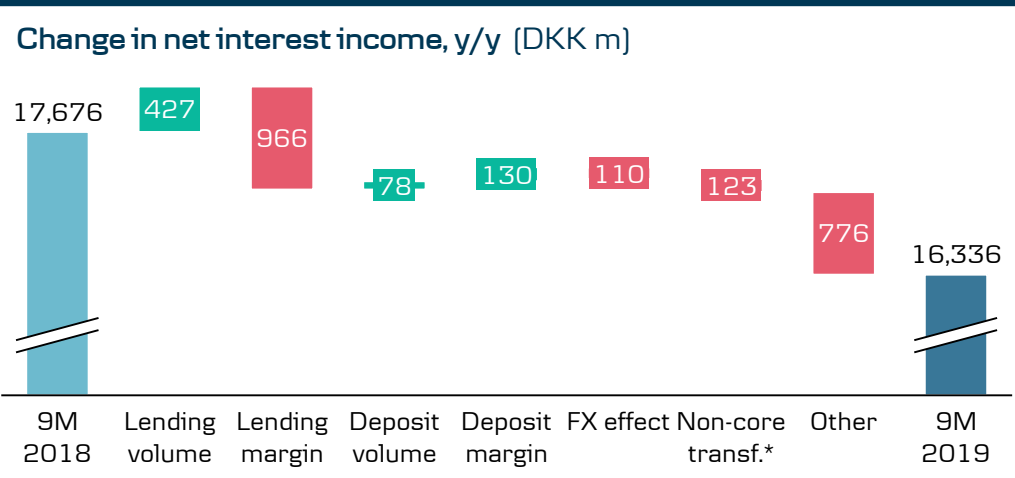
**Key points**

**Y/Y**

- NII down 8%, lending growth of 3% offset by lower margins, higher funding costs and transfer of Russian and remaining Baltic exposures to Non-core
- Other includes centrally retained liquidity costs related to the Estonia case and lower income from liquidity portfolios

**Q/Q**

- NII up 1% as higher lending volumes as well as the full effect of the structural FX hedge of our equity more than offset the margin pressure

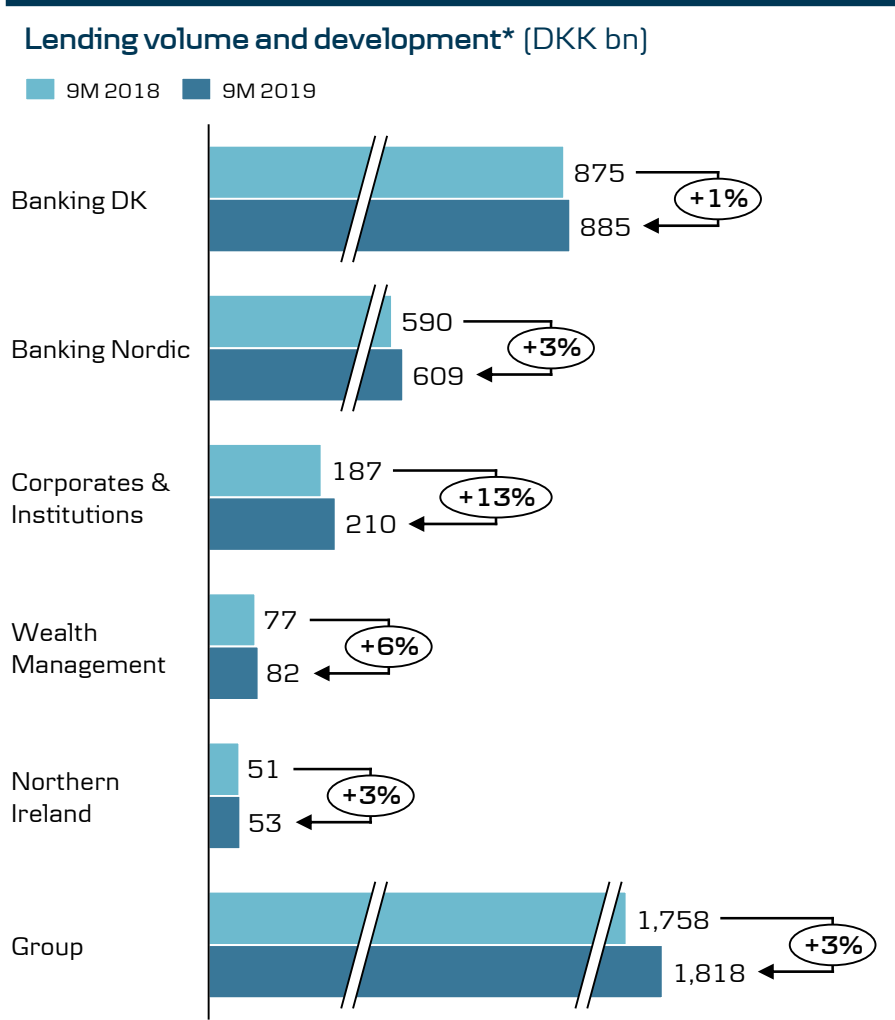
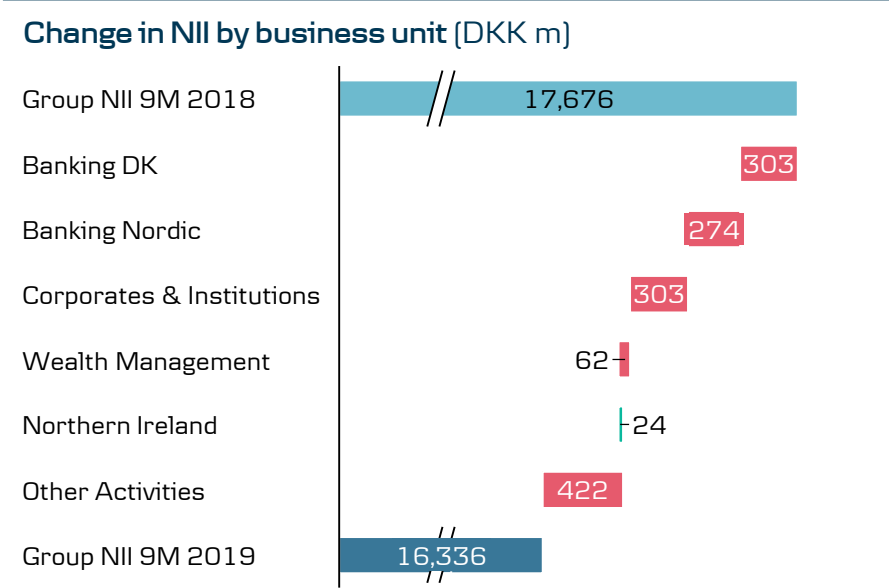


\* Includes transfer of local Baltic commercial customers to Non-core on 1 April 2018 and transfer of the remaining Baltic and Russian exposures to Non-core on 1 February 2019

# NII (cont'd): Volume growth of 3% y/y (6% in local currency) at Banking Nordic; Banking DK grew 1% y/y

**Key points**

- Banking Nordic lending up 3% y/y (6% in local currency) with growth in Norway and Finland
- Banking DK lending up 1% y/y
- NII for Other Activities was impacted by higher funding costs attributable to the Estonia case being retained at the Internal Bank rather than being allocated to business units
- C&I lending up 13% driven by changes in the gross value of collateral related to derivatives; underlying bank lending unchanged despite portfolio transfer to Non-core in Q1 2019



\* Business unit lending is before impairments. Group lending is after impairments.

# Fee income: Up 3% y/y as high activity and SEB Pension DK acquisition more than offset margin pressure and negative one-off

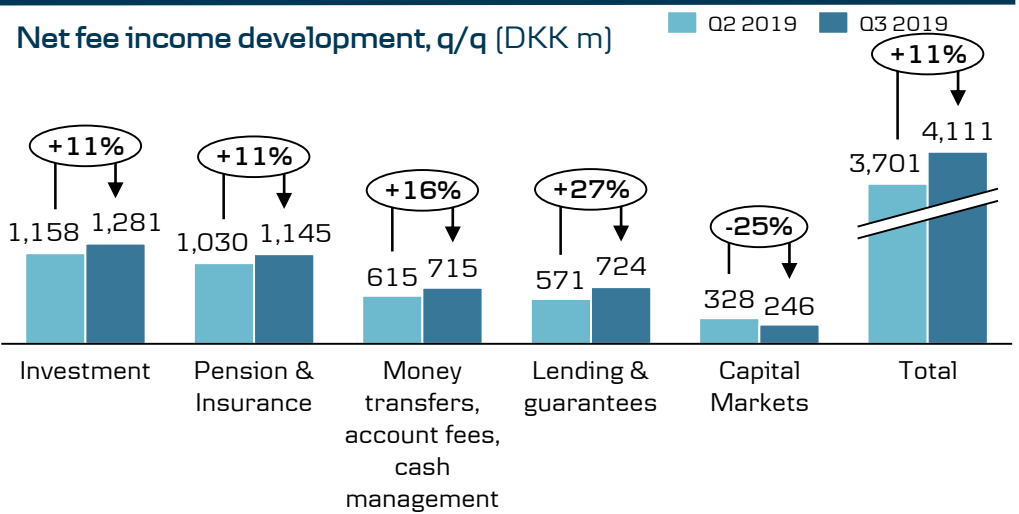
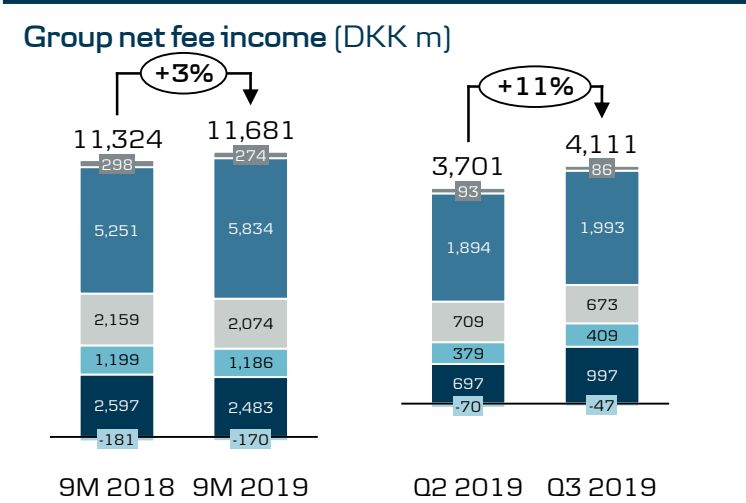
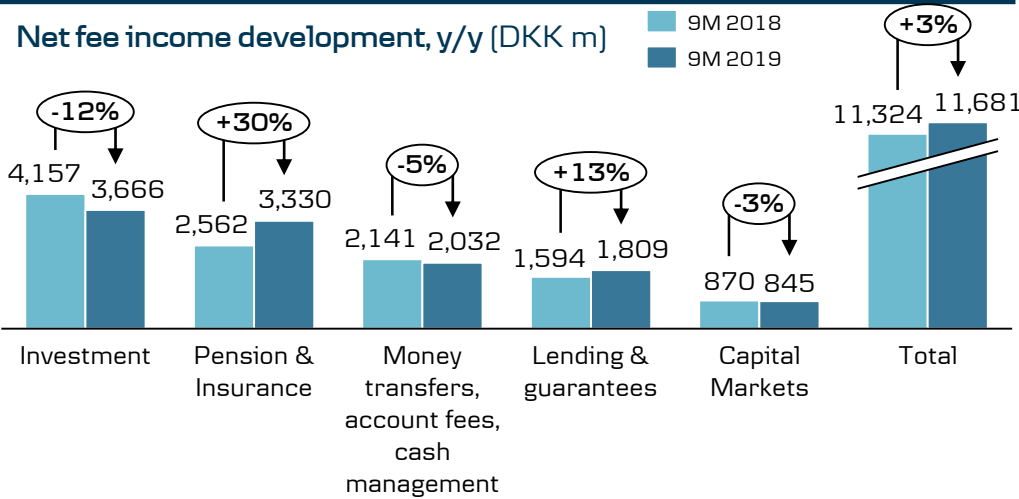
**Key points**

**Y/Y**

- Fee income up 3%, benefiting from high remortgaging activity and the acquisition of SEB Pension Danmark, offset by margin pressure and the one-off compensation related to the Flexinvest Fri case of DKK 180 m booked in Q2
- Fees also affected by the sale of Danica Pension Sweden in May 2019

**Q/Q**

- Fee income up 11% after negative one-off in Q2 and due to high remortgaging activity



■ Banking DK   
 ■ Corporates & Institutions   
 ■ Northern Ireland  
■ Banking Nordic   
 ■ Wealth Management   
 ■ Other Activities

# Trading income: Down 22% y/y and 6% q/q in challenging market conditions

## Key points

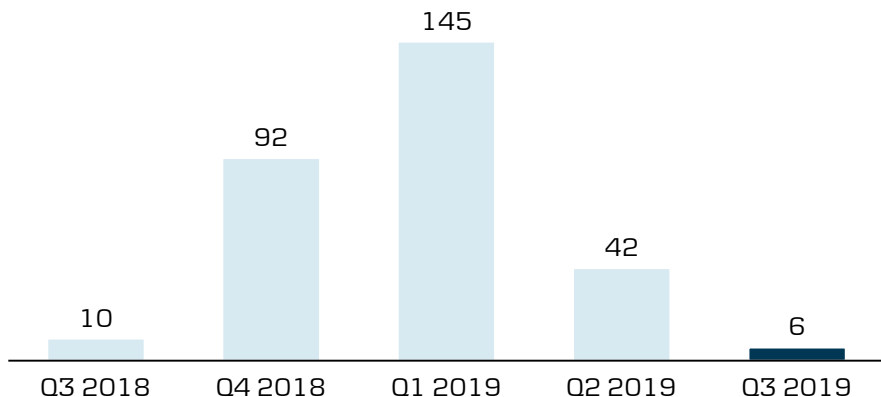
### Y/Y

- Trading income down 22% from 9M 2018, reflecting challenging market conditions
- C&I affected by negative value adjustments on derivatives

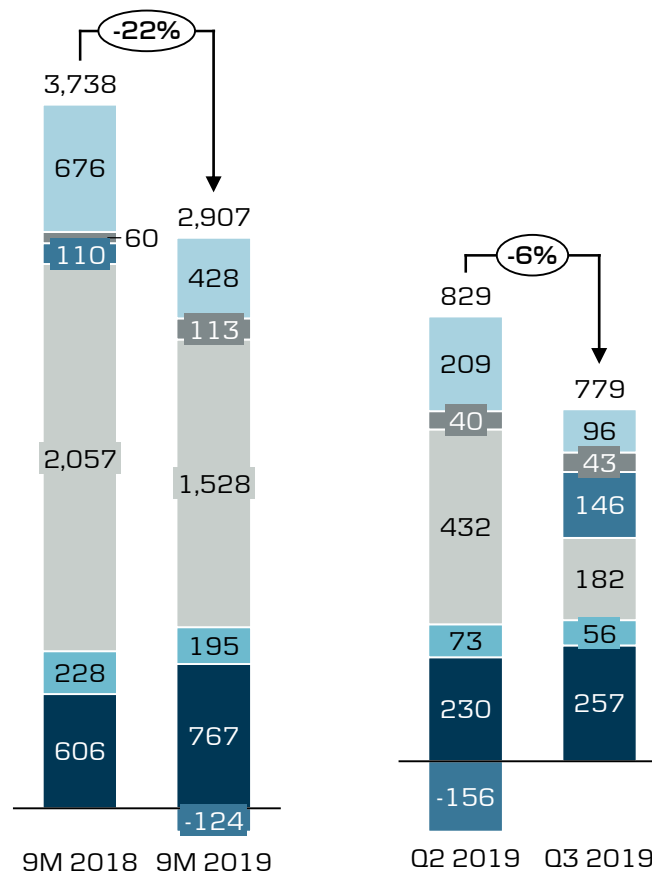
### Q/Q

- Trading income down 6%, mainly owing to lower FI&C income
- Conditions in Q2 continued to worsen over the summer, resulting in volatile fixed income markets and lower interest rates, particularly in the long segment
- At Wealth Management, the investment return in the health and accident business increased

## Refinancing income (DKK m)



## Group net trading income (DKK m)



# Expenses: Up 2% y/y due to upstaffing and investments in compliance and AML, now totalling around 2,500 FTEs

## Key points

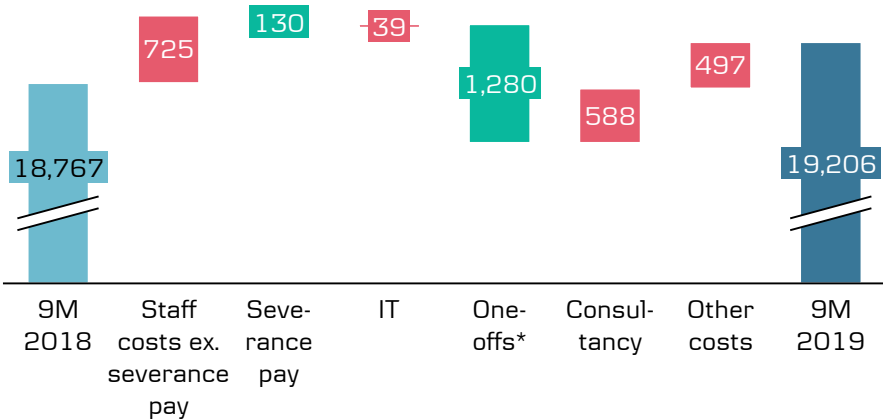
### Y/Y

- Expenses up 2% y/y, due mainly to upstaffing and investments in compliance and AML activities, the Flexinvest Fri compensation and consultancy costs related mainly to the Estonia case
- Adjusted for the DKK 1.5 bn donation related to the Estonia case in 2018, expenses are up 11% y/y

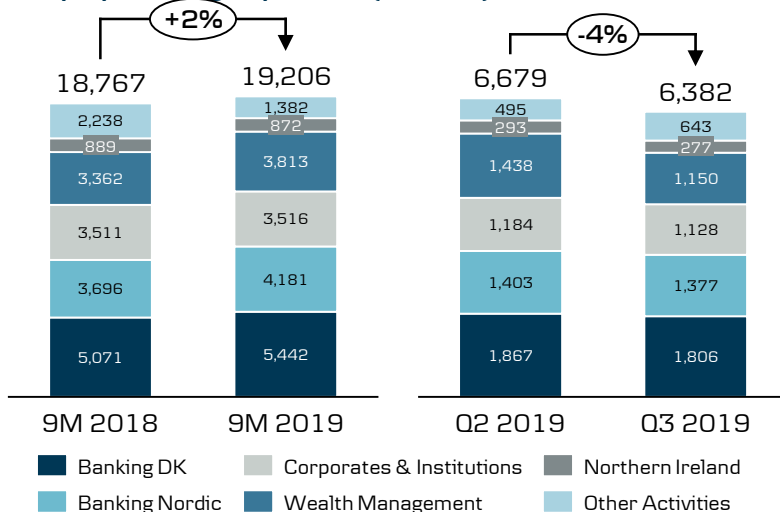
### Q/Q

- Expenses down 4% q/q despite continued upstaffing in the AML area, reflecting the one-off Flexinvest Fri compensation of around DKK 220m in Q2 as well as lower performance-based compensation at C&I

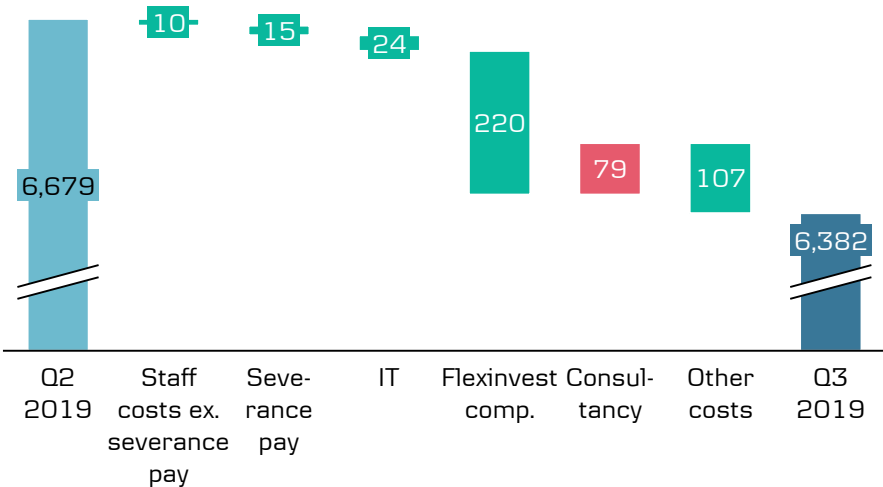
## Change in expenses, y/y (DKK m)



## Group operating expenses (DKK m)



## Change in expenses, q/q (DKK m)



\* Includes donation of DKK 1.5 bn in Q3 2018 relating to income from the Estonia branch in 2007-2015 and DKK 220 m compensation to customers relating to the Flexinvest Fri case

# Impairments: Loan loss ratio of 6 bp in core activities in the first nine months, driven by Corporates & Institutions

**Key points**

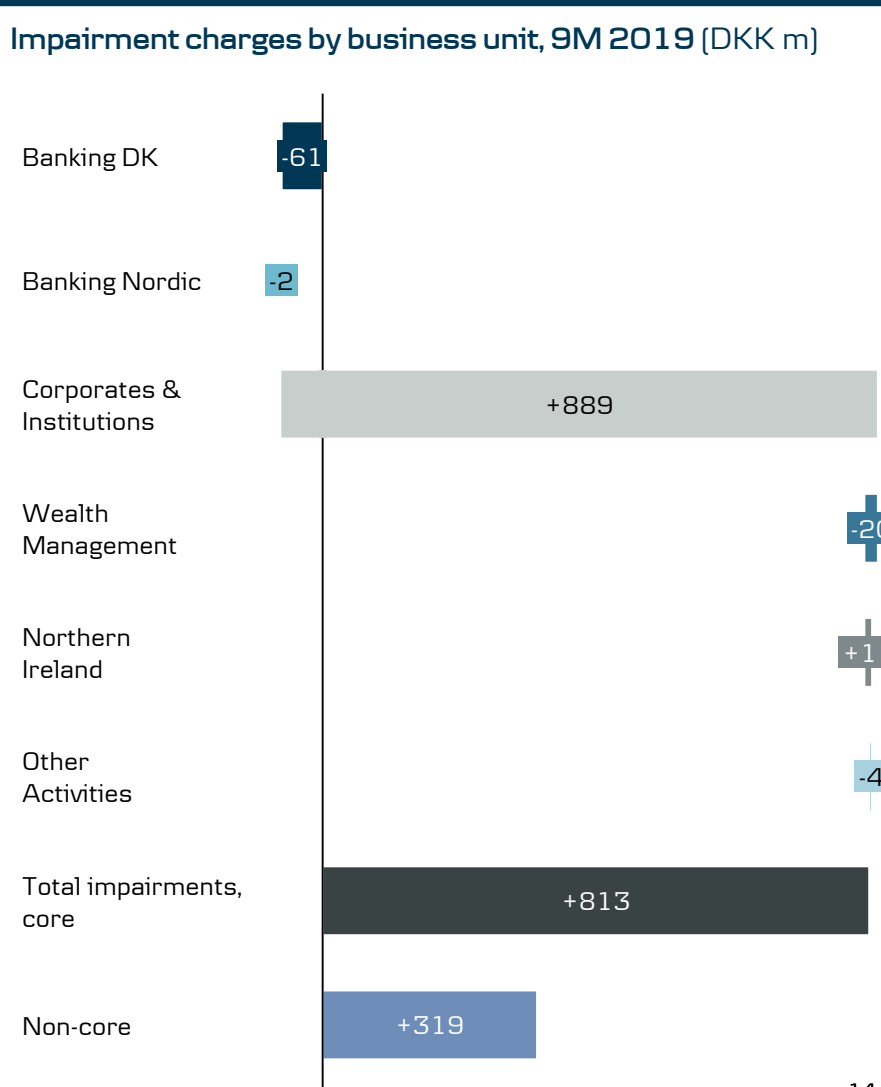
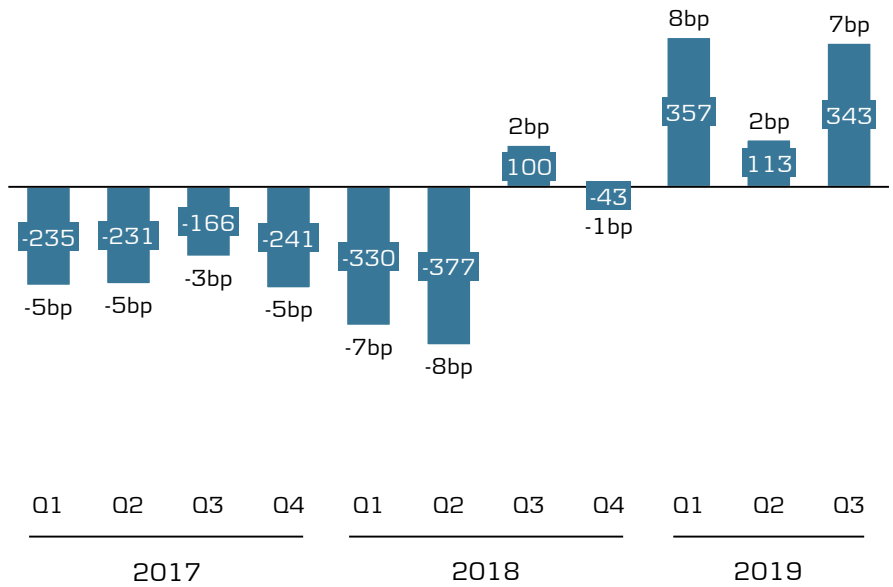
**Y/Y**

- Charge of DKK 813 m; core loan loss ratio of 6 bp
  - Impairments at C&I due to single-name exposures within the shipping, oil & gas and retailing industries
  - Charges also reflect increased downside risk in the macroeconomic outlook for the Nordic countries

**Q/Q**

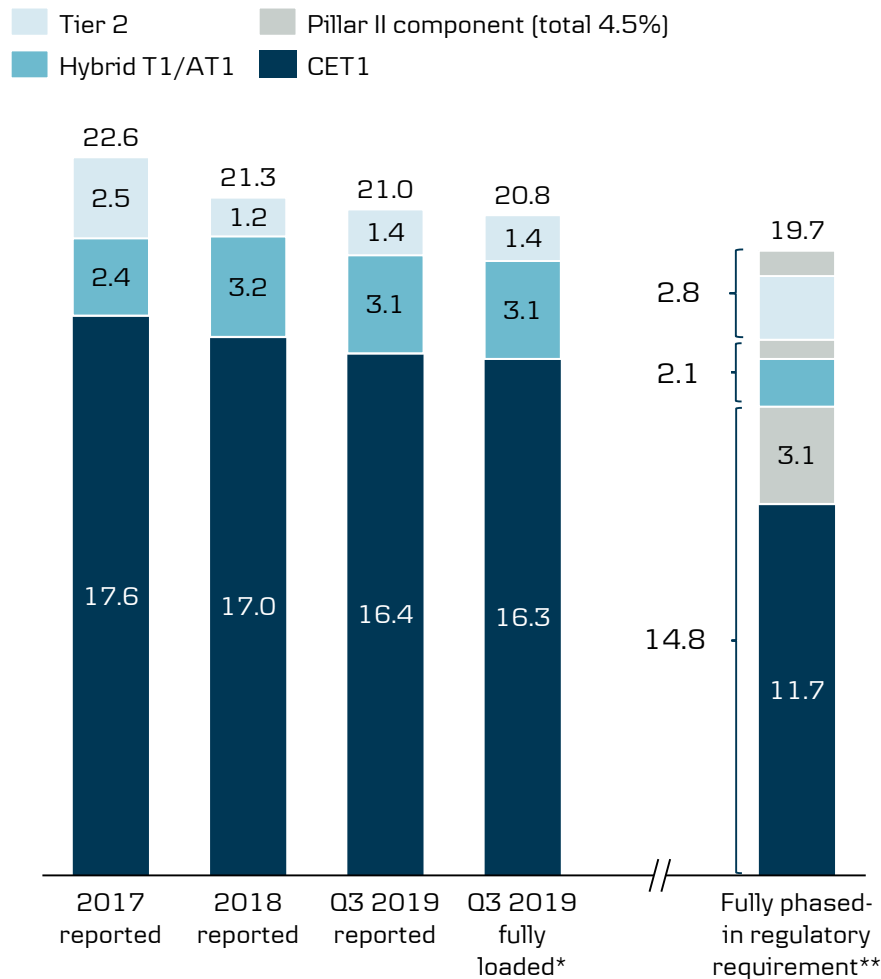
- Charge of DKK 343 m; core loan loss ratio of 7 bp
  - Impairments at C&I due to single-name exposures as well as increased downside risk in the macroeconomic outlook

Impairment charges, core [DKK m and bp]



# Capital: Strong capital base; CET1 capital ratio of 16.4%

Capital ratios; under Basel III/CRR; %

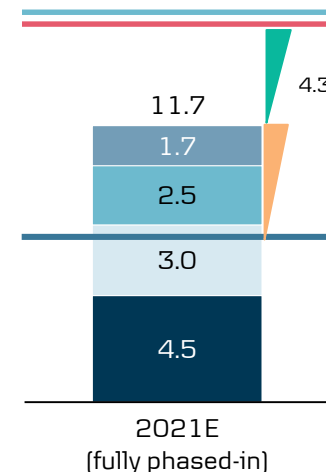


## Capital highlights, Q3 2019

- REA up by DKK 20 bn to DKK 782 bn, driven by a technical change to market risk modelling as well as higher exposure and model calibration within counterparty risk
- Reassessed solvency need after the Flexinvest Fri case and the result of an inspection of IT governance have increased Pillar II add-ons by DKK 4 bn (solvency need increased 0.5%-points)
- Regulatory CET1 requirement also increased due to a higher countercyclical buffer in Denmark
- New CET1 target of above 16% in the short term
- Leverage ratio of 4.4% (transitional rules and fully phased-in)

## Estimated capital buffer structure, %

- Countercyclical capital buffer
- Capital conservation buffer
- Systemic risk buffer
- CET1 min req.
- CET1 target (16%)
- CET1 Q3 2019 (16.4%)
- CET1 trigger point (7%)
- ▲ Sliding scale of restrictions
- ▲ MDA buffer\*\*\*

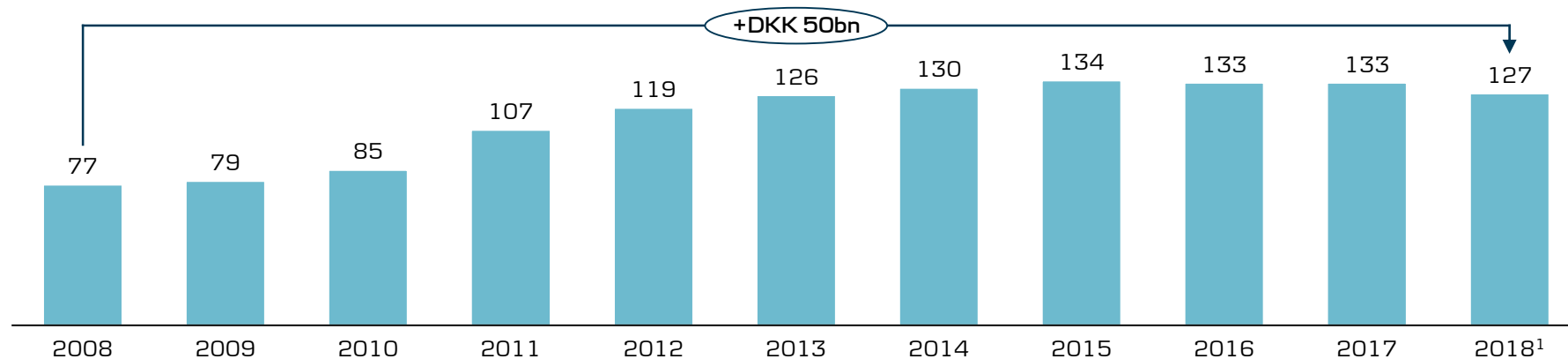


\* Based on fully phased-in rules including fully phased-in impact of IFRS 9. \*\* Pro forma fully phased-in minimum CET1 requirement in 2020 of 4.5%, capital conservation buffer of 2.5%, SIFI requirement of 3%, countercyclical buffer of 1.7% and CET1 component of Pillar II requirement. \*\*\* Under the current Danish rules, Pillar II requirement is not relevant for the purpose of MDA.



## Strong CET1 capital build-up since 2008; Available Distributable Items (ADI) in excess of DKK 100bn

Common Equity Tier 1, 2008 - 2018; DKKbn



REA, CET1, profit and distribution; DKKbn; %

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
REA	960	834	844	906	819	852	865	834	815	753	748
CET1 ratio	8.1%	9.5%	10.1%	11.8%	14.5%	14.7%	15.1%	16.1%	16.3%	17.6%	17.0%
Net profit <sup>2</sup>	1.0	1.7	3.7	1.7	4.7	7.1	13.0	17.7	19.9	20.9	15.0
Distribution to shareholders <sup>3</sup>	0	0	0	0	0	2.0	10.5	17.1	18.9	16.3	7.6
Total assets	3,544	3,098	3,214	3,424	3,485	3,227	3,453	3,293	3,484	3,540	3,578

<sup>1</sup> The decline in CET1 capital in 2018 is due mainly to Danica Pension's acquisition of SEB Pension Danmark which led to a higher deduction in Group regulatory capital

<sup>2</sup> Before goodwill impairment charges

<sup>3</sup> Based on year-end communicated distributions. 2017 is adjusted for cancelled buy-back

# Update on MREL Requirement & Issuance

## Overview of MREL Considerations

The Group has to meet both an MREL requirement and a separate debt buffer requirement for Realkredit Danmark (RD).

### MREL requirement

- 2 x the actual solvency need including combined capital buffer requirement but the countercyclical buffer requirement is only included one time:  $2 \times (P1 + P2 + CBR) - CCyB$
- Based on Q3 2019 figures and requirements, MREL is equal to 37.1% of REA adjusted for RD (DKK 250 bn)

**Total resolution requirement;** MREL + RD capital and debt buffer requirement is equal to 37.1% of Group REA

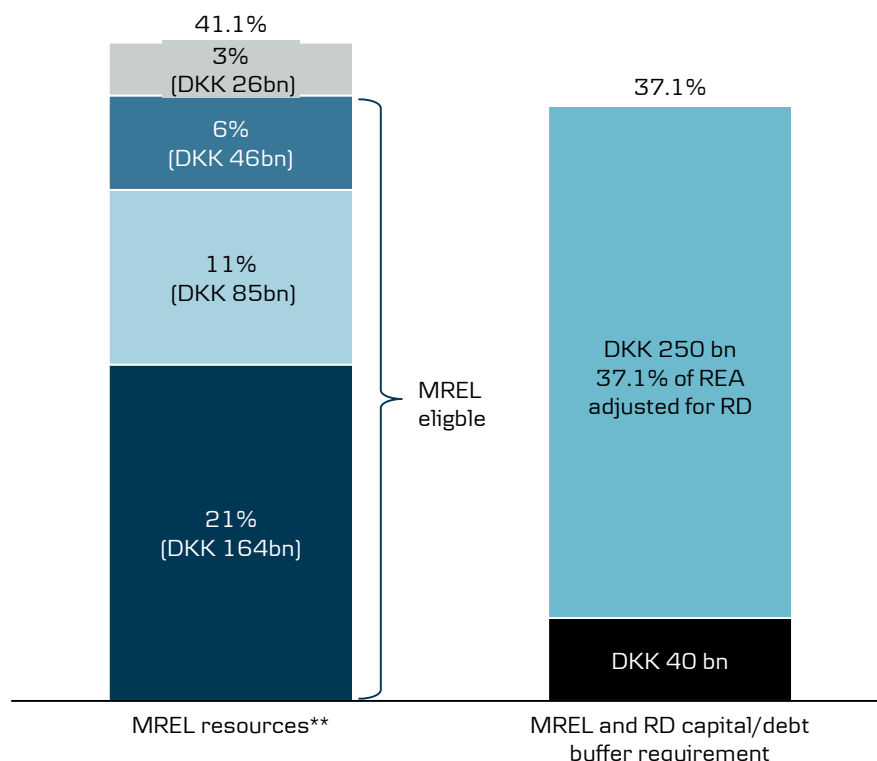
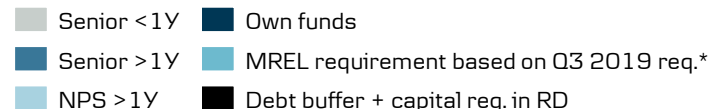
## Issuance strategy for Non-preferred senior

**Instrument** - Non-preferred senior (NPS) debt, similar to the approach in other European jurisdictions

### Building MREL buffer

- Senior debt issued before Jan 2018 will qualify as MREL until 2022 - allows for refinancing of senior debt with issuance of NPS
- Issuance mix not expected to change significantly
- We have by Q3 2019 issued a total of DKK 85 bn of NPS debt. Measured up against the fully phased-in requirement with full subordination in 2022, the current NPS gap is equal to approx. DKK 41 bn

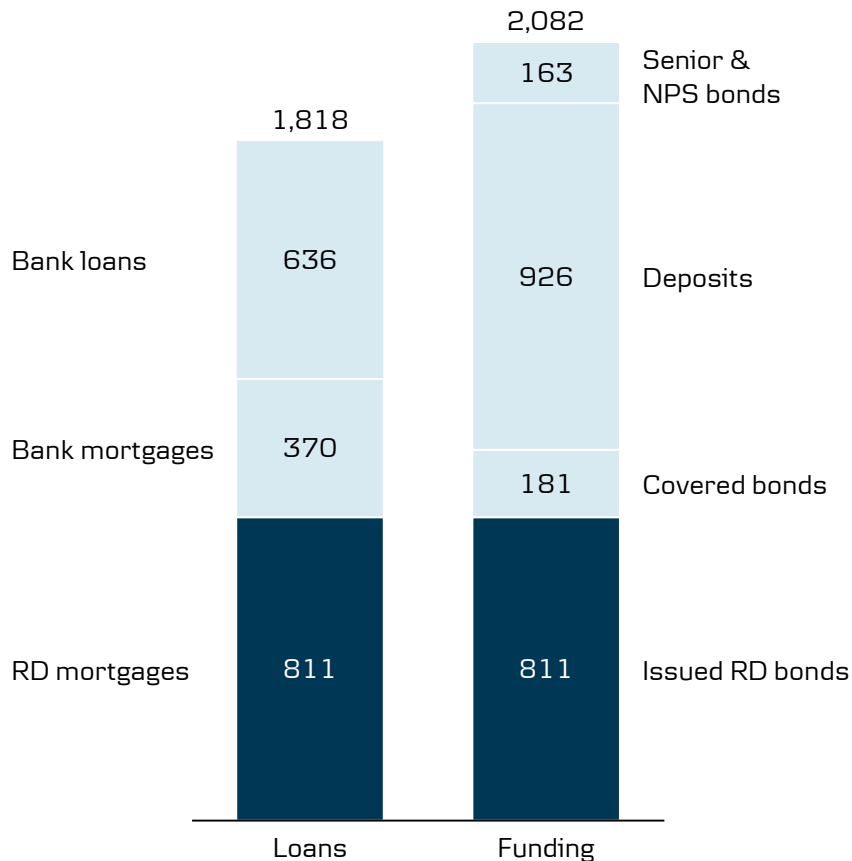
## MREL resources and requirements; Q3 2019; % of REA



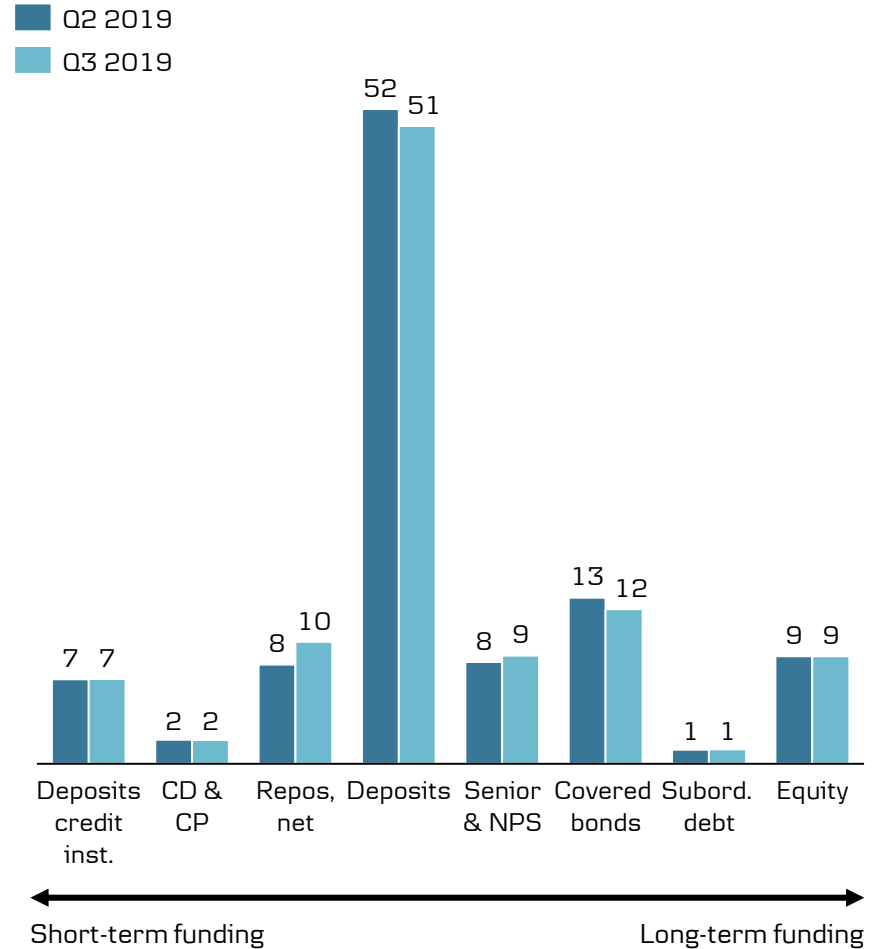
\* RD is not included in the consolidation for the purpose of determining the MREL for the Group. The capital and debt buffer requirements that apply to RD are thus deducted from the liabilities used to fulfil the MREL. Based on Q4 2017 requirements, the FSA annual update in February 2019 set MREL at 36.2% of REA adjusted for RD (equivalent to a requirement of 10.9% of total liabilities and own funds adjusted for RD effective from 30 September 2019) 10.9% of TLOF is equivalent to DKK 240 bn at end Q3 2019 \*\* MREL resources include structured notes. 17

# Funding structure and sources: Danish mortgage system is fully pass-through

Loan portfolio and long-term funding, Q3 2019 (DKK bn)

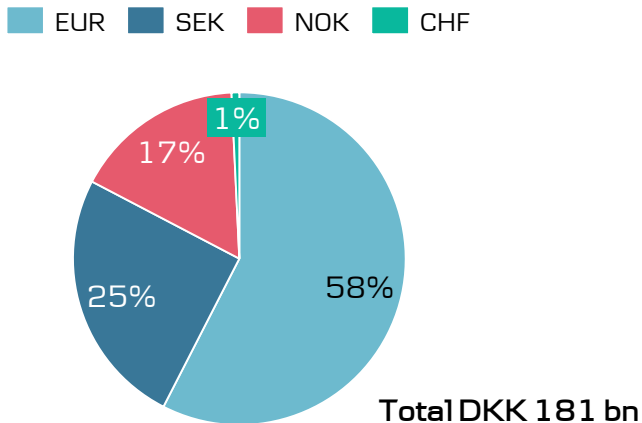


Funding sources (%)

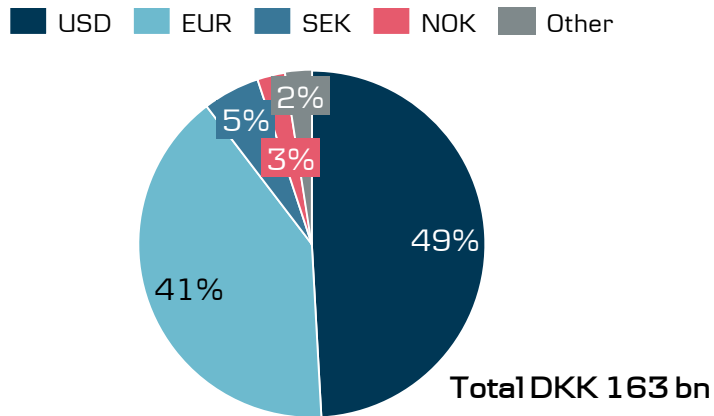


# Funding programmes and currencies

Covered bonds by currency, end-Q3 2019



Senior debt<sup>1</sup> by currency, end-Q3 2019

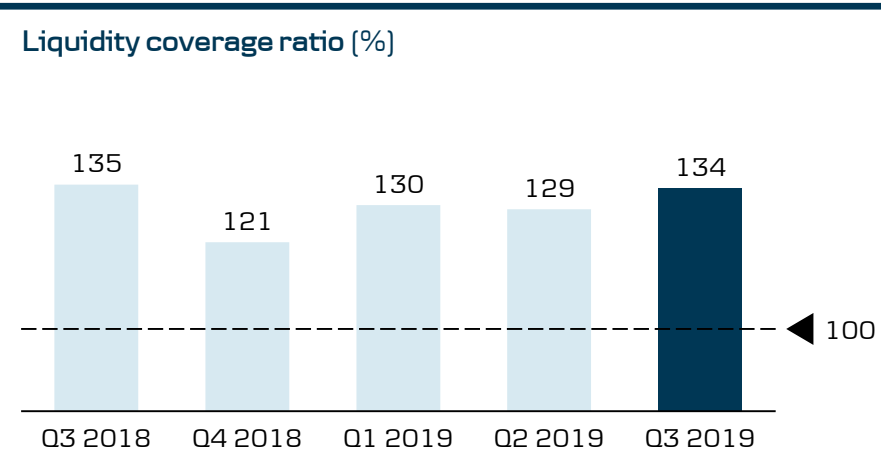
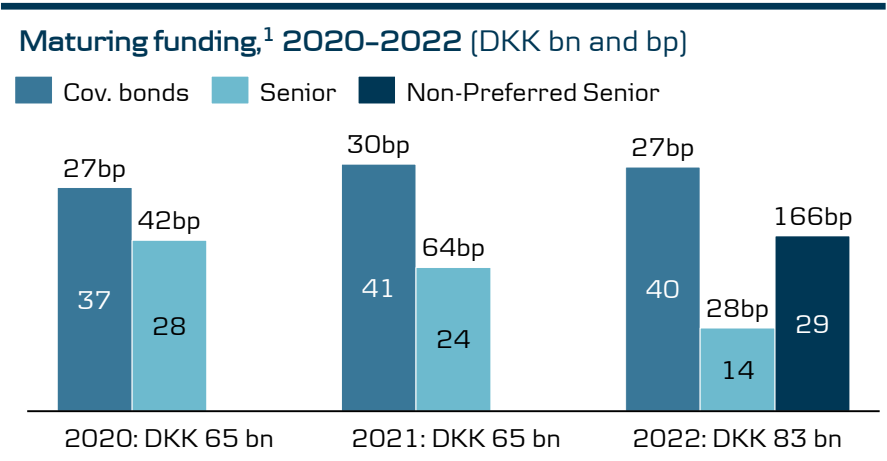
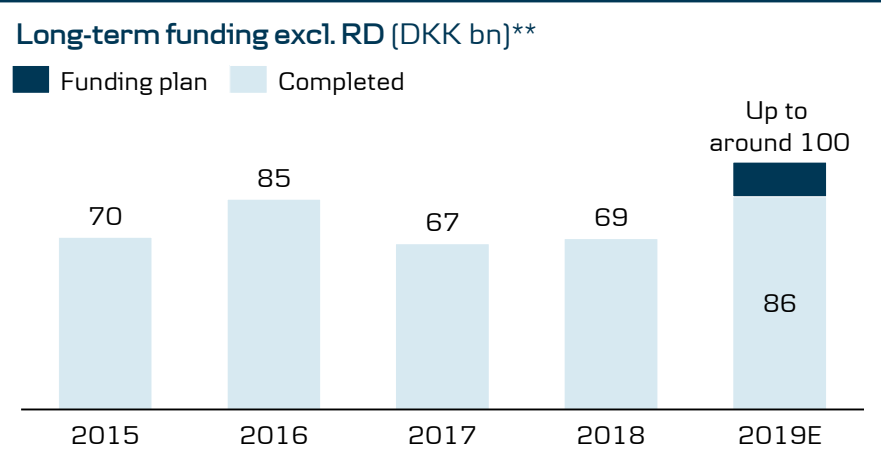
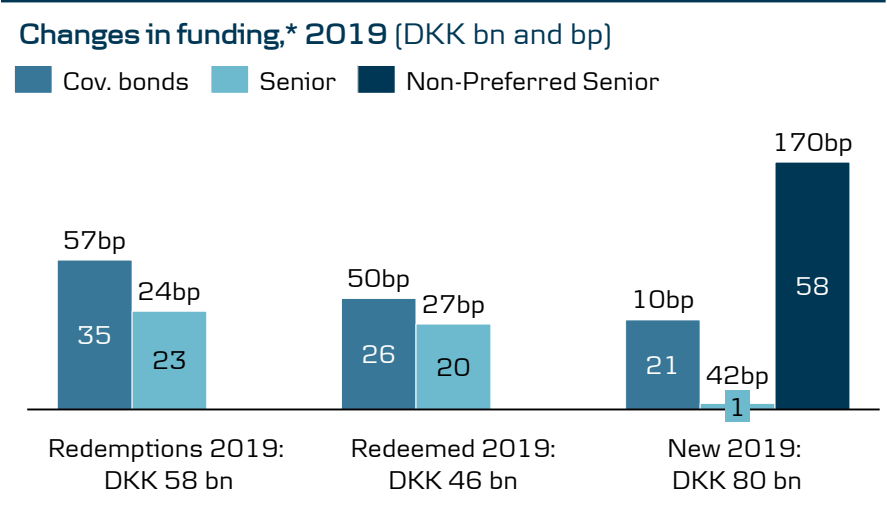


Largest funding programmes, end-Q3 2019

Programme	Limit	Utilisation
EMTN Programme	EUR 35bn	36%
Global Covered Bond	EUR 30bn	75%
ECP Programme	EUR 13bn	1%
US MTN (144A)	USD 15bn	76%
US Commercial Paper	USD 6bn	21%
UK Certificate of Deposit	USD 15bn	6%
NEU Commercial Paper	EUR 10bn	1%

<sup>1</sup> Including senior preferred and non-preferred debt







# Funding and liquidity: DKK 86 bn of long-term funding and capital instruments issued in 9M 2019; LCR compliant at 134%



\* Spread over 3M EURIBOR.

\*\* Includes covered bonds excl. RD, senior, non-preferred senior and capital instruments. We expect a funding need for 2020 similar to that for 2019.

# Danske Bank covered bond universe, a transparent pool structure<sup>1</sup>

	
	<p><b>Residential mortgages from</b></p> <ul style="list-style-type: none"> <li>• Denmark, D-pool</li> <li>• Norway, I-pool</li> <li>• Sweden, Danske Hypotek AB</li> <li>• Finland, Danske Mortgage Bank Plc</li> </ul>
	<p><b>Commercial mortgages from</b></p> <ul style="list-style-type: none"> <li>• Sweden and Norway, C-pool</li> </ul>
	
	<p><b>Pass-through principle based on mortgages from primarily Denmark</b></p> <ul style="list-style-type: none"> <li>• Capital Centre T, Adjustable-rate mortgages</li> <li>• Capital Centre S, Fixed-rate callable mortgages</li> </ul>
	



<sup>1</sup> The migration to Danske Hypotek of Swedish residential loans from Danske Bank's I-pool and Swedish residential-like loans from Danske Bank's C-pool is ongoing. Details of the composition of individual cover pools can be found on the respective issuers' website

# Danske Bank's credit ratings

## Long-term instrument ratings

	Fitch	Moody's	Scope	S&P
	AAA <sup>1</sup>	Aaa	AAA	AAA
	AA+ <sup>2</sup>	Aa1	AA+	AA+
	AA	Aa2	AA	AA
	AA-	Aa3	AA-	AA-
Investment grade	A+	A1	A+	A+
	A	A2	A	A
	A-	A3	A-	A-
	BBB+	Baa1	BBB+	BBB+
	BBB	Baa2	BBB	BBB
	BBB-	Baa3	BBB-	BBB-
Speculative grade	BB+	Ba1	BB+	BB+

■	Fitch rated covered bonds – RD, Danske Bank
■	Moody's rated covered bonds – Danske Mortgage Bank
■	Scope rated covered bonds – RD
■	S&P rated covered bonds – RD, Danske Bank, Danske Hypotek
■	Counterparty rating
■	Senior unsecured
■	Non-preferred senior
■	Tier 2
■	Additional Tier 1

## S&P revises outlook to stable

On 23 October 2019, S&P revised the outlook on Danske Bank and Danica to stable from negative, while affirming the 'A/A-1' long and short-term issuer credit rating. The stable outlook reflects the Group's solid capitalisation driven by S&P's reassessment of leverage in the Danish market and the sizeable loss absorbing buffer established by Danske Bank through the issuance of non-preferred senior debt. This in itself would have resulted in an upgrade of the issuer credit rating; however, S&P continues to see risks associated with the ongoing investigations relating to the Estonia case, which has resulted in a one-notch negative adjustment to the issuer credit rating. The net result is an unchanged issuer rating.

## Moody's and Fitch take no rating action in 2019 to date

### Moody's publishes credit opinion on Danske Bank

On 23 Sep 2019, Moody's published a credit opinion on Danske Bank ('A2' issuer rating). The outlook remains negative due to the uncertainty relating to the ultimate impact of the Estonia case on Danske Bank's capitalisation, franchise, cost of funding and operational expenses.

### Fitch affirms Danske Bank at A/negative outlook







On 2 July 2019 Fitch affirmed Danske Bank's issuer rating at 'A'. The outlook remains negative due to the uncertainty relating to the ultimate impact of the Estonia case on Danske Bank's capitalisation, franchise, and funding profile.

<sup>1</sup> RD capital centre S

<sup>2</sup> RD capital centre T

## Danske Bank's ESG ratings

Danske Bank has chosen to focus on six providers, based on their importance to our investors

	30 Sept 2019	31 Dec 2018	Range
	C prime	C prime	D- to A+ (A+ highest rating)
	positive (B)	positive (B)	D to AAA (AAA highest rating)
	C Prime	C Prime	D- to A+ (A+ highest rating)
	B	B	CCC to AAA (AAA highest rating)
	ESG Risk Rating (new) 27.2 (medium) ESG Rating (old) 73 (outperformer)	27.0 (medium) 74 (outperformer)	0 to 100 (100 highest risk) 0 to 100 (100 highest rating)
	Not public to Danske Bank	Not public to Danske Bank	0 to 100 (100 highest rating)

- ESG rating agencies are not regulated
- ESG ratings are unsolicited and in principle based on public information
- ESG rating agency criteria are not public
- Disclosure of ESG ratings is discretionary i.e. ratings are made public selectively
- ESG ratings are updated annually with interim updates limited

<sup>1</sup> CDP: Carbon Disclosure Project – primary focus is on climate change / management, also linked to TCFD



# Agenda

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05. *2023 ambitions appendix slides* 41

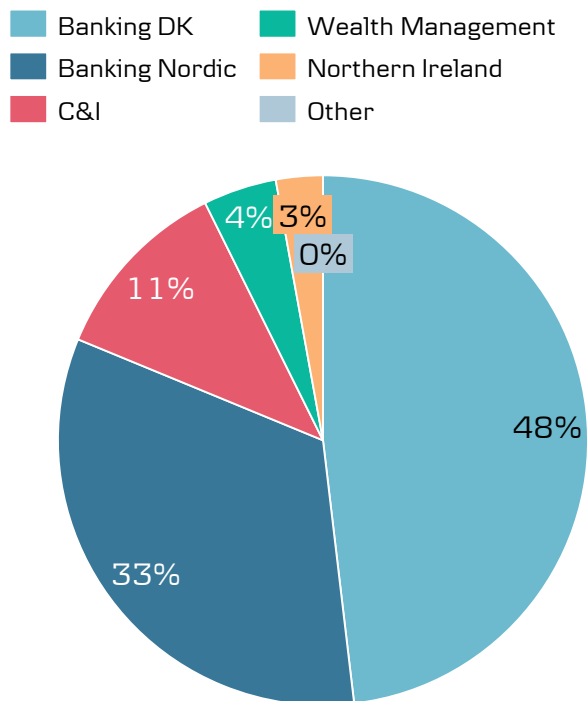
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06. *Contacts* 50

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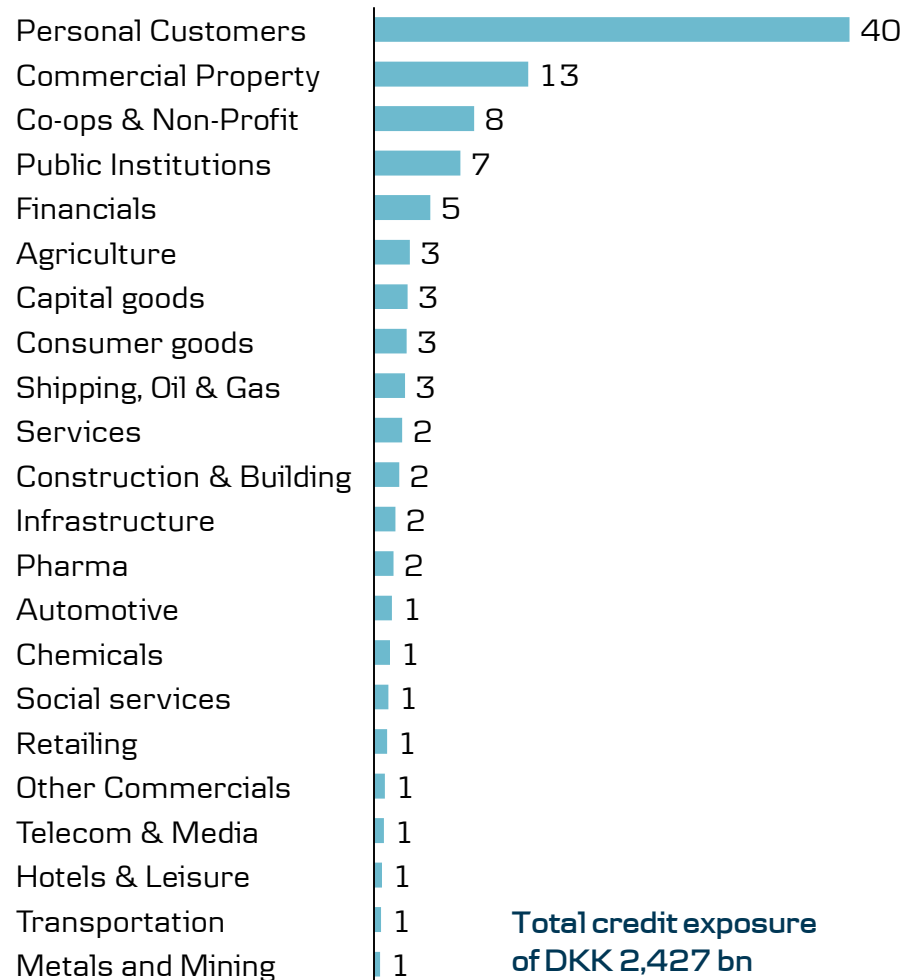
# Strong footprint within retail lending

Lending by business unit<sup>1</sup>; %; Q3 2019



Total lending of DKK 1,818 bn

Credit exposure by industry; %; Q3 2019



Total credit exposure of DKK 2,427 bn

<sup>1</sup> Total lending before loan impairment charges.

# Lending growth: Growth of 1% y/y at Banking DK and 3% at Banking Nordic

## Comments

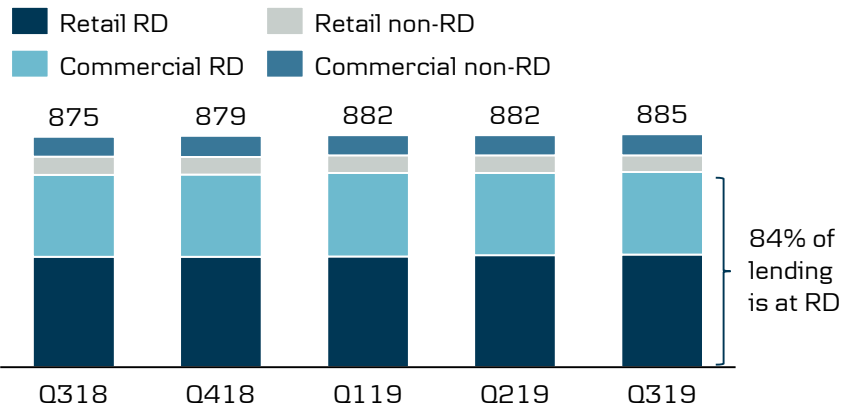
### Banking DK

- 84% of lending at Banking DK is at mortgage subsidiary Realkredit Danmark (RD)
- Growth of 1% y/y at Banking DK
- Lending flat q/q

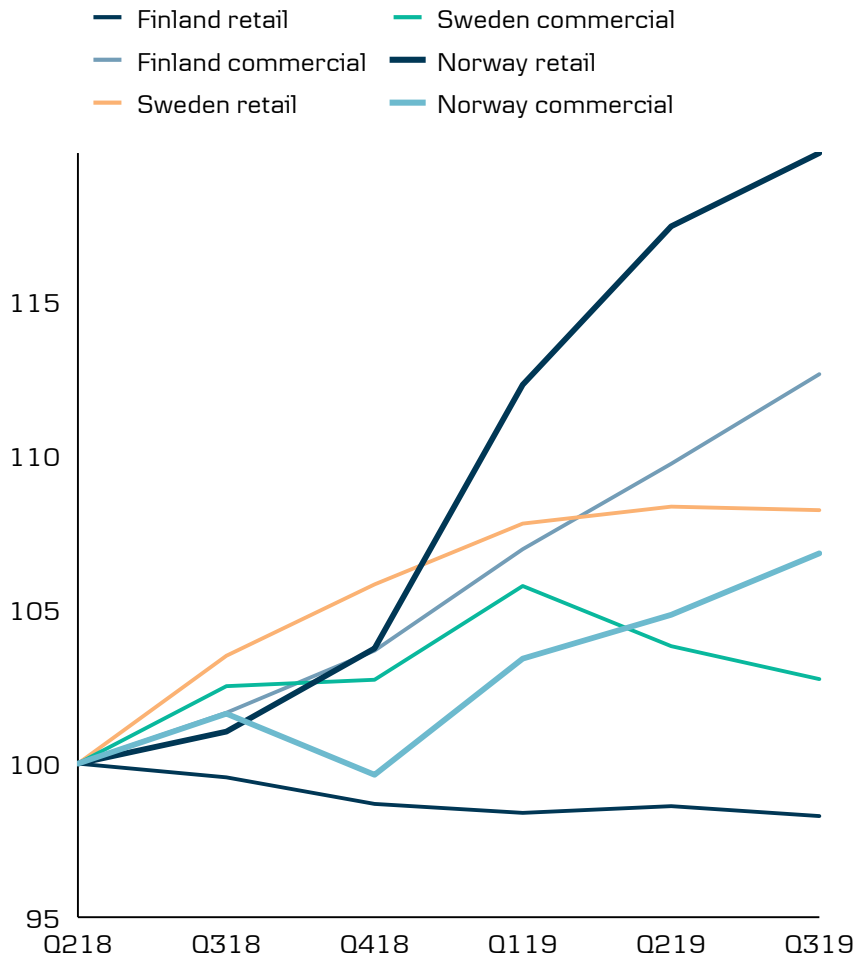
### Banking Nordic

- Growth of 3% y/y (6% in local currency)
- Retail Norway saw lending growth of 14% y/y following inflow from TEKNA (union for engineers)
- Commercial Finland grew 3% q/q while Retail Finland was stable

## Lending volume by segment at Banking DK (DKK bn)



## Banking Nordic: lending volume by segment and country\*



\* Based on local currency lending volumes.

# Banking DK: Lending growth of 1% y/y; higher expenses and impairments

## Income statement and key figures (DKK m)

	9M 2019	9M 2018	Index	Q3 2019	Q2 2019	Index
Net interest income	6,400	6,703	95	2,095	2,125	99
Net fee income	2,483	2,597	96	997	697	143
Net trading income	767	606	127	257	230	112
Other income	175	172	102	59	60	98
Total income	9,824	10,078	97	3,408	3,111	110
Expenses	5,442	5,071	107	1,806	1,867	97
Profit before loan impairment charges	4,382	5,007	88	1,602	1,244	129
Loan impairment charges	-61	-610	-	-114	-153	-
Profit before tax	4,444	5,617	79	1,716	1,397	123
Lending (DKK bn)	885	875	101	885	882	100
Deposits and RD funding* (DKK bn)	1,060	1,036	102	1,060	1,052	101
Deposits (DKK bn)	297	282	105	297	294	101

## Key points

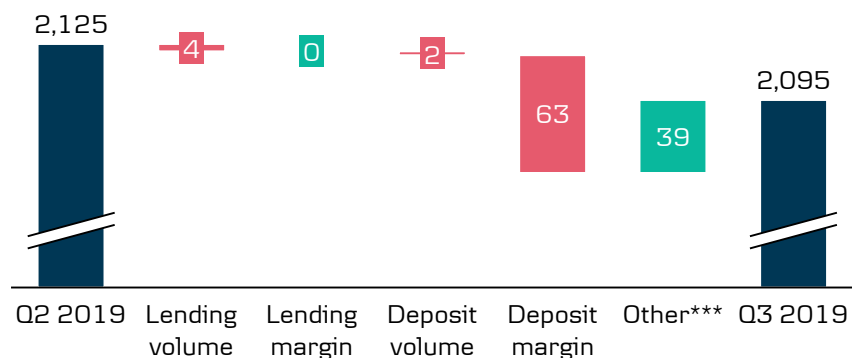
### y/y

- Total income down 3%
- Expenses up 7% owing mainly to investments in AML activities
- Lower impairment reversals, model adjustment and change in macro outlook
- Lending up 1%, deposits up 5%

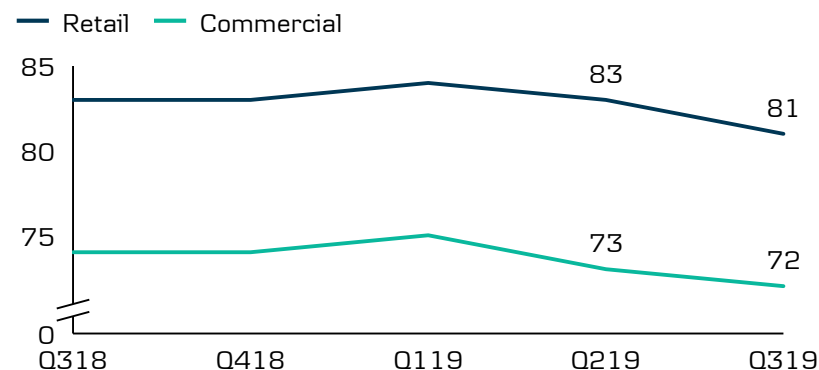
### Q/Q

- NII down 1% due to lower rates
- Fees up 43% driven by strong remortgaging activity and the one-off related to the Flexinvest Fri case in Q2
- Expenses down 3% due to seasonality

## Banking DK NII bridge\*\* (DKK m)



## Realkredit Danmark lending spread (bp)



# Realkredit Danmark: Portfolio overview

## 87% of new retail lending in Q3 was fixed-rate vs 43% of stock

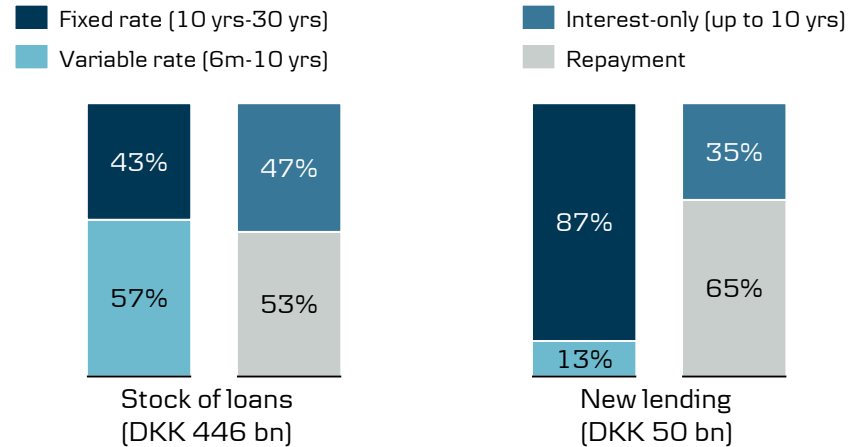
### Portfolio facts, Realkredit Danmark, Q3 2019

- Approx. 354,000 loans (residential and commercial)
- 1,286 loans in 3- and 6-month arrears (flat since Q2)
- 17 repossessed properties (lowest in 10 years)
- DKK 9 bn in loans with LTV ratio > 100%, including DKK 5 bn covered by a public guarantee
- Average LTV ratio of 61%
- We comply with all five requirements of the supervisory diamond for Danish mortgage institutions

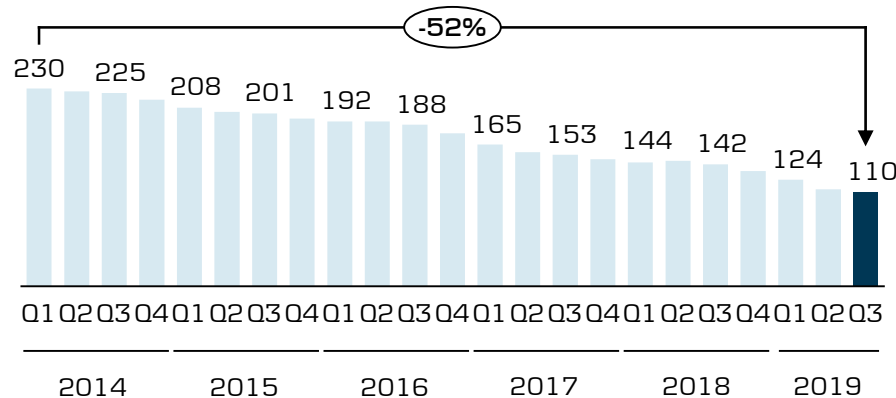
### LTV ratio at origination (legal requirement)

- Residential – max. 80%
- Commercial – max. 60%

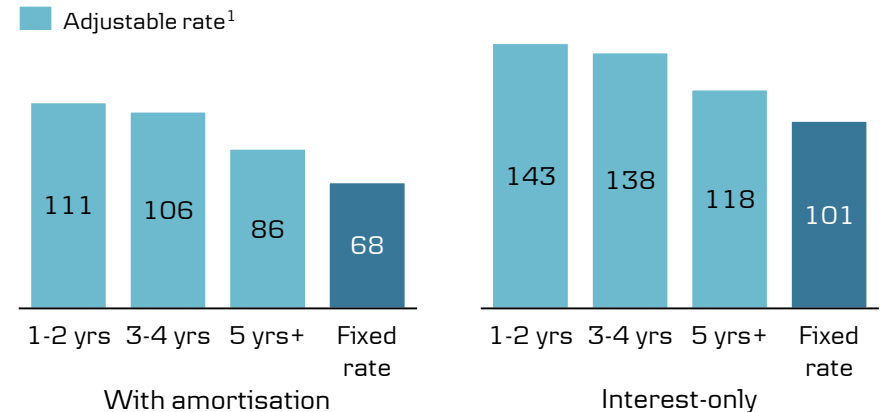
### Retail loans, Realkredit Danmark, Q3 2019 (%)



### Total RD loan portfolio of FlexLån® F1-F4 (DKK bn)



### Retail mortgage margins, 80% LTV, owner-occupied (bp)



<sup>1</sup> In addition, we charge 30 bp of the bond price for refinancing of 1- and 2-year floaters and 20 bp for floaters of 3 or more years (booked as net trading income).

## Banking Nordic: Lending growth of 3% y/y but margins pressured by rising interest rates in Norway and Sweden

### Income statement and key figures (DKK m)

	9M 2019	9M 2018	Index	Q3 2019	Q2 2019	Index
Net interest income	5,672	5,946	95	1,898	1,873	101
Net fee income	1,186	1,199	99	409	379	108
Net trading income	195	228	86	56	73	77
Other income	455	522	87	133	168	79
Total income	7,508	7,896	95	2,496	2,493	100
Expenses	4,181	3,696	113	1,377	1,403	98
Profit before loan impairment charges	3,327	4,200	79	1,120	1,090	103
Loan impairment charges	-2	-77	-	80	-35	-
Profit before tax	3,329	4,277	78	1,040	1,125	92
Lending (DKK bn)	609	590	103	609	613	99
Deposits (DKK bn)	238	228	104	238	242	98

### Key points

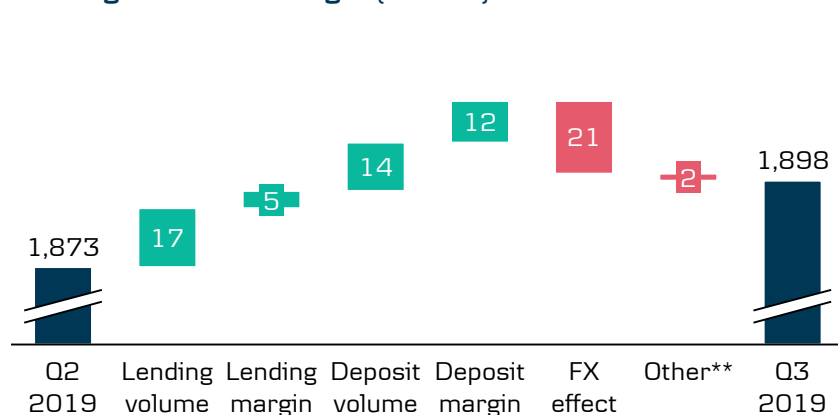
#### y/y

- NII down 5% as higher interest rates and funding costs put pressure on margins
- Expenses up 13% due to investments in compliance and AML
- Lending up 3% with growth coming from Norway and Finland

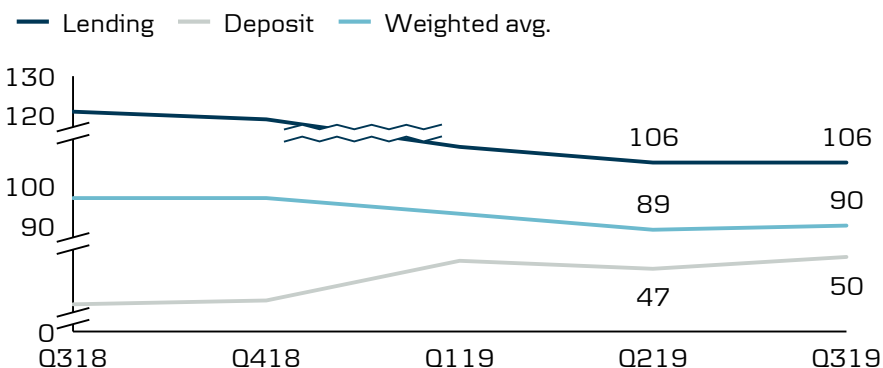
#### Q/Q

- NII up 1% as repricing more than offset pressure from higher rates
- Expenses down 2% due to seasonality
- Lending down 1% due to FX and revised risk and pricing strategy in Sweden

### Banking Nordic NII bridge\* (DKK m)



### Banking Nordic margins (bp)



\* Based on average volumes. \*\* Includes capital costs, day effect and off-balance-sheet items.

# Corporates & Institutions: Challenging market conditions and higher impairment charges

## Income statement and key figures (DKK m)

	9M 2019	9M 2018	Index	Q3 2019	Q2 2019	Index
Net interest income	2,671	2,974	90	885	857	103
Net fee income	2,074	2,159	96	673	709	95
Net trading income	1,528	2,057	74	182	432	42
Other income	1	5	20	-	1	-
Total income	6,275	7,196	87	1,739	1,999	87
Expenses	3,516	3,511	100	1,128	1,184	95
Profit before loan impairment charges	2,759	3,685	75	612	815	75
Loan impairment charges	889	103	-	369	300	123
Profit before tax	1,870	3,581	52	243	516	47
Lending (DKK bn)	210	187	113	210	203	104
Deposits (DKK bn)	262	272	96	262	271	97

## Key points

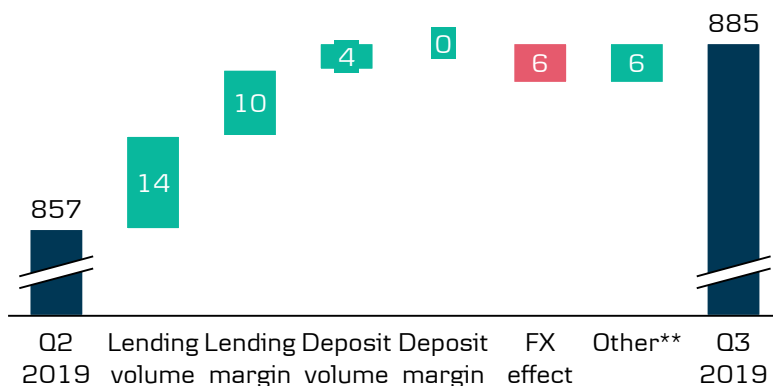
### y/y

- NII down 6% adjusted for the portfolio transfers to Non-core
- Expenses unchanged, driven by portfolio transfers and continued cost focus
- Underlying bank lending was unchanged

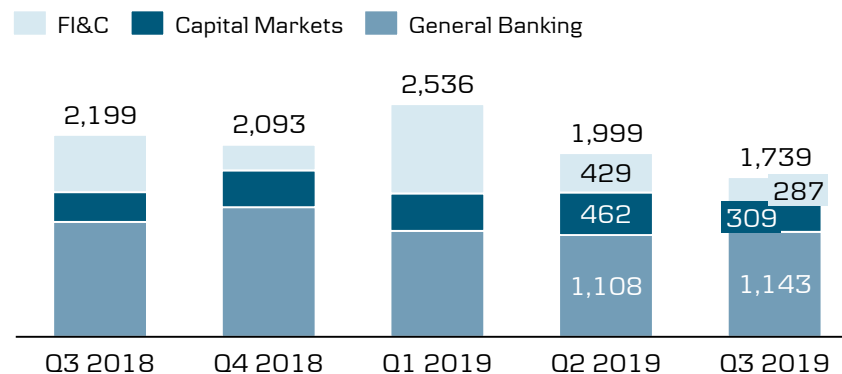
### Q/Q

- Trading income down as conditions worsened over the summer
- Expenses down 5% due to lower bonuses
- Impairments relating to a few single-name exposures

## C&I NII bridge\* (DKK m)



## C&I income breakdown (DKK m)



\* Based on average volumes. \*\* Includes capital costs, day effect and off-balance-sheet items.

## Wealth Management: Profit before tax up 39% due mainly to the sale of Danica Pension Sweden; AuM flat adjusted for the sale

### Income statement and key figures (DKK m)

	9M 2019	9M 2018	Index	Q3 2019	Q2 2019	Index
Net interest income	483	545	89	148	160	93
Net fee income	5,834	5,251	111	1,993	1,894	105
Net trading income	-124	110	-	146	-156	-
Other income	1,173	-29	-	-120	1,342	-
Total income	7,366	5,877	125	2,167	3,241	67
Expenses	3,813	3,362	113	1,150	1,438	80
Profit before loan impairment charges	3,553	2,515	141	1,017	1,803	56
Loan impairment charges	-20	-53	-	10	-27	-
Profit before tax	3,573	2,568	139	1,007	1,830	55
Lending (DKK bn)*	82	77	106	82	82	101
Deposits (DKK bn)	72	68	106	72	73	98
AuM (DKK bn)	1,610	1,668	97	1,610	1,587	101

### Key points

#### y/y

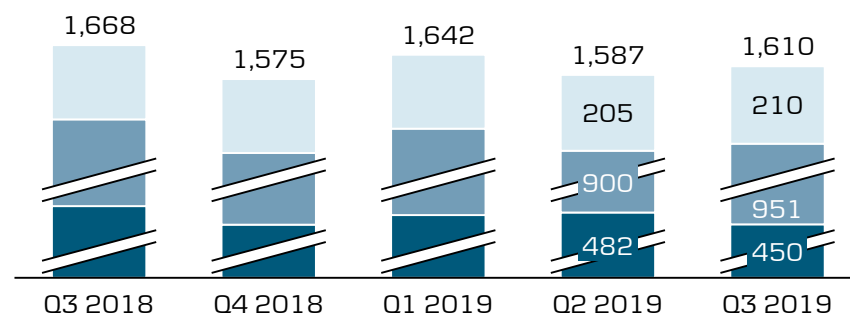
- AuM down 3%, owing mainly to sale of Danica Pension Sweden (DKK 64 bn)
- Expenses up 13% due mainly to the acquisition of SEB Pension Danmark

#### Q/Q

- Fees up 5% owing to higher fees from Danica Pension
- Trading income up due to higher investment return in health and accident
- Expenses down 20% due mainly to the Flexinvest Fri compensation booked in Q2

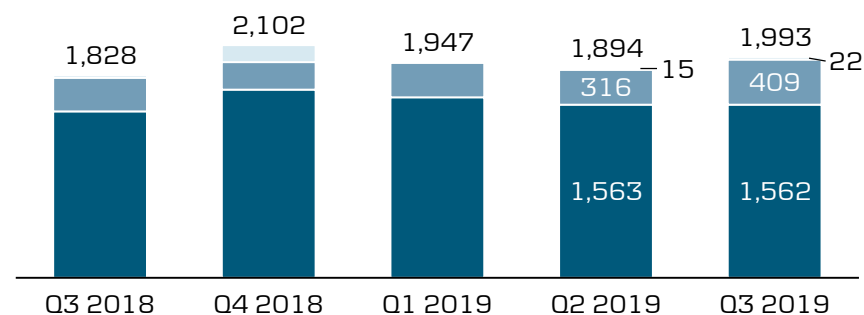
### AuM breakdown (DKK bn)

Life conventional Asset management Assets under advice\*\*



### Breakdown of net fee income (DKK m)

Performance fees Risk allowance fees Management fees



\* In Q2, a portfolio of loans was transferred from Banking DK to Wealth Management. At 31 March 2019, this amounted to a net impact of DKK +3 bn at Wealth Management.

\*\* Assets under advice from retail, commercial and private banking customers, where the investment decision is taken by the customer.



# Northern Ireland: Lending and NII up y/y despite continued Brexit uncertainty

## Income statement and key figures (DKK m)

	9M 2019	9M 2018	Index	Q3 2019	Q2 2019	Index
Net interest income	1,133	1,109	102	368	379	97
Net fee income	274	298	92	86	93	92
Net trading income	113	60	188	43	40	108
Other income	11	9	122	4	4	100
Total income	1,530	1,476	104	500	516	97
Expenses	872	889	98	277	293	95
Profit before loan impairment charges	658	587	112	222	223	100
Loan impairment charges	11	28	39	-4	28	-
Profit before tax	648	560	116	226	195	116
Lending (DKK bn)	53	51	103	53	50	105
Deposits (DKK bn)	67	63	105	67	64	105

## Key points

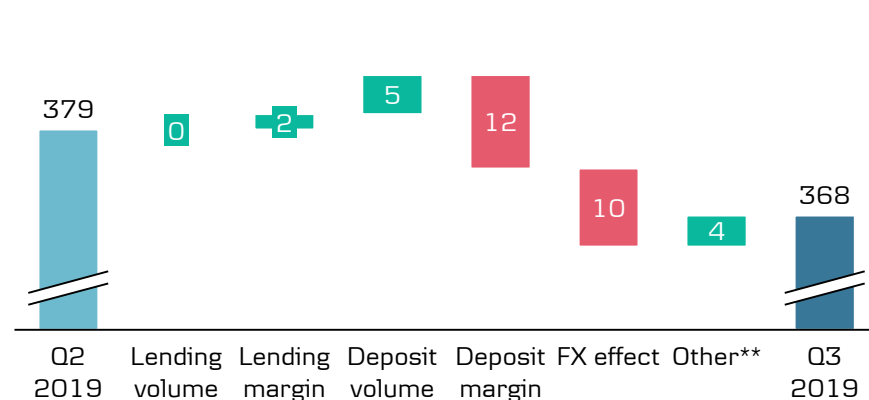
### y/y

- Lending and NII up despite continued Brexit uncertainty
- Expenses down 2% as continued cost focus more than offset investments in improved customer solutions

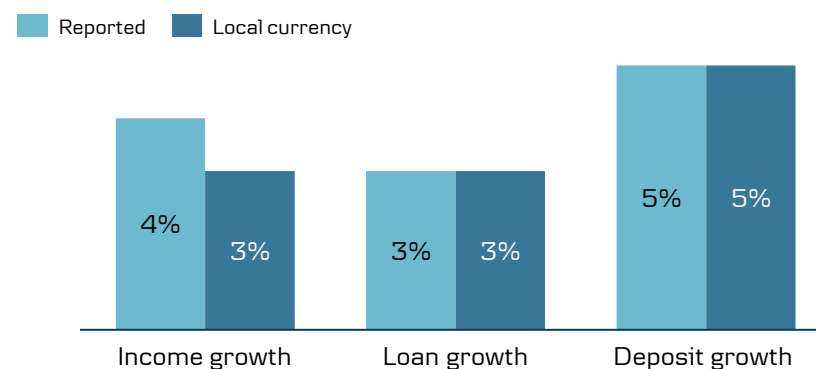
### Q/Q

- Total income largely unchanged despite continued FX depreciation
- Expenses down 5%

## Northern Ireland NII bridge\* (DKK m)



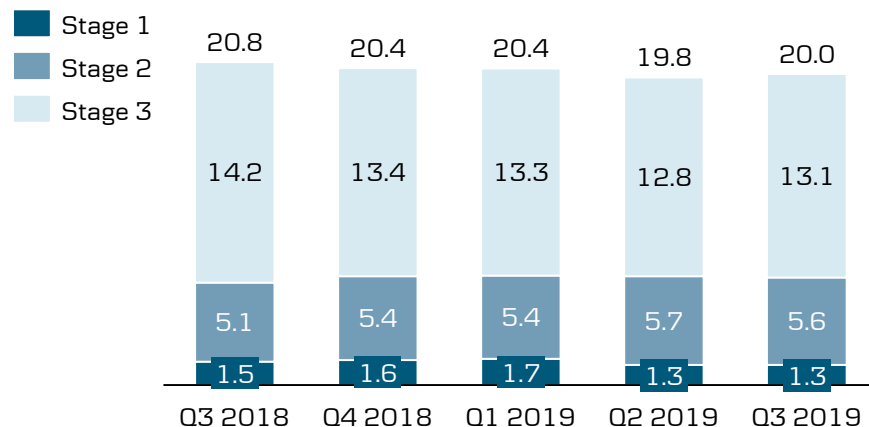
## FX-adjusted developments y/y



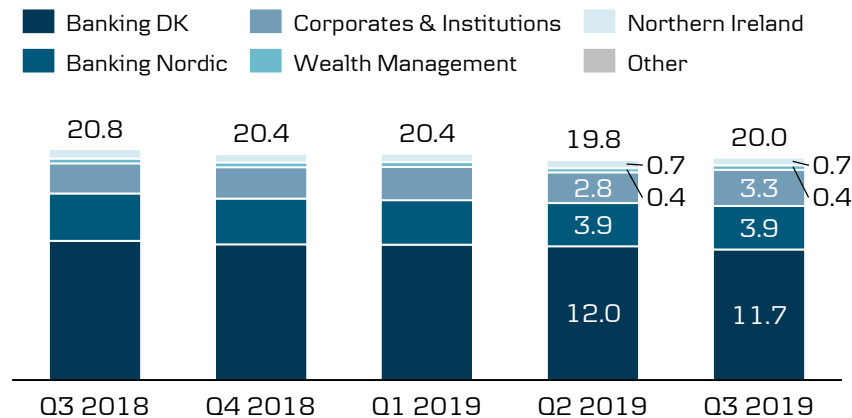
\* Based on average volumes. \*\* Includes capital costs, day effect and off-balance-sheet items.

## Credit quality: NPLs increased 3% y/y driven by single-names in Corporates & Institutions

### Breakdown of core allowance account under IFRS 9 (DKK bn)



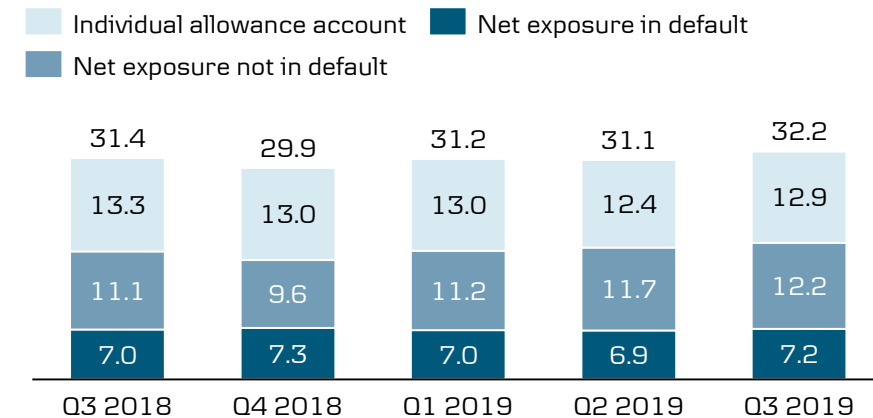
### Core allowance account by business unit (DKK bn)



### Breakdown of stage 2 allowance account and exposure (DKK bn)

End-Q3 2019	Allowance account	Gross credit exposure	Allowance as % of exposure
Retail customers	2.1	965.3	0.22%
Agriculture	1.2	75.5	1.65%
Commercial property	0.7	313.0	0.22%
Shipping, oil & gas	0.3	65.7	0.48%
Services	0.1	57.7	0.24%
Other	1.1	969.8	0.11%
<b>Total</b>	<b>5.6</b>	<b>2,447.1</b>	<b>0.23%</b>

### Gross non-performing loans\* (DKK bn)



\* Non-performing loans are loans in stage 3 against which significant impairments have been made.

## Credit exposure: Limited agriculture and directly oil-related exposure

### Agriculture exposure [3.0% of Group exposure]

- Pork prices continued their upturn towards record-high levels and rose 6% q/q, while milk prices were unchanged. We have reduced management overlays to pork producers due to the improved outlook
- We reversed impairments of DKK 112 m. Total accumulated impairments amounted to DKK 3.1 bn, of which DKK 1.3 bn in stages 1 and 2
- Realkredit Danmark accounted for 52% of total gross exposure and 23% of expected credit losses
  - LTV limit at origination of 60% at Realkredit Danmark

### Oil-related exposure [0.8% of Group exposure]

- Net exposure increased to DKK 18.8 bn from DKK 17.0 bn\* in Q2 2019 driven by increased loans and loan commitments to a few A-rated oil majors
- Most of the oil-related exposure is managed by specialist teams for customer relationship and credit management at Corporates & Institutions
- Accumulated impairments amounted to DKK 1.7 bn, of which DKK 0.3 bn in stages 1 and 2

### Agriculture by segment, Q3 2019, DKK millions

	Gross credit exposure	Portion from RD	Expected credit loss	Net credit exposure	NPL coverage ratio
Banking DK	50,226	39,591	2,888	47,338	88%
Growing of crops, cereals, etc.	19,964	16,421	539	19,425	89%
Dairy	8,938	6,915	901	8,036	81%
Pig breeding	11,383	8,777	1,172	10,210	93%
Mixed operations etc.	9,942	7,479	275	9,667	97%
Banking Nordic	12,395	-	131	12,264	100%
Northern Ireland	4,570	-	41	4,528	100%
C&I	5,749	1,941	4	5,744	-
Others	2,532	-	7	2,526	-
<b>Total</b>	<b>75,471</b>	<b>41,532</b>	<b>3,071</b>	<b>72,400</b>	<b>90%</b>

### Oil-related exposure, Q3 2019, DKK millions

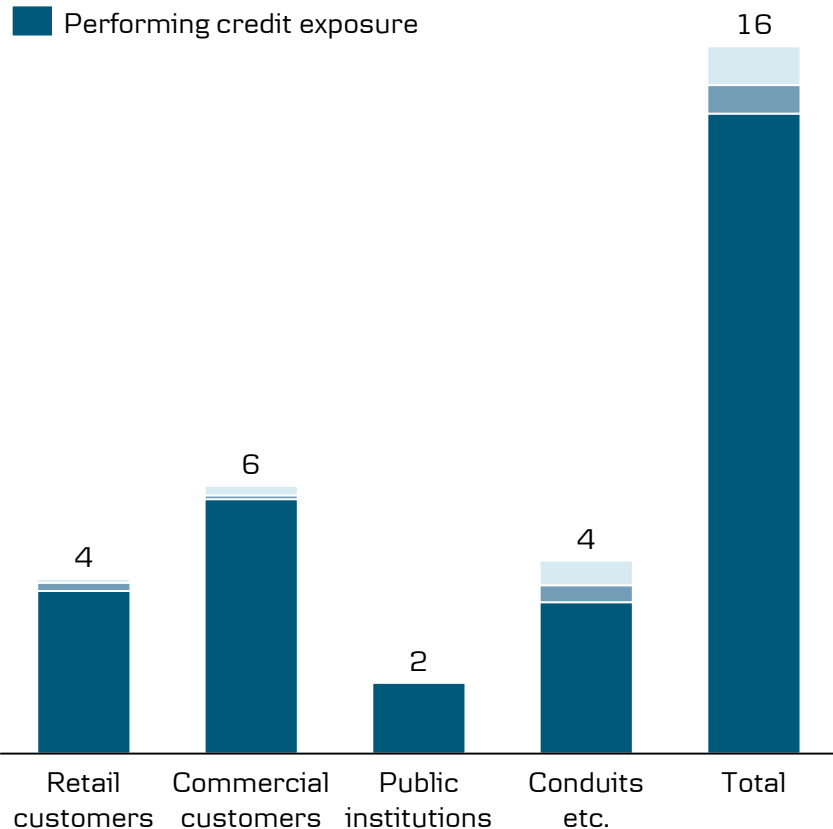
	Gross credit exposure	Expected credit loss	Net credit exposure
C&I	19,100	1,466	17,634
Oil majors	8,064	12	8,052
Oil service	5,011	188	4,823
Offshore	6,026	1,267	4,759
Banking DK and Banking Nordic	1,346	215	1,131
Oil majors	1	0	1
Oil service	1,187	214	973
Offshore	158	2	157
Others	5	0	5
<b>Total</b>	<b>20,451</b>	<b>1,681</b>	<b>18,770</b>

\* The credit exposure is reported as part of the shipping and oil & gas industries in our Interim Report.

# Non-core: Deleveraging according to plan; sale of retail portfolio in Estonia expected to finalise before end-November

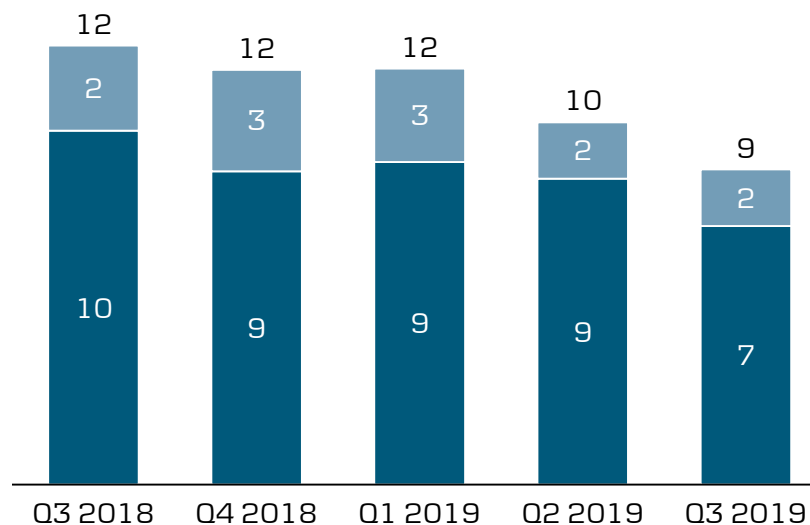
Non-core loan portfolio, Q3 2019 (DKK bn)

- Allowance account
- Non-performing credit exposure
- Performing credit exposure



Non-core REA\* (DKK bn)

- Non-core conduits etc.
- Non-core Banking

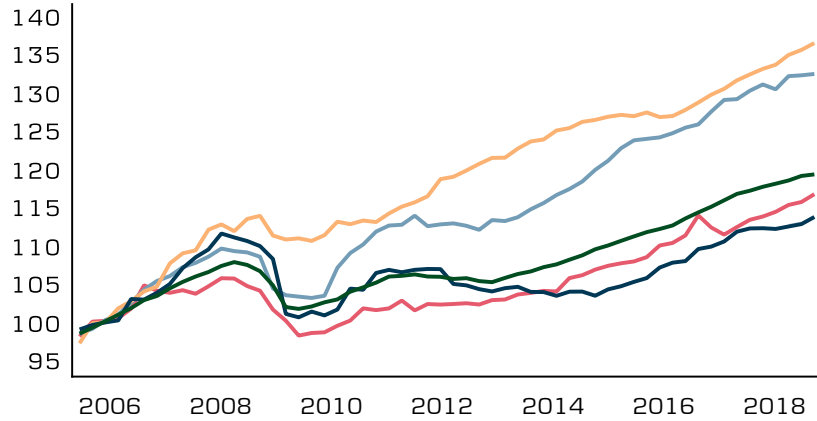


\* At 1 February 2019, the Russian exposure and the remaining part of the Baltic exposure were transferred to Non-core.

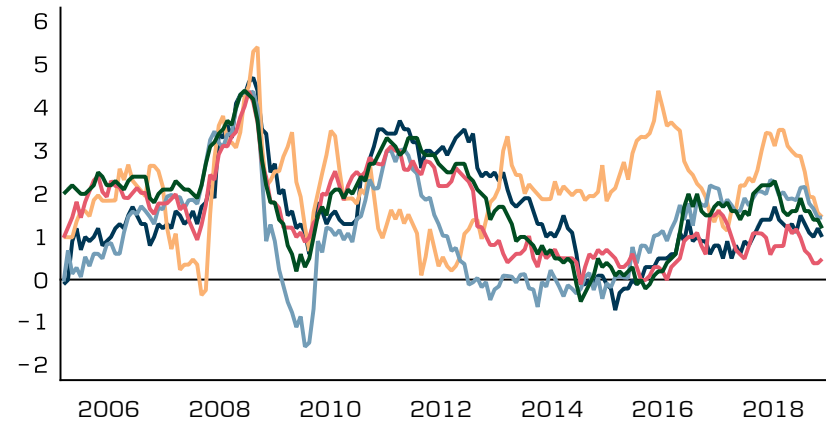
# Nordic macroeconomics

Denmark Sweden Norway Finland EU

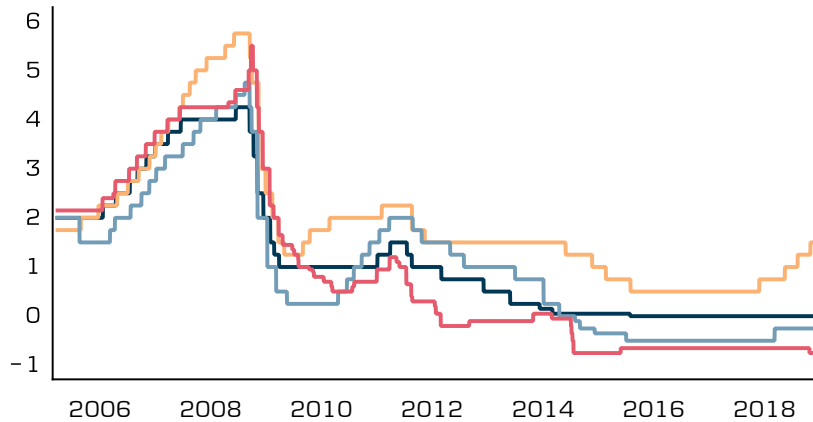
Real GDP, constant prices (index 2005 = 100)



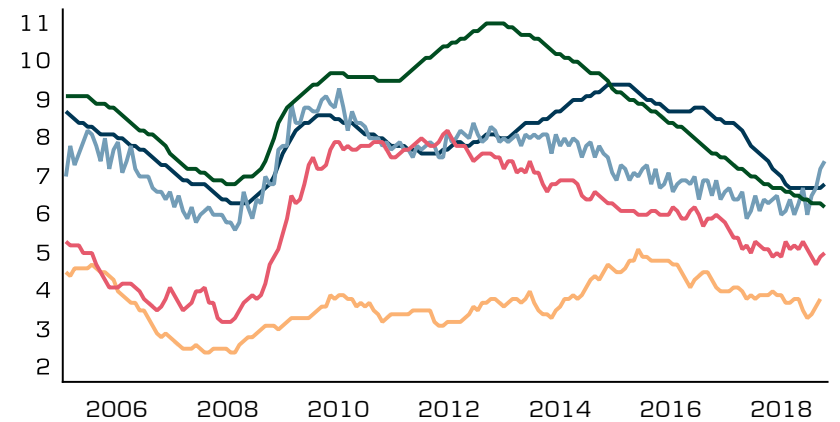
Inflation [%]



Interest rates, leading [%]



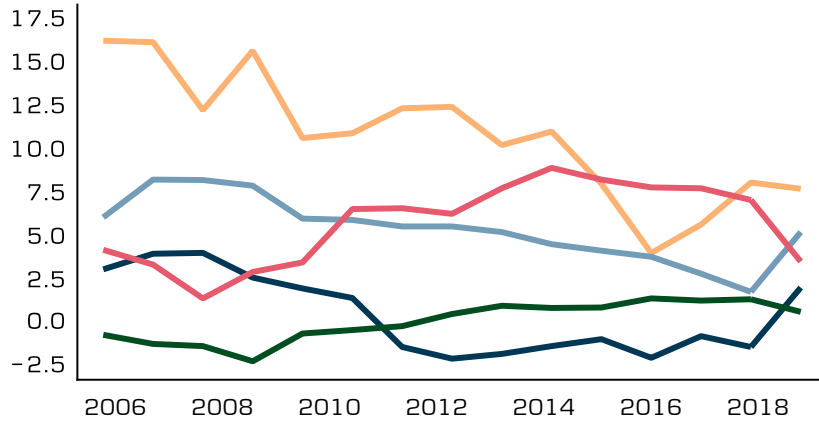
Unemployment [%]



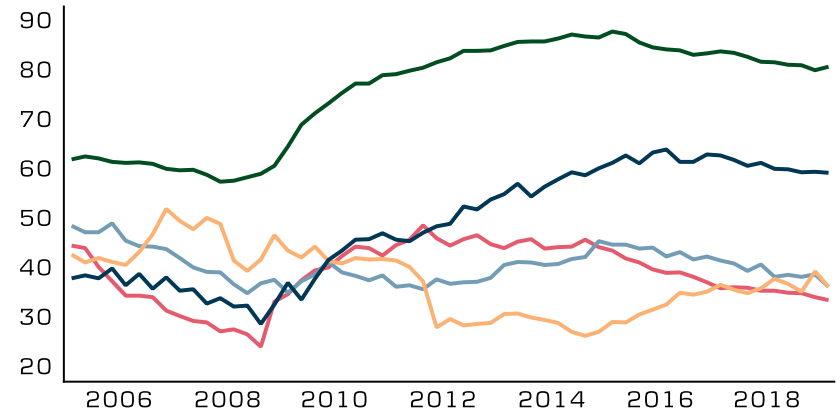
# Nordic macroeconomics

Denmark Sweden Norway Finland EU

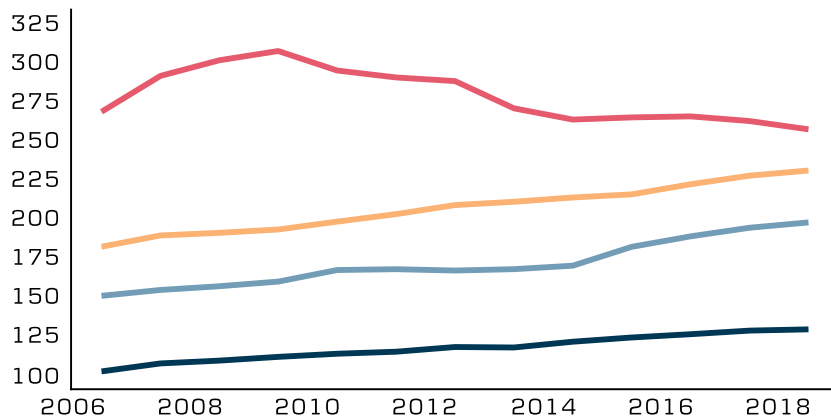
Current account (surplus+/-deficit-); % of GDP



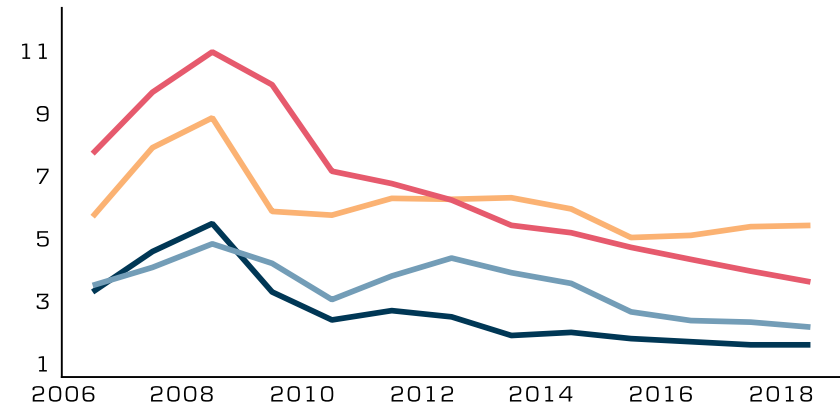
Gross public debt; % of GDP



Household debt burden; % of disposable income



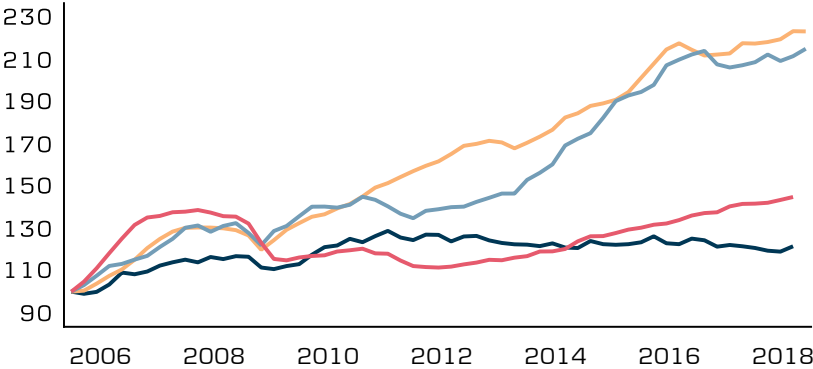
Household interest burden; % of disposable income



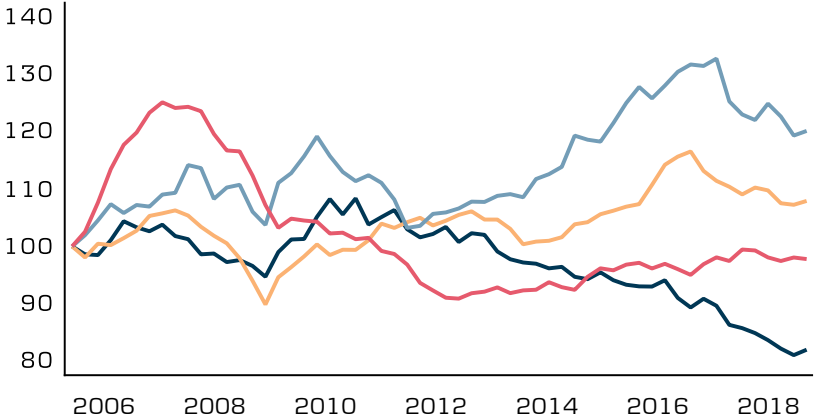
# Nordic housing markets

Denmark Sweden Norway Finland

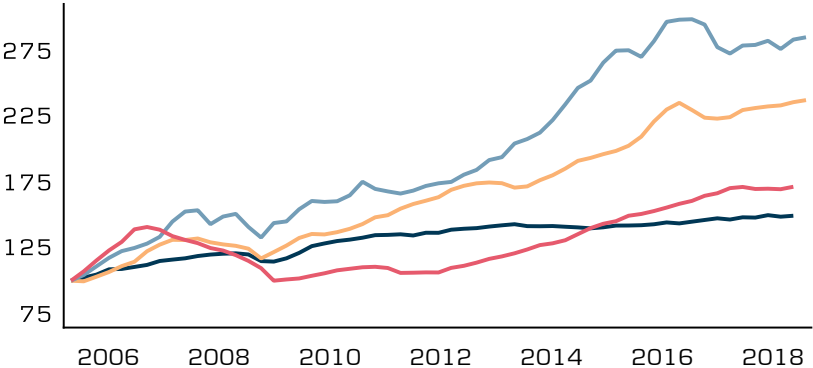
Property prices (index 2005 = 100)



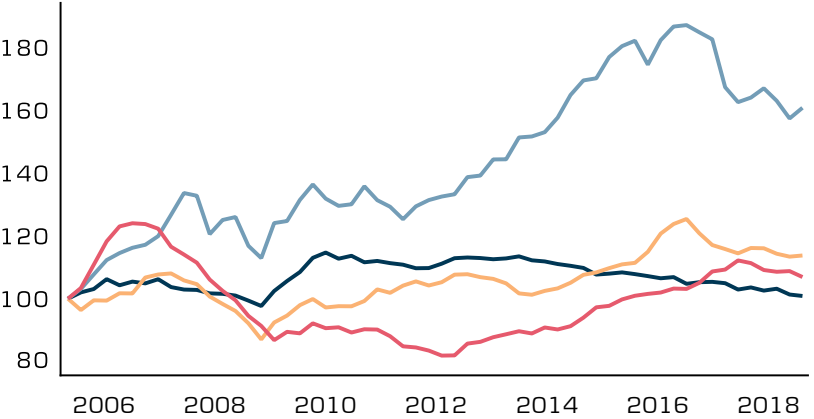
House prices/nom. GDP (index 2005 = 100)



Apartment prices (index 2005 = 100)

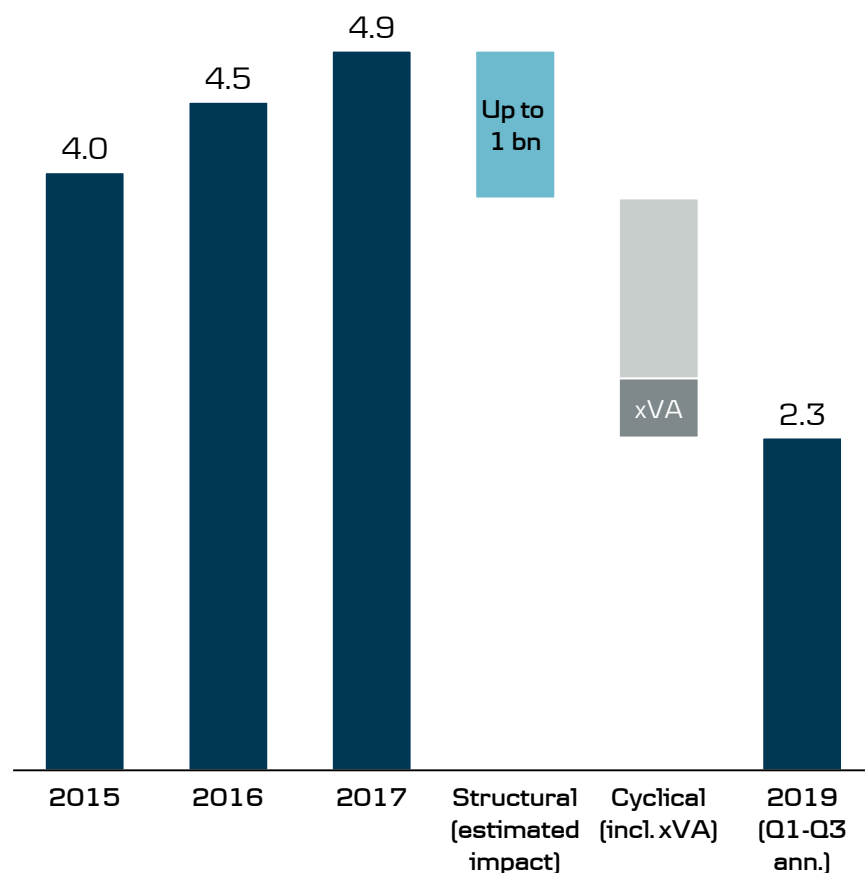


Apartment prices/nom. GDP (index 2005 = 100)



## Trading income decline driven by lower income in FI&C as the result of both structural and cyclical headwinds

FI&C total income, incl. xVA (DKK bn)



### Structural drivers of lower income

- Changed business model - from a 'balance sheet-driven' to a 'customer-driven' risk model
- Regulatory changes - e.g. MiFID II and LCR by currency - and continued digitalisation

### Challenging macro outlook

- 'Low for longer' with the market pricing in negative ECB policy rates for the next six years
  - Relatively flat yield curves
  - Low risk premiums
  - Risk that central bank quantitative easing will dampen market volatility
- Increasing likelihood that cyclical headwinds for FI&C trading income will prove more persistent



## *Agreed management actions to restore profitability in FI&C*

### Cost and capital efficiencies

- **Invest in digitalising core value chains** to bring down end-to-end costs
- **Review most capital-intensive activities** in order to maintain ability to service customers under regime with higher capital requirements
- **Short-term cost reductions** of up to 15% of direct staff costs, partly via hiring freeze and voluntary resignations, combined with non-staff cost savings

### Updated service model

- **Implement new service model** - To continue to deliver an excellent customer experience and lift medium-term profitability, a new service model is needed that will allow for more self-servicing customers, more integrated value chains, a truly digital markets platform, and increased customer segmentation

### FI&C adapted to changed conditions

- **Ensure that FI&C can deliver improved returns** in new macroeconomic environment by executing management agenda, while maintaining the ability to service customers across the Group (i.e. maintain a leading position in the Nordic FI&C market)

*2023 ambitions appendix slides*

## *We face challenges, but have taken the first steps to get back on course*

### Key challenges

#### *On top of structural issues in the financial sector ...*

- Changing customer expectations
- Increased regulatory demands
- Negative interest rates

#### *... we need to work on Danske Bank-specific topics*

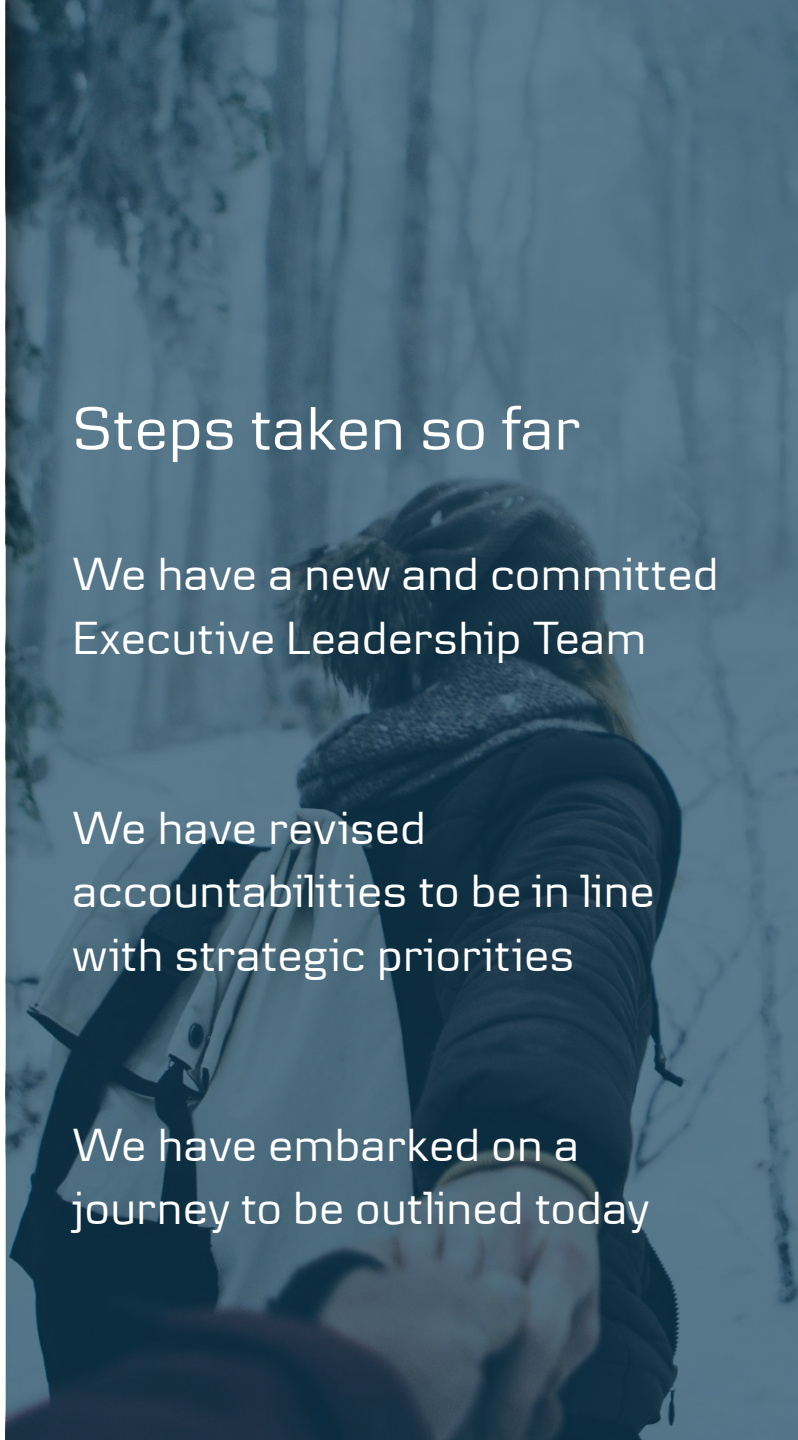
- Continue improving compliance and conduct
- Pressure to manage costs more efficiently
- Potential for reducing complexity, becoming more agile and more focused
- Invest in our core processes and IT

### Steps taken so far

We have a new and committed Executive Leadership Team

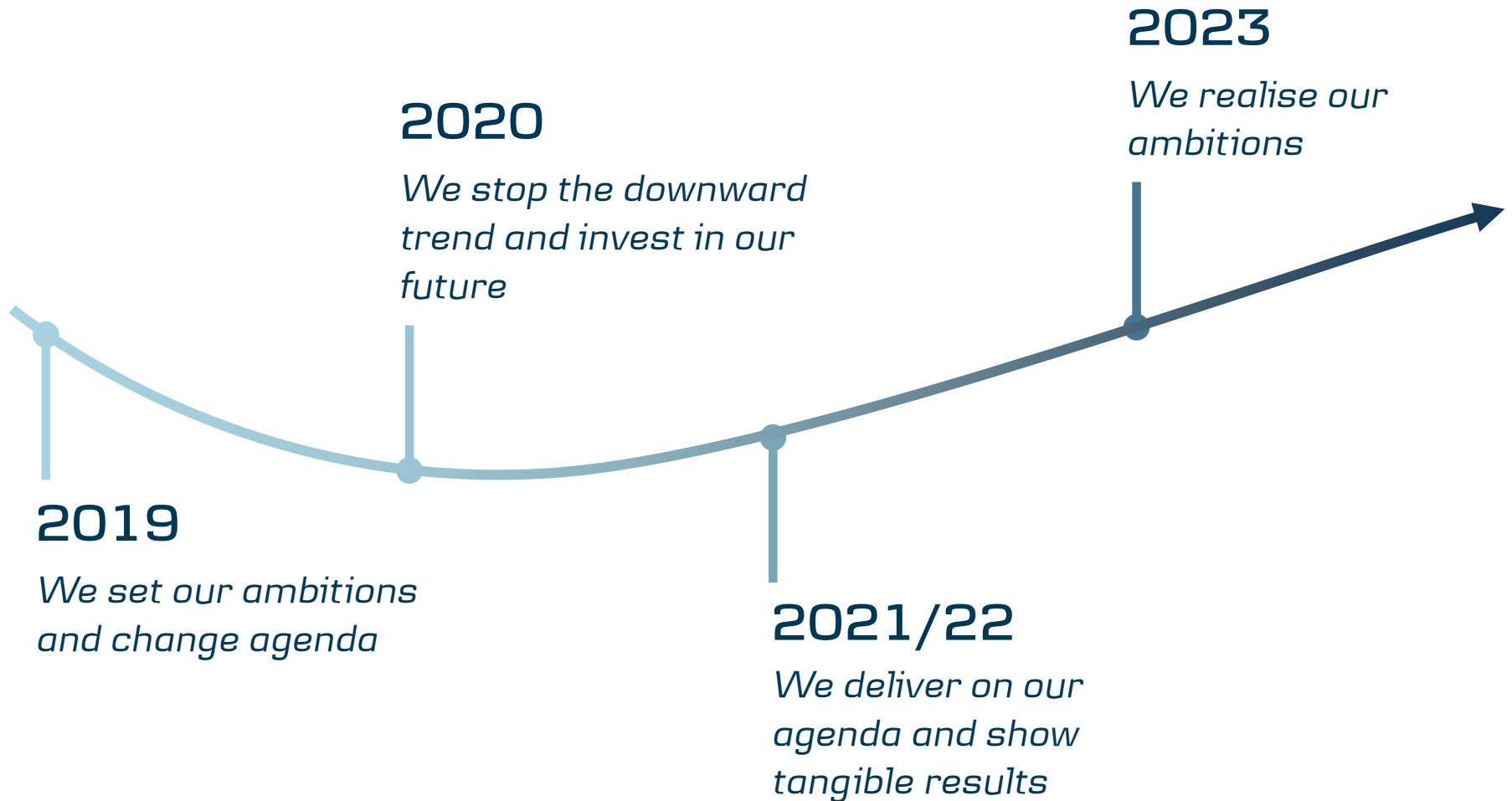
We have revised accountabilities to be in line with strategic priorities

We have embarked on a journey to be outlined today



# *We are on a journey: In 2020 we pave the way towards 2023*

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## *In 2020 we will execute on the core pillars of our journey*

Delivering in  
the short term

1

Compliance under control

2

Cost base under control

3

Commercial momentum gained

4

Complexity reduced, agility improved and the business further digitised

5

Accountabilities and leadership promoted and developed

6

Positive societal impact & sustainability embedded in everything we do

Investing in  
our future  
success

## *Delivering in the short term*

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**1**

### **Compliance under control**

- Complete 'Conduct' review
- Execute on AML and ODD programmes
- Further refine risk and compliance operating model

**2**

### **Cost base under control**

- Reinforce Group-wide governance for non-personnel costs and reduce spend
- Refocus/organise our support function activities across the group
- Stringent controlling of spend on major regulatory programmes

**3**

### **Commercial momentum gained**

- Strengthen Group-wide commercial capabilities and discipline
- Capture cross-selling opportunities, e.g., leveraging data and analytics
- Enhance our capabilities towards more dynamic balance sheet management

## *Investing in our success*

---

4

### **Complexity reduced, agility improved and the business further digitised**

- Simplify business and product portfolios
- Digitise key customer journeys end-to-end
- Launch broader enterprise agile journey

5

### **Accountabilities and leadership promoted and developed**

- Integrate new ambitions into the Danske Bank values
- Drive broader cultural change and invest in organisational capabilities
- Embed execution bias in the performance management cycle

6

### **Positive societal impact and sustainability embedded in everything we do**

- Continue to identify and deliver on specific societal impact and sustainability opportunities
- Define changes to existing practices to embed societal/sustainability ambitions
- Actively foster an inclusive culture with diverse teams to increase creativity and problem-solving abilities and secure superior responsiveness to customer needs

# Pushing operating efficiency crucial to delivering on our ambition

Levers  
rolled out  
in 2020  
with full  
impact in  
2023

1

## Create a simple and efficient business model

Simplify product offering and steer towards more simple/efficient service model to harvest synergies

2

## Accelerate digital customer journeys for target offerings

Digitise core customer journeys (e.g., housing, financing) on the basis of a less complex business

3

## Reinforce non-personnel cost discipline

Explore further savings opportunities in key cost categories

4

## Refocus/organise our support function activities

Realise synergies from reorganisation and simplification of the business

5

## Reach a steady-state cost level for AML/anti-financial crime activities

Develop and integrate AML processes into regular workflows to enable efficient adherence to compliance requirements

*Main  
levers to  
achieve  
short-term  
impact in  
2020*



## *Key strategic priorities to deliver on income growth*

---

Levers  
rolled out  
in 2020  
with full  
impact in  
2023

1

### **Improve digital customer experience to drive growth**

Digitisation of core customer journeys within banking (e.g. housing) as well as digital platforms at C&I and Wealth Management

2

### **Revise service models to boost cross-selling and fully capture wallets**

Stronger differentiation and pro-activeness towards customers, also leveraging investments in data and analytics

3

### **Foster integration of Wealth Management and banking**

Unlock growth potential from reorganisation of PWM and integrating AM/Danica into banking sales channels

4

### **Strengthen our product offering and leverage full potential of partnerships**

E.g., leverage digital platforms to add new (third-party) products for C&I as well as Wealth Management

# Underlying assumptions behind 19'-23' RoE development

## Comments 9M 2019 to 2020

- Operational effects in 2020 include
  - Lending growth which is more than offset by overhang from funding issued in 2019 and new funding issued in 2020 at unchanged spreads
  - No improvement in financial market conditions
  - Increase in nominal equity
- Impairments in 2020 include a step towards normalisation
- AML costs expected to rise and peak in 2020, principally driven by FTE increase (see separate slide)
- Investments into IT and business capabilities and continued cost efficiencies to achieve 2023 ambition

## Comments 2020 to 2023

- Cost initiatives to reduce current gross cost level, driven mainly by significant cost efficiency measures (see separate slide)
- Steady state AML-related costs of DKK 1.1-1.3 bn in 2023E, following significant investment programme expected to peak in 2020E (see separate slide)
- Income initiatives driven by both NII and non-NII (see separate slide): unchanged interest rates and FX rates assumed
  - Loan growth with unchanged dynamics in all markets
  - Increased AuM and improved cross-selling

## Comments 2020 to 2023 (continued)

- Balance sheet optimisation Group-wide driven by Treasury
- Improved financial markets conditions
- Increased lending gives higher funding need at unchanged spread
- Macro and regulatory effects include:
  - Normalisation of impairment level to around 10 basis points in 2023 and wind-down of Non-core business
  - Cost increase due to wages etc. of 2.5% annually
  - Capital and funding impact driven mainly by regulatory effects (MREL, Basel IV) and higher equity in 2023
    - Continued refinancing into MREL-eligible instruments at unchanged spread
    - Capital impact driven mainly by higher nominal equity in 2023 due to regulatory effects (incl. Basel IV)
    - Dividend policy unchanged at 40-60%
    - CET1 target above 16% in the short term
    - We assume higher REA driven by growth and new regulatory requirements

## Contacts



**Christoffer Møllenbach**  
Head of Group Treasury  
Direct: +45 45 14 63 60  
Mobile: +45 21 55 10 52  
E-mail: [chm@danskebank.dk](mailto:chm@danskebank.dk)



**Bent Callisen**  
Head of Group Funding, Group Treasury  
Direct: +45 45 12 84 08  
Mobile: +45 30 10 23 05  
E-mail: [call@danskebank.dk](mailto:call@danskebank.dk)



**Thomas Halkjær Jørgensen**  
Chief Portfolio Manager, Group Treasury  
Direct: +45 45 12 83 94  
Mobile: +45 25 42 53 03  
E-mail: [thjr@danskebank.dk](mailto:thjr@danskebank.dk)



**Rasmus Sejer Broch**  
Senior Funding Manager, Group Treasury  
Direct: +45 45 12 81 05  
Mobile: +45 40 28 09 97  
E-mail: [rasb@danskebank.dk](mailto:rasb@danskebank.dk)



**Claus Ingar Jensen**  
Head of IR  
Direct: +45 45 12 84 83  
Mobile: +45 25 42 43 70  
E-mail: [clauj@danskebank.dk](mailto:clauj@danskebank.dk)



**John Bäckman**  
Chief IR Officer  
Direct: +45 45 14 07 92  
Mobile: +45 30 51 46 85  
E-mail: [jbc@danskebank.dk](mailto:jbc@danskebank.dk)



**Heidi Birgitte Nielsen**  
Chief IR Officer  
Direct: +45 45 13 92 34  
Mobile: +45 27 20 41 74  
E-mail: [heidn@danskebank.dk](mailto:heidn@danskebank.dk)



**Robin Hjelgaard Løfgren**  
Senior IR Officer  
Direct: +45 45 14 06 04  
Mobile: +45 24 75 15 40  
E-mail: [r1f@danskebank.dk](mailto:r1f@danskebank.dk)

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