Financial results - First nine months 2022

Presentation for Q3 conference call

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Chief Executive Officer

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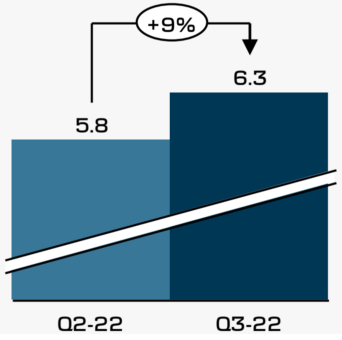
Chief Financial Officer

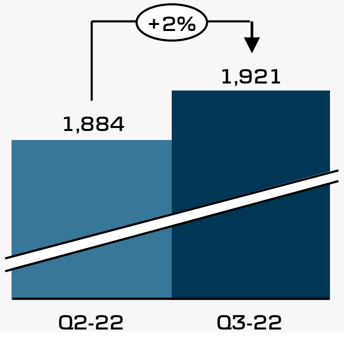
Highlights – Good activity, stringent execution and positive impact from rates and strategic pricing initiatives underpin commercial progress

- ✓ Good commercial progress driving uplift in core banking income, as volume growth remains robust
- ✓ Solid capitalisation on the back of prudent capital management with CET1 ratio at 16.9%
- ✓ Strong credit quality despite macroeconomic uncertainty
- ✓ Underlying cost progress supporting foundation for '23 targets – FTEs outside AML down 8% since peak
- ✓ Trading income recovered in Q3 despite another period of financial market turmoil. Danica impacted by goodwill write down in Q3
- ✓ ESG reporting received "A" rating from Position Green and launch of new ESG investment funds.

NII (DKK bn)



Group lending (DKK bn, nominal)



DKK 27.2 bn (+4% YTD)
Core banking income (NII + fee)

Solid lending uplift +7% Y/Y
LC&I + 33%, and traction on market shares in Denmark

Good traction on underlying **cost development**
(down 4% QoQ, excl. debt collection)

DKK 368m in Q3
loan impairments
(6bps YTD, incl. debt collection)

Continued progress on **sustainability** strategy and targets

Good progress on solution for legacy cases, incl. **additional provision of DKK 14 bn for the Estonia matter**

Update on the Estonia matter: Additional provision of DKK 14bn in Q3; Net Profit revised to a net loss better than DKK 5.5 bn, incl. goodwill impairment of DKK 1.6 bn

Following discussions with the US and Danish authorities, Danske Bank is now able to make a reliable estimate of a potential resolution, which amounts to DKK 15.5bn and includes the provision of DKK 1.5bn recognized in 2018. While there is still uncertainty around timing and whether a resolution will be reached, Danske Bank is working towards a resolution before the end of this year.

The Board has decided to cancel the remaining dividend from 2021 and will not propose to the AGM in 2023 to pay out dividend for 2022.

Out of the capital charge in the form of a Pillar 2 add-on of DKK 10bn related to the Estonia matter, DKK 7.5bn related to reputational risks has been released on the basis of dialogue with the Danish FSA.

CET1 ratio stand at 16.9% and our capital target for CET1 of above 16% in the short-term and total capital target of above 20% is maintained

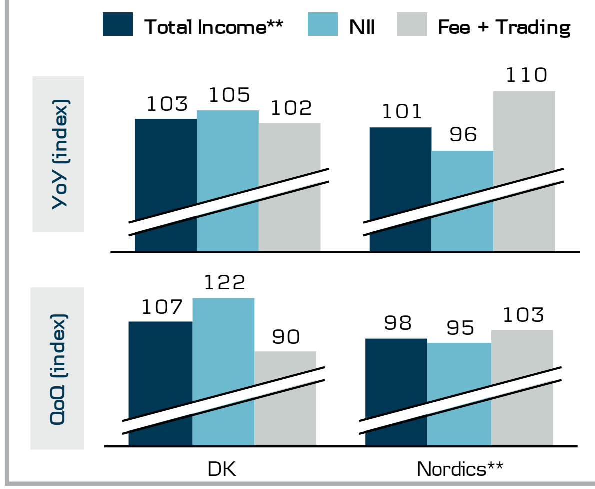
Net profit outlook for 2022 is revised down from DKK 10 – 12bn to a net loss better than DKK 5.5 bn. The outlook includes a goodwill impairment charge in our insurance business of DKK 1.6bn.

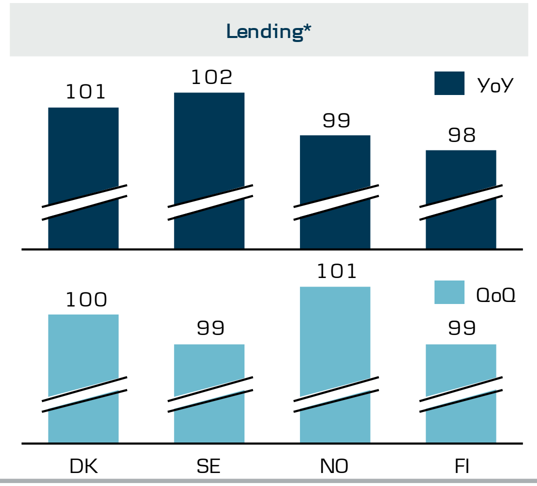
Business units: Continued progress in PC DK and Business Customers

Key financial metrics

Highlights

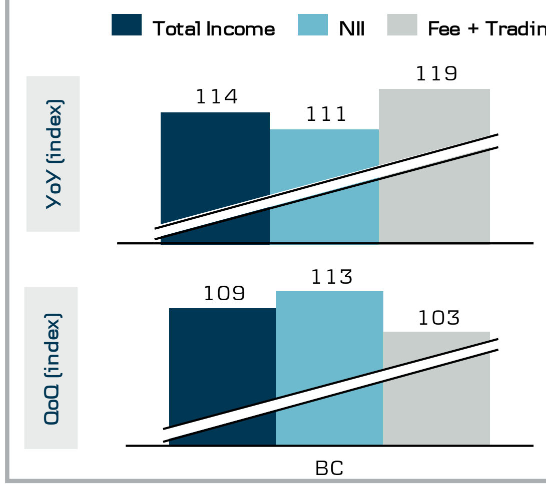
Personal Customers DK & Nordic

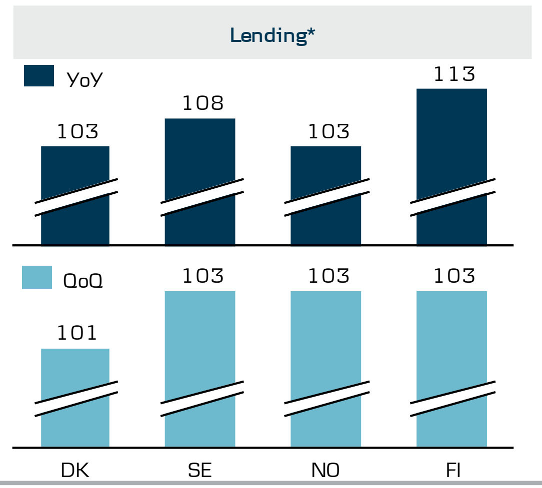




- ✓ PC DK: Solid NII uplift of 22% Q/Q as higher rates are supported by remortgaging activity and improved market shares in lending (excl. RD). Customer flows continue to improve and the consideration rate among young customers has also developed favorably (10% vs. 6% in Dec'21)
- ✓ PC Nordic: Continued strategy of further enhancing profitability through cross-selling and expanding product offerings underpin fee development
- ✓ Overall, good progress on increasing the share of customers onboarded digitally to free up advisory time, further enabled by digitalising day-to-day banking meetings

Business Customers





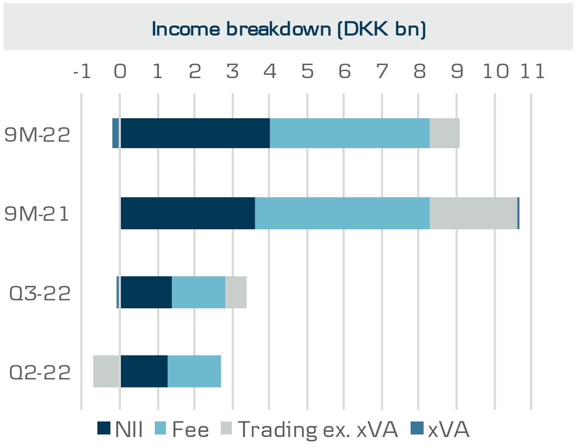
- ✓ Continued momentum in lending volumes with uplift in Denmark and Sweden supporting efforts to capture market shares
- ✓ Ancillary income supported by cash management and foreign exchange activities. Green product launches further enable dialogue around costomers transition financing
- ✓ Activity through digital channels and self-service continues, e.g. through increasing usage of our Marketplace module, where 15% of all SE District customers have visited the platform

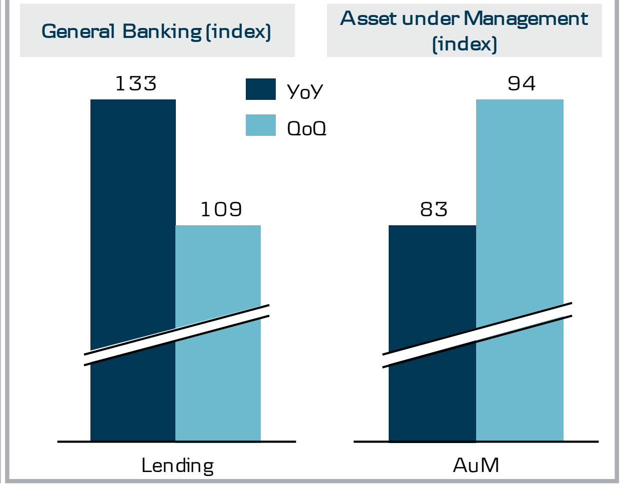
*In local currency and excluding fair-value effects in DK
** Total income adjusted for effects from the sale of DB Luxembourg

Business units: Good progress in LC&I driven by high activity; Danica impacted by volatile financial markets

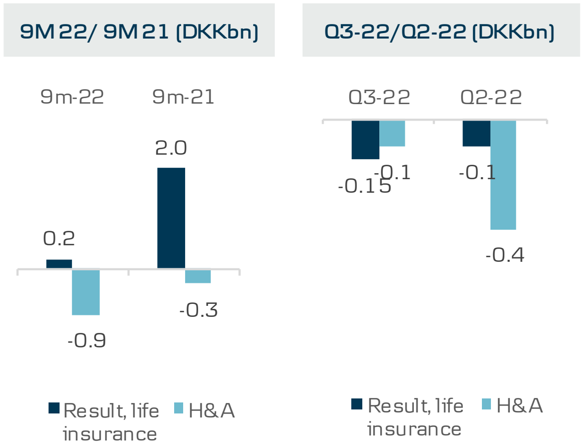
Key financial metrics

LC&I

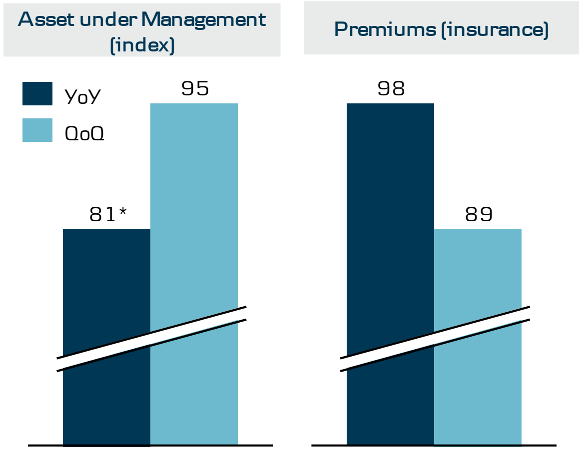




Danica



* Q3 includes restatement of ~600m between Life and H&A.



* Includes the removal of DKK 22bn AuM from DA Norway sale

Highlights

LC&I

- ✓ Significant customer activity driven by close dialogue around risk management solutions and significant lending growth of 33% YoY
- ✓ Continued support to fixed income customers, which means utilising less capital, despite challenging conditions for market making services in Nordic fixed income markets
- ✓ Solid investment fee despite lower AuM from financial market turmoil
- ✓ A leading Nordic market position according to the Bloomberg League tables for arrangers of sustainable bonds and sustainability-linked loans

Danica

- ✓ Sound underlying business as premiums remain at a relatively high level, and claims in H&A remained at a low level
- ✓ Negative investment results for life insurance products where Danica Pension has the investment risk primarily driven by impact from volatile financial markets and valuation effects
- ✓ Restatement of DKK 600m between H&A and Life insurance
- ✓ Life insurance further affected by product-related one-off charge of DKK 150m, while goodwill writedown is booked under group expenses

Net interest income up by 8% YoY driven by repricing, volumes and higher rates; trading/insurance impacted by market turmoil; credit quality remains resilient

Key points, 9M 22 vs 9M 21

- NII uplift from repricing initiatives and continually improving trend in lending volumes as well as recent rate hikes from CBs across our jurisdictions
- Fee income from generally high activity offset lower ECM and investment-related fees
- Trading income impacted by volatile financial markets and valuation effects, while Danica was particularly impacted by valuation effects
- Writedown of goodwill in Danica due to higher applied discount rate
- Improved underlying cost development, absent debt collection impact and despite higher remediation and litigation costs
- Strong credit quality continues to lead to single-name reversals, while macro models and additional PMAs mitigate tail risk

Key points, Q3 22 vs Q2 22

- NII up QoQ, benefitting from recent rate hikes as well as continued lending growth for business customers, particularly large corporates
- Fee income lower, as high activity-related fees were countered by a general slowdown in the housing market and reduced capital markets-related fees
- Trading income in LC&I recovered while Danica remained impacted by adverse financial markets, as well as valuation effects and a product related one-off.
- Operating expenses improved, when disregarding the DKK 600m debt collection one-off underpinning the progress on underlying efficiency
- Additional provision of DKK 14bn for the Estonia matter, and write-down of goodwill in Danica due to higher applied discount rate
- Strong credit quality led to continually low impairments despite DKK 650m one-off charge and further macro model impairments. PMAs maintained

Income statement and key figures (DKK m)

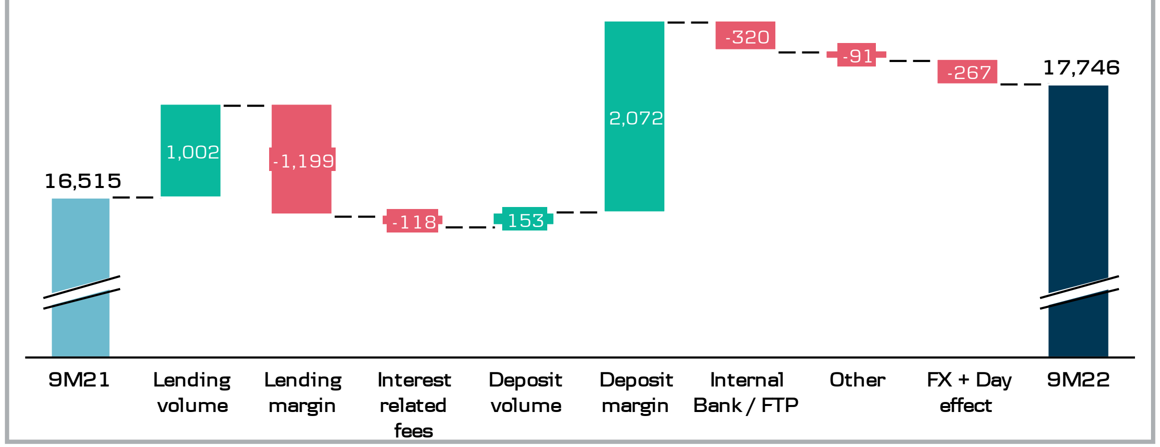
	9M 22	9M 21	Index	Q3 22	Q2 22	Index
Net interest income	17,746	16,498	108	6,307	5,810	109
Net fee income	9,536	9,700	98	2,999	3,157	95
Net trading income	679	3,111	22	503	-390	-
Net income from insurance business	-323	1,576	-	-286	-122	-
Other income	1,203	623	193	244	291	84
Total income	**28,840**	**31,509**	**92**	**9,767**	**8,746**	**112**
Operating expenses	19,570	18,874	104	6,777	6,421	106
Profit before loan impairments, GW & provision	**9,270**	**12,635**	**73**	**2,990**	**2,325**	**129**
Provision for Estonia matter	14,000	-	-	14,000	-	-
Impairment charges on goodwill	1,627	-	-	1,627	-	-
Loan impairment charges	794	587	135	368	192	192
Profit before tax, core	**-7,151**	**12,048**	-	**- 13,005**	**2,133**	-
Profit before tax, Non-core	-10	23	-	-28	31	-
Profit before tax	-7,161	12,071	-	- 13,033	2,164	-
Tax	2,080	2,805	74	760	458	166
Net profit	**-9,241**	**9,266**	-	**- 13,792**	**1,705**	-

NII: Solid credit demand, positive effects from CB rate hikes, and repricing initiatives continue to support the improving NII trend

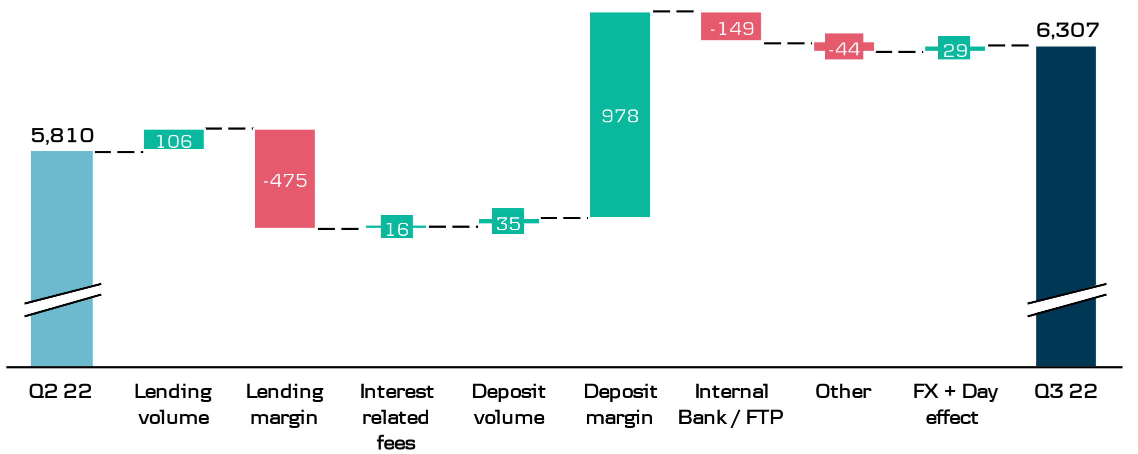
Highlights

- Net interest income continued the positive trend, as repricing initiatives were further supported by higher central bank rates, and lending volumes contributed positively YoY across all Nordic segments
- Higher funding costs along with timing effects due to notice period in PC impacted lending margin. Avg. lending margin in LC&I affected by volume growth from higher rated customers coupled with timing effects from floored credit facilities as rates have turned positive
- Significant improvement in deposit margins in Q3

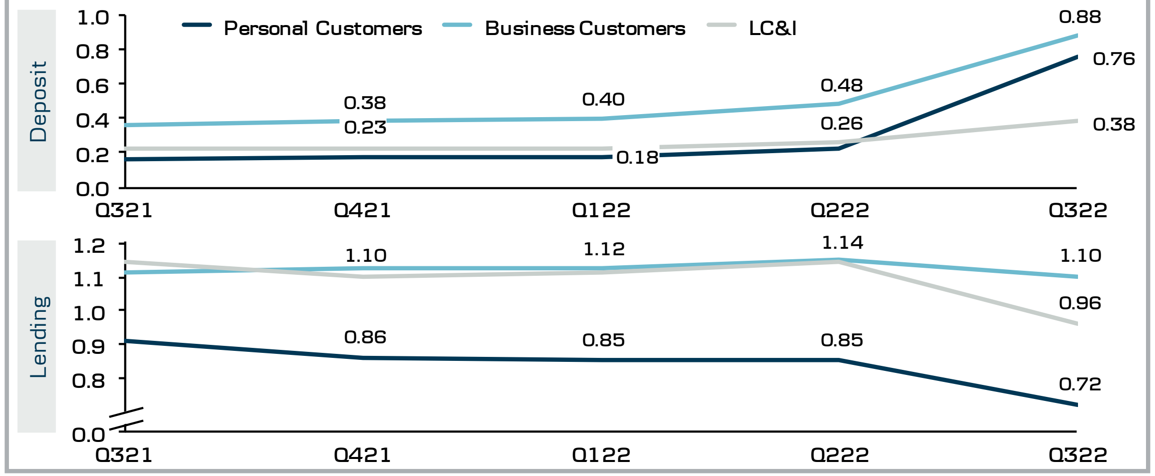
Net interest income, YTD-22 vs YTD-21 (DKK m)



Net interest income, Q3 22 vs Q2 22 (DKK m)



Margin development (bp)



Fee: Strong fee performance in core banking activities driven by activity fees, mitigating impact from lower AuM and lower activity in capital markets

Highlights

Activity-driven fees / money transfers, accounts etc.

- YoY: Up 22% from continually strong trend for everyday banking services at LC&I & BC (FX and cash mgmt.) combined with continued strong general customer activity

Lending and guarantees

- YoY: Up 9%, high level of remortgaging activity on the back of higher interest rates
- QoQ: Down 7% due to lower housing market activity, while remortgaging activity remains high

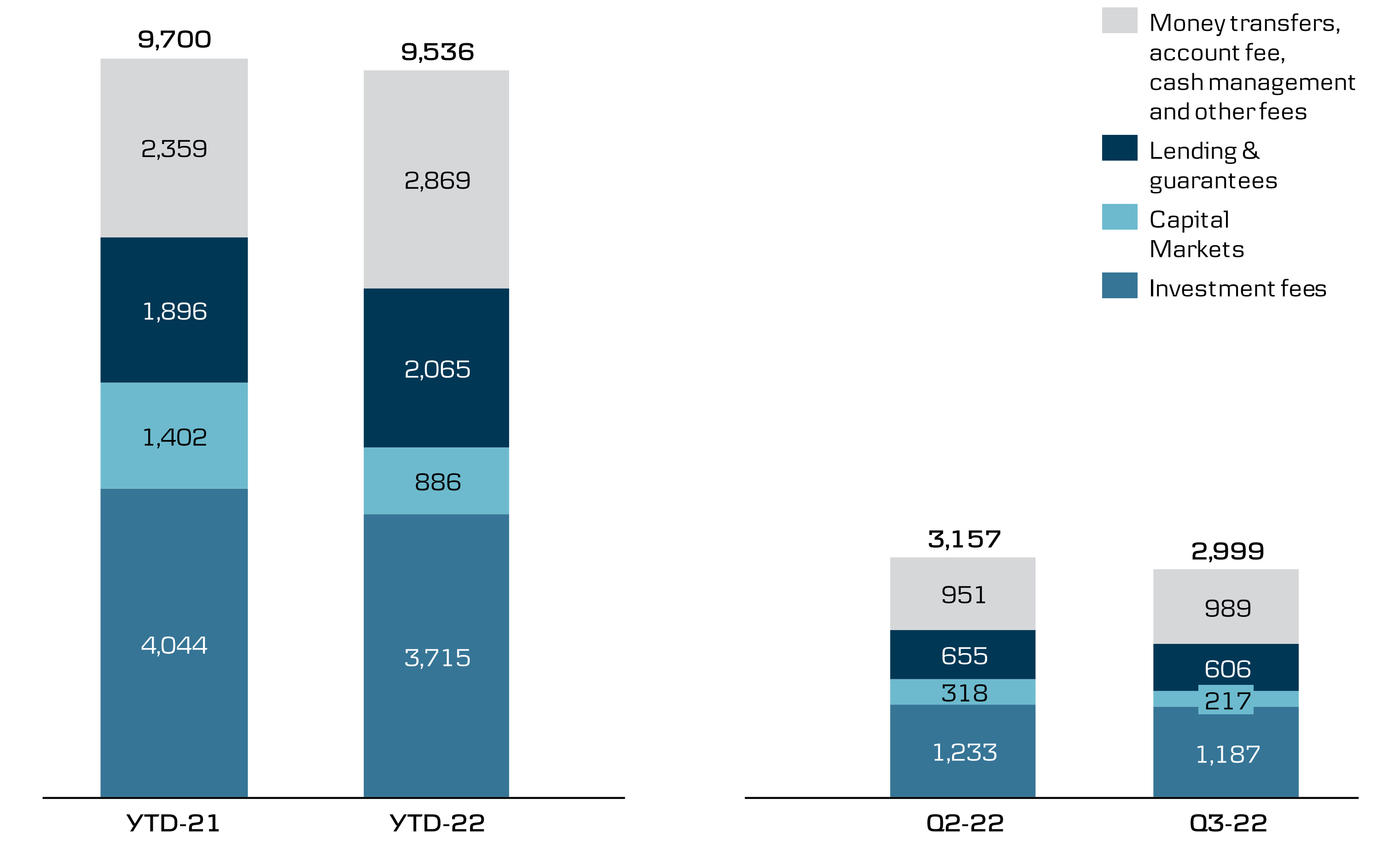
Capital markets

- Slowdown in primary ECM/DCM markets has accelerated during the course of the year as customer preferences had shifted towards bank lending in LC&I

Investment fees

- YoY: Negative effect on lower asset under management and reduced investment appetite among our customers was mitigated by general uplift in AM fees

Net fee income (DKK m)



Trading: Improvement in Q3 driven by recovery in performance at Rates & Credit; negative valuation effects in Northern Ireland

Highlights

LC&I

- Historically high volatility in Nordic fixed income markets affecting YTD trading income
- Improvement in Q3 in conditions for our fixed income marketmaking franchise despite a reduction in risk appetite and lower capital consumption amid continued effects of high volatility and lower liquidity
- Demand for risk management solutions resulted in good customer activity in Currencies

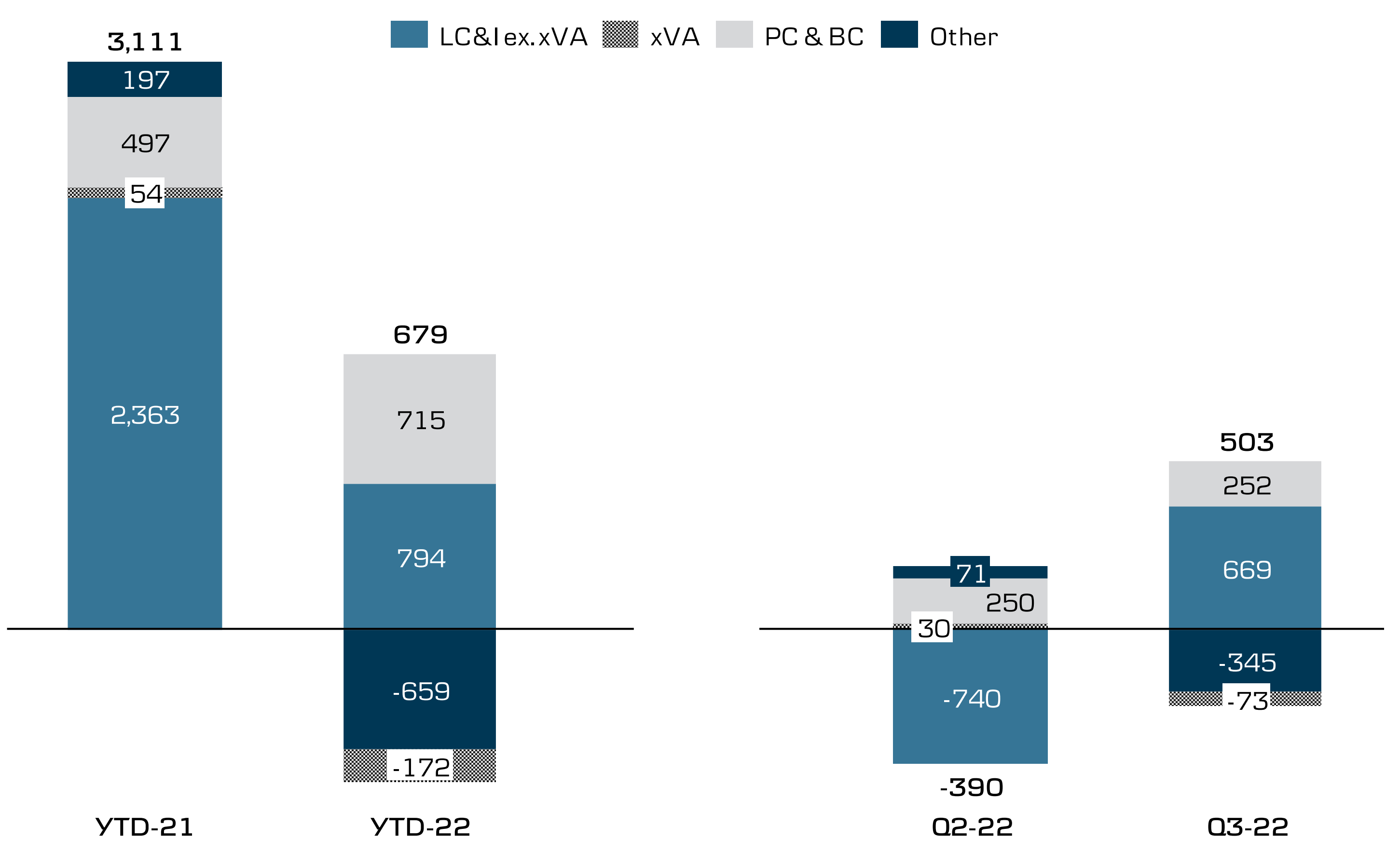
PC & BC

- Higher customer activity driven by increased foreign exchange activity post the pandemic

Other

- Transitory effects as rate increases drove mark-to-market movements on the deposit hedging portfolio in Northern Ireland which was partly countered by strong uplift in NII

Net trading income (DKK m)



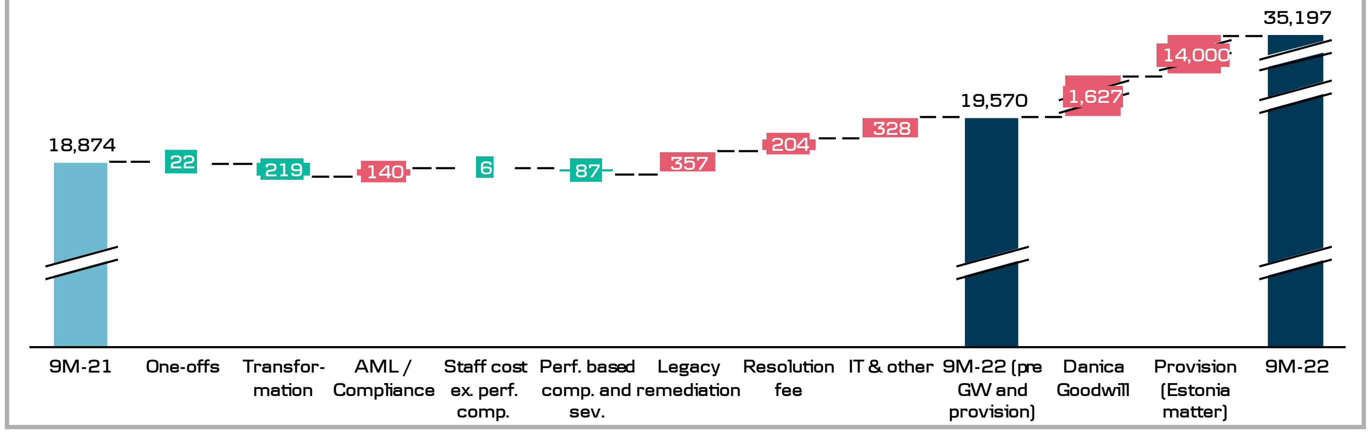
* The first nine months of 2021 benefited from a gain of DKK 227m on the sale of VISA shares in the Group's private equity portfolio

Expenses: Underlying progress on efficiency despite continually high remediation costs; significant impact from additional provision and goodwill write-down

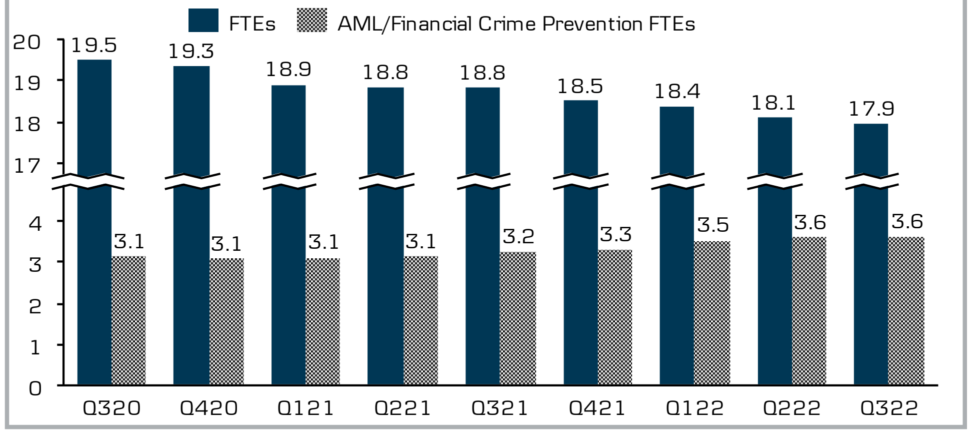
Highlights

- Progress on structural cost take-out with underlying costs down 4% QoQ when adjusting for the one-off costs related to debt collection legacy case
- Number of FTEs continued to decline. Adjusting for AML/FCP, FTEs are down 8% from peak in Q3 20, reflecting efficiency gains and underlying improvement
- Other costs up due to a partly normalisation of travelling, higher amortisation costs and IT expenses, including a one-off related to re-contracting and higher energy costs for servers

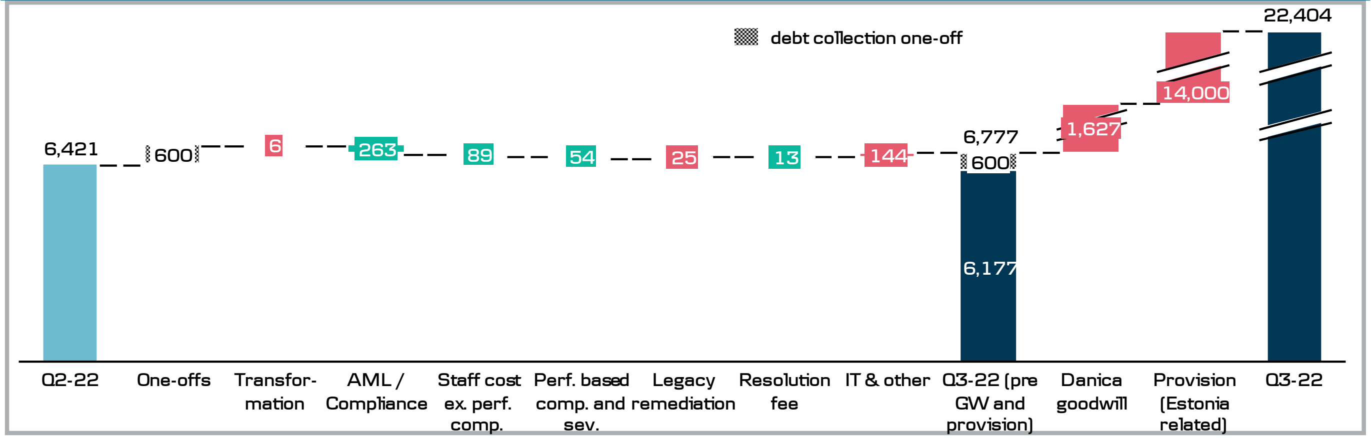
Expenses, 9M-22 vs 9M-21 (DKK m)



FTEs (#,thousand)



Expenses, Q3-22 vs Q2-22 (DKK m)

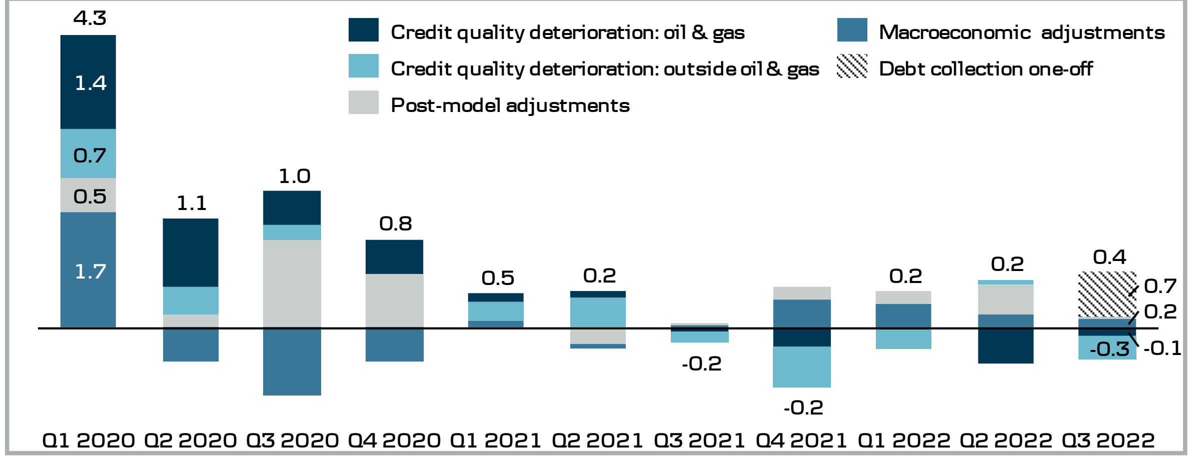


Impairments: Continually strong credit quality and individual reversals, while prudent buffers remain in place; modest macro-charges to reflect deteriorating outlook

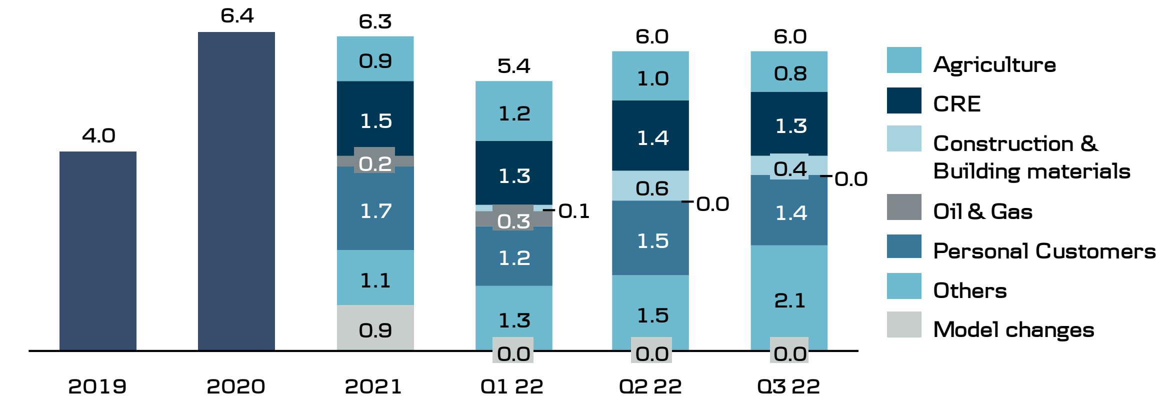
Highlights

- Credit quality remains strong with limited impact from the worsening macro backdrop, leading to overall net reversals when disregarding the DKK 0.65bn charge related to the closure of the legacy debt collection
- Macro outlook has been updated to reflect current uncertainties with increased downside risk from inflation and interest rates, resulting in additional DKK 150m booked in Q3
- Total allowance of DKK 19bn includes PMAs of DKK 6bn, as additional overlays of DKK +2bn established since Covid-19 have been repurposed for macro uncertainties. The PMA of DKK 250m established to account for potential lower recovery in debt collection legacy cases has been reallocated in Q3

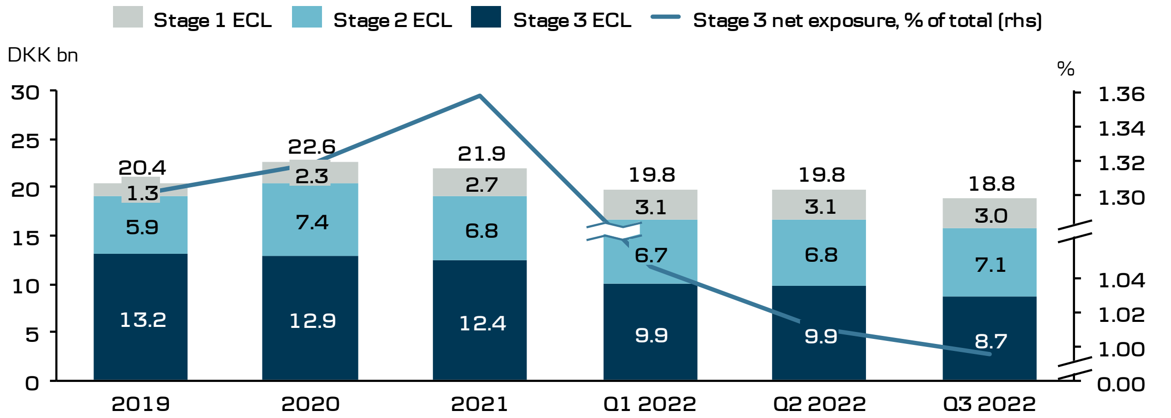
Impairment charges by category (DKK bn)



PMAs



Allowance account by stages (DKK bn)



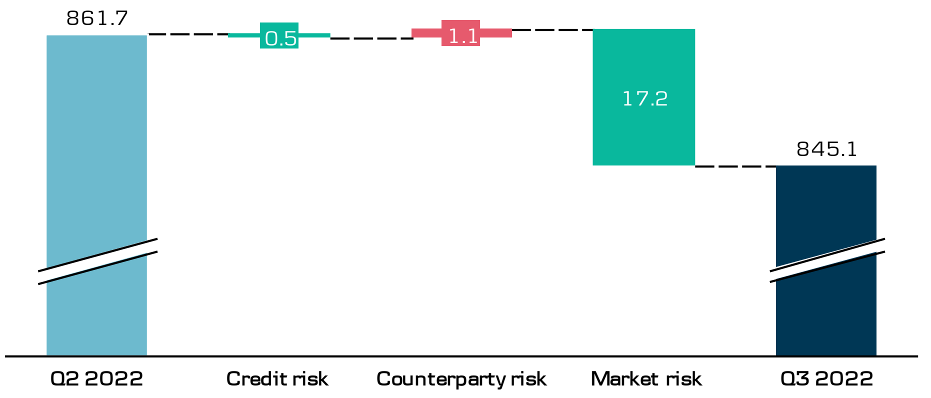
Danske Bank

Capital: CET1 ratio at 16.9%, resulting in a 440bps buffer to current regulatory requirements

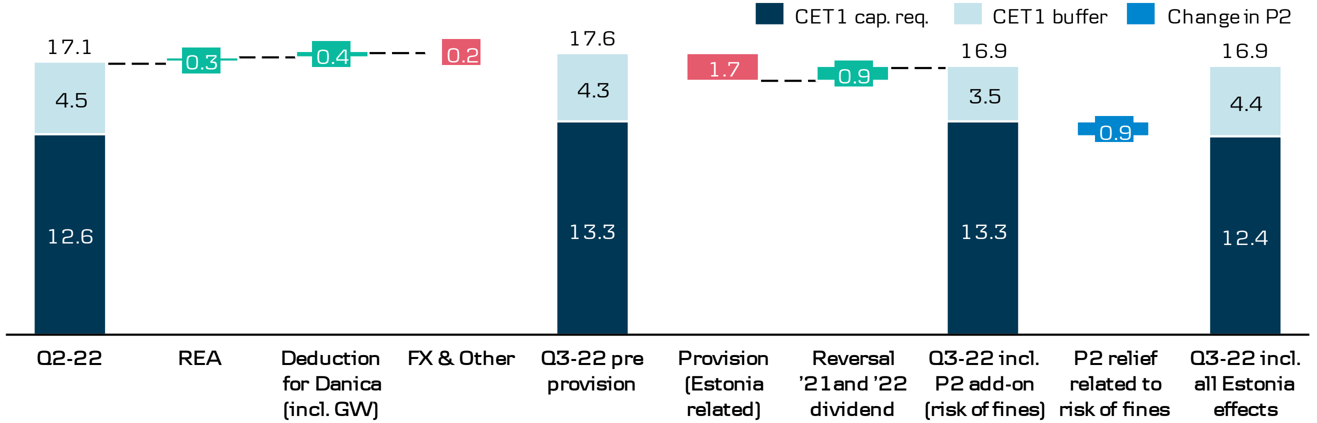
Highlights

- CET1 ratio decreased to 16.9% as the Estonia-related provision impact was mitigated by the decision to cancel the remaining '21 dividend as well as the proposal not to pay out dividend for '22. In addition, CET1 benefitted from a decrease in the deduction for Danica (incl. goodwill) and lower market risk REA
- The Group's total REA decreased DKK 16.6bn driven mainly by lower REA for market risk from an improved structural hedging approach to reduce risk and capital consumption, while financial market volatility remained high. Credit risk REA remained stable.
- In Q3, part of the CCyB reactivation was implemented leading to an increase in CET1 requirements from 12.6% to 13.3%. Post the pillar 2 relief from DFSA and with the remaining CCyB being activated through H123, the fully-phased in requirements stands at 13.6%
- The leverage ratio was 4.6% under both the transitional rules and the fully-phased in rules

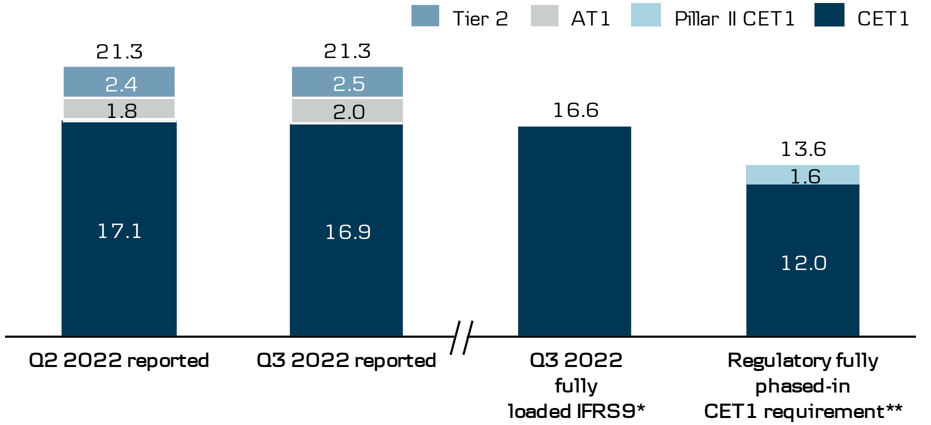
Total REA (DKK bn)



CET1 development incl. all effects from Estonia related provision (%)



Capital ratios (%)



* Based on fully loaded impact on capital ratio from IFRS 9. ** Pro forma fully phased-in min. CET1 requirement of 4.5%, plus CET1 component of pillar II add-on and including combined buffer requirements consisting of capital conservation buffer of 2.5%, SIFI requirement of 3%, and countercyclical buffer of 2.0%.

Revised net profit outlook for 2022: Adjusted for additional provision for the Estonia matter and goodwill write down, we now expect net loss better than DKK 5.5 bn*

Income	*Revised 27 Oct 2022*	We continue to expect income from core banking activities to be higher in 2022, as higher net interest income driven by good economic activity and higher interest rates will more than offset lower capital market and investment-related fee income. Net income from insurance business and trading activities are expected below normalised levels based on significantly lower income in the first nine months of the year and a stabilisation in income in the fourth quarter subject to market conditions. The degree of uncertainty is higher than usual.
Expenses	*Revised 27 Oct 2022*	Including the booking of the provision for the Estonia matter, the impact from the solution to the debt collection case and goodwill write down, total expenses are expected to be around DKK 41.7 billion. Excluding the provision for the Estonia matter, the impact from the solution to the debt collection case and goodwill write down, we expect costs in 2022 to reflect our continued focus on cost management and to be around DKK 25.5 billion, including sustained elevated remediation costs.
Impairments	*Maintained*	Given our overall strong credit quality, loan impairments are expected to be below normalised level, including the solution to the debt collection case.
Net profit *	*Revised 27 Oct 2022*	We have revised the outlook for net profit of DKK 10-12 billion to a net loss better than DKK 5.5 billion due to booking of additional provision for the Estonia matter and goodwill write down. The outlook includes the gains from MobilePay, Danske Bank International and Danica Norway. For our 2023 financial ambitions, we maintain our ambition of a RoE of 8.5 to 9 percent in 2023.

* Note – The outlook is subject to uncertainty and depends on economic conditions.

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Q&A Session

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