

DANSKE BANK - STRONG BUY

Key take aways from company day

Case confirmed - positioned for growth in the Nordics

Yesterday, Danske Bank made a presentation at our Company Day in Silkeborg confirming to us that Danske Bank is able to capture some loan growth in the Nordic market as well fees despite of a slow macroeconomic development in the region.

Good growth opportunities in the Norwegian and Swedish market: Danske Bank sees good growth opportunities in both the Norwegian and Swedish market, where large partnership agreements are the main drivers for growth. In the Swedish market, the SACO and TCO agreements provide access to a potential of roughly 2 million personal clients or around 25% of the market. The TCO agreement is exclusive for Danske Bank, and the first results from the agreement are expected to be seen in figures for Q2'17.

Wealth Management unit to benefit from Mifid II regulation: As of Jan'16 Danske Bank formed the Wealth Management unit based on Danske Capital, Danica and parts of Private Banking. The organisation has been adjusted and a strategy was formed during 2016. A key cornerstone in the strategy is to deliver investment services across all segments. A new investment app, "June", has been developed in order to capture growth in the low margin personal segment. After 7 Mifid II compliant questions personal clients are able to enter into the investment universe through ETF products.

A Nordic universal bank: The strategy of being a Nordic universal bank was reiterated. In that context it is fair to question Danske Bank's ownership of the business unit "Northern Ireland". We don't see Danske Bank as a long-term owner of Northern Ireland, and we expect Danske Bank to divest this unit when we see more clarity about the Brexit-implications.

Accounting figures and key figures

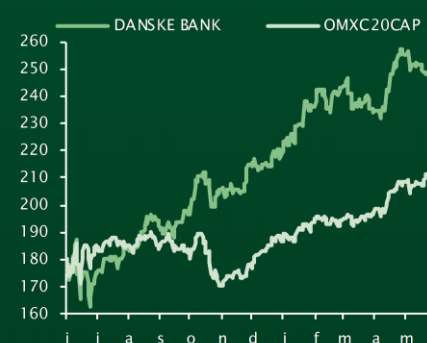
(DKK m)	2016R	2017E	2018E	2019E
Net interest income	22.030	23.045	24.315	25.287
Core earnings	47.959	47.908	49.004	50.637
Pre-tax profit	25.357	25.700	25.512	26.272
Core earnings (%)	4,9%	-0,1%	2,3%	3,3%
Cost/income ratio	47,2%	47,1%	46,4%	45,8%
NII/RWA	2,7%	2,8%	2,8%	2,9%
ROE	13,2%	13,1%	12,9%	13,3%
EPS	20,52	21,13	21,10	21,73
P/E	10,44	11,92	11,94	11,59
P/BV	1,38	1,54	1,47	1,42
Div. per share	10,10	10,00	11,00	11,80
Share buy-back	9.000	10.000	10.000	10.000

Fundamental valuation	Cheap
Risk	Average
News flow	Neutral
12-m. target (DKK)	300
Closing price (DKK)	250

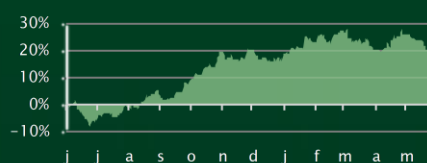
Share information

High/low latest 12 m	258 / 163
Price Trend (3/12 m)	3,0% / 38,0%
Relative to OMXC20CAP	-5,0% / 22,0%
Market value (DKK m)	233.926
Free float	77,1%
Avg daily vol (DKK m)	413
Reuters	DANSKE.CO
Bloomberg	DANSKE DC

Price trend



Relative performance



Source: Jyske Bank & Bloomberg

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Important investor information:

Please see the last pages of the material.
 For professional clients only.

Dividend policy with share buy-back on top: Danske Bank's policy is to distribute a dividend of 40–50% of net profit, which is accrued during the financial year, and to distribute any excess capital through share buy-back if the CET1 ratio is above Danske Bank's internal target of meeting CET1 ratio level of 14–15%. We expect Danske Bank to achieve a CET1 ratio of 15.8% allowing a new share buy programme of DKK 10.0bn to be initiated in 2018.

2017 - 2019: JB's estimates and consensus figures

Annual figures	JB's estimates				Consensus estimates post Q1'17			Consensus estimates pre Q1'17		
	2016R	2017E	2018E	2019E	Consensus 2017E	Consensus 2018E	Consensus 2019E	Consensus 2017E	Consensus 2018E	Consensus 2019E
(DKKm)										
Net interest income	22,030	23,045	24,315	25,287	23,352	24,315	25,102	23,017	24,244	24,975
Net fee income	14,183	14,960	15,010	15,214	14,985	15,555	16,087	14,647	15,102	15,565
Net trading income	8,607	8,079	7,635	7,990	7,940	7,369	7,500	7,206	7,359	7,491
Other income	3,139	1,825	2,044	2,146	1,780	1,863	1,860	2,138	2,194	2,266
Net income from insurance business	0	0	0	0						
Total income	47,959	47,909	49,004	50,637	48,112	49,086	50,640	47,107	48,780	50,096
Operating expenses	-22,643	-22,568	-22,737	-23,191	-22,568	-22,574	-22,574	-22,390	-22,406	-22,775
Profit before loan impairment charges	25,316	25,341	26,267	27,446						
Loan impairment charges	4	380	-755	-1,174	-370	-1,149	-1,520	-770	-1,210	-1,558
Profit before tax, core	25,320	25,721	25,512	26,272						
Profit before tax, non-core	37	-19	0	0	-19	0	0	0	0	0
Profit before tax	25,357	25,702	25,512	26,272	25,174	25,568	26,721	23,706	25,144	25,736
Tax	-5,499	-5,654	-5,740	-5,911						
Net profit for the period	19,858	20,048	19,772	20,361	19,152	19,629	20,361	18,290	19,228	20,034
Minorities and AT1 holders	-663	-742	-472	-472						
Net profit after minorities and AT1	19,195	19,306	19,300	19,889						
C/I	47.2%	47.1%	46.4%	45.8%						
ROE	13.2%	13.1%	12.9%	13.3%						
CET1-ratio	16.3%	15.8%	15.6%	14.9%	16.1%	15.9%	15.8%	15.9%	15.8%	15.6%

Yields	JB's estimates				Consensus estimates post Q1'17			Consensus estimates pre Q1'17		
	2016R	2017E	2018E	2019E	Consensus 2017E	Consensus 2018E	Consensus 2019E	Consensus 2017E	Consensus 2018E	Consensus 2019E
(DKKm)										
Pay-out ratio excluding share buy-back	50%	47%	50%	50%						
Div. per share (DKK)	10.1	10.0	11.0	11.8	10.0	11.0	11.0	9.5	10.0	10.5
Share buy back (DKK)	9,000	10,000	10,000	10,000	10,276	9,000	8,500	10,000	10,000	10,000
Special dividend from share buy-back (DKK)	9.40	11.02	11.55	12.11						
Total pay-out ratio	95%	97%	100%	99%						
Total pay-out per share (DKK)	19.49	21.02	22.55	23.91						
Dividend yield (pct. of share price)	4.7%	4.0%	4.4%	4.7%						
Total shareholder yield (pct. of share price)	9.1%	8.3%	8.9%	9.5%						
Share price		252.0	252.0	252.0						

Source: Jyske Bank and Danske Bank

Source: consensus figures collect by SME direkt

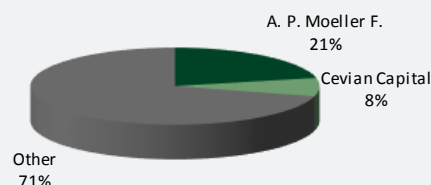
Source: consensus figures collect by SME direkt

Overview DANSKE BANK

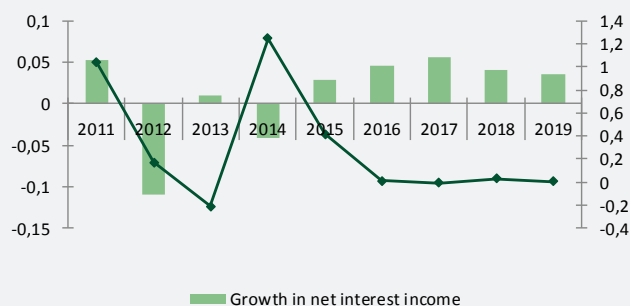
Company profile

Danske Bank is the largest Danish bank. The Danske Bank group consists of Danske Bank, Realkredit Danmark, Danica Pension and the subsidiaries outside Denmark. The bank offers services within banking, insurance, mortgage lending, asset management and leasing. Danske Bank has approx. 5 million personal customers in Denmark, Norway, Sweden, Finland and Northern Ireland and the bank serves a significant number of customers in the corporate, public and institutional segments. Danske Bank has approx. 19,000 employees.

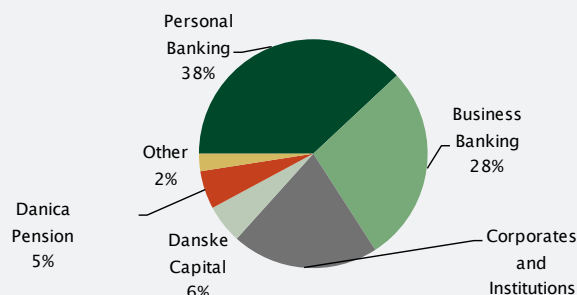
Ownership structure



Sales growth and profitability



Break-down of sales



Fundamental valuation

- We assess that the Danske Bank share trades below fair value.
- We assume that the economic trend in the Nordic countries will slowly improve but that Danske Bank will in this process improve its earnings faster than its rivals.

Investment case

- The Danske Bank share offers exposure to growth and the interest-level in Scandinavia, predominantly to the Danish economy.
- The loan losses have stabilised on a low level and the earnings will improve.
- The bank's solid capital position ensures peace for this even with the implementation of new capital rules.

Price triggers

- Increasing interest margins that generate growth on the top as well as the bottom line.
- Still falling impairment charges will lift earnings.
- High volatility in the financial markets may give rise to high trading income.
- Continued optimisation of the cost-base will lift earnings.

Risk factors

- The company has natural exposure to the macro-economic Scandinavia. Increases in the number of the countries' unemployment rates will raise the loss and provisions percentage and put the bottom line under pressure.
- The continued focus on the debt crisis in the European fringe countries will cause a negative sentiment, which will also impact Danske Bank.

COMPANY UPDATE

Profit and loss account (DKKm)	2013R	2014R	2015R	2016R	2017E	2018E	2019E	2020E	2021E	2022E
Net interest income	22.077	22.313	21.402	22.030	23.045	24.315	25.287	26.172	27.088	28.036
Net fee income	9.468	11.154	15.129	14.183	14.960	15.010	15.214	15.425	15.643	15.869
Net trading income	5.799	6.693	6.848	8.607	8.079	7.635	7.990	8.371	8.775	9.209
Other income	1.308	1.344	2.343	3.139	1.825	2.044	2.146	2.254	2.366	2.485
Net income from insurance activities	1.088	2.496								
Total income	39.740	44.000	45.722	47.959	47.909	49.004	50.637	52.222	53.873	55.599
Expenses	-23.794	-31.740	-27.838	-22.643	-22.568	-22.737	-23.191	-23.799	-24.485	-25.192
Result before loan impairment charges	15.946	12.260	17.884	25.316	25.341	26.267	27.446	28.423	29.388	30.407
Loan impairment charges	-4.111	-2.788	-57	4	380	-755	-1.174	-1.950	-2.532	-3.157
Profit or loss before tax, core	11.835	9.472	17.827	25.320	25.720	25.512	26.272	26.473	26.856	27.250
Profit or loss before tax, non-core	-1.777	-1.503	46	37	-19	0	0	0	0	0
Profit or loss before tax	10.058	7.969	17.873	25.357	25.700	25.512	26.272	26.473	26.856	27.250
Tax	-2.944	-4.020	-4.639	-5.499	-5.654	-5.740	-5.911	-5.956	-6.043	-6.131
Net profit for the year	7.114	3.949	13.234	19.858	20.046	19.772	20.361	20.517	20.813	21.119
Minorities and AT1 holders		-259	-607	-663	-742	-472	-472	-472	-472	-472
Net profit after minorities and AT1	7.114	3.690	12.627	19.195	19.304	19.300	19.889	20.045	20.341	20.647
Growth in net interest income	-10,9%	1,1%	-4,1%	2,9%	4,6%	5,5%	4,0%	3,5%	3,5%	3,5%
Growth in fee income	7,8%	17,8%	35,6%	-6,3%	5,5%	0,3%	1,4%	1,4%	1,4%	1,4%
Increase in operating costs	-10,5%	33,4%	-12,3%	-18,7%	-0,3%	0,7%	2,0%	2,6%	2,9%	2,9%
Growth in the pre-tax profit	17,4%	-20,8%	124,3%	41,9%	1,4%	-0,7%	3,0%	0,8%	1,4%	1,5%
Growth in the profit of the year	49,8%	-44,5%	235,1%	50,1%	0,9%	-1,4%	3,0%	0,8%	1,4%	1,5%
Effective tax rate	29,3%	50,4%	26,0%	21,7%	22,0%	22,5%	22,5%	22,5%	22,5%	22,5%
Balance sheet (DKKm)	2013R	2014R	2015R	2016R	2017E	2018E	2019E	2020E	2021E	2022E
Loans and advances	1.536.773	1.563.729	1.609.384	1.689.155	1.736.504	1.792.367	1.868.942	1.949.459	2.034.146	2.123.196
Trading portfolio and investment securities	857.639	1.073.507	890.323	853.015	856.448	859.916	863.418	866.956	870.529	874.137
Total assets	3.227.057	3.453.016	3.292.878	3.483.671	3.579.777	3.683.187	3.809.334	3.942.692	4.083.748	4.232.984
Deposits	1.107.503	1.164.059	994.218	1.059.159	1.089.403	1.130.438	1.170.568	1.212.592	1.257.008	1.303.392
Subordinated capital	66.219	41.028	0	37.831	69.622	67.333	69.437	63.711	61.918	55.250
Equity	145.657	153.118	149.513	152.272	152.810	152.763	153.015	157.112	163.478	171.451
Loans / deposits	1,4	1,3	1,6	1,6	1,6	1,6	1,6	1,6	1,6	1,6
Lending growth	-8,2%	1,8%	2,9%	5,0%	2,8%	3,2%	4,3%	4,3%	4,3%	4,4%
Deposit growth	-3,5%	5,1%	-14,6%	6,5%	2,9%	3,8%	3,5%	3,6%	3,7%	3,7%
Capital position & solvency ratio	2013R	2014R	2015R	2016R	2017E	2018E	2019E	2020E	2021E	2022E
Risk-weighted items	852.250	865.822	833.594	815.248	843.994	869.855	904.561	940.986	979.228	1.019.368
Core capital (%) (incl. hybrid capital)	19,0%	16,7%	18,5%	19,1%	18,0%	17,8%	17,1%	16,3%	16,3%	15,6%
Core capital (%) (excl. hybrid capital)	14,7%	15,1%	16,1%	16,3%	15,8%	15,6%	14,9%	14,8%	14,9%	15,0%
Solvency ratio	21,4%	19,3%	21,0%	21,8%	23,8%	23,3%	22,6%	21,6%	21,2%	20,5%

COMPANY UPDATE

Multiples relating to the share	2013R	2014R	2015R	2016R	2017E	2018E	2019E	2020E	2021E	2022E
Pay-out ratio	28,4%	93,2%	61,0%	50,0%	46,7%	49,6%	49,9%	49,9%	49,9%	49,9%
Share buybacks (% of MV)	0,0%	0,0%	2,7%	4,3%	4,7%	4,7%	4,7%	2,8%	1,8%	1,1%
Total payment to shareholders	28,4%	93,2%	63,6%	54,3%	51,5%	54,4%	54,6%	52,7%	51,7%	51,0%
Dividend per share	2,0	3,6	8,0	10,1	10,0	11,0	11,8	12,2	12,7	13,3
EPS	7,1	3,7	12,9	20,5	21,1	21,1	21,7	22,5	23,1	23,7
EPS-growth	50,1%	-48,1%	250,4%	58,6%	3,0%	-0,1%	2,8%	6,7%	6,4%	5,1%
P/E	17,5	45,3	14,3	10,4	11,9	11,9	11,6	11,2	10,9	10,6
P/B	0,9	1,1	1,2	1,4	1,5	1,5	1,4	1,3	1,3	1,2
Share price at year-end (DKK)	124,4	167,4	185,2	214,2	224,9	236,2	248,0	260,4	273,4	287,0
Profitability and productivity	2013R	2014R	2015R	2016R	2017E	2018E	2019E	2020E	2021E	2022E
Return on equity before tax (ROE)	7,1%	5,3%	11,8%	16,8%	16,8%	16,7%	17,2%	17,1%	16,8%	16,3%
Return on equity after tax (ROE)	5,0%	2,6%	8,7%	13,2%	13,1%	12,9%	13,3%	13,2%	13,0%	12,6%
Costs/Income	59,9%	72,1%	60,9%	47,2%	47,1%	46,4%	45,8%	45,6%	45,4%	45,3%
Other issues	2013R	2014R	2015R	2016R	2017E	2018E	2019E	2020E	2021E	2022E
Full-time employees	19.122	18.603	19.049	19.438	19.146	18.764	18.764	18.951	19.141	19.332

Recent equity recommendation changes:

Date	20-01-2014	07-02-2014	22-07-2014	30-10-2015	03-02-2017	01-05-2017	13-06-2017
Recommendation	Buy	Strong buy	Buy	Strong buy	Buy	Strong buy	
Price at recommendation	130,10	135,30	155,30	186,50	238,10	248,00	249,70
Yield is including dividend payments for the period	4,00%	16,36%	23,92%	33,37%	8,05%	0,69%	
OMXC20CAP at recommendation	719,65	722,47	805,66	973,70	1059,40	1130,64	1156,56
Yield until next change of recommendation or today	0,39%	13,32%	23,36%	12,08%	8,45%	2,34%	
Relative performance compared to OMXC20CAP	3,59%	2,68%	0,45%	19,00%	-0,37%	-1,62%	
Analyst*	TE	TE	TE	TE	TE	TE	

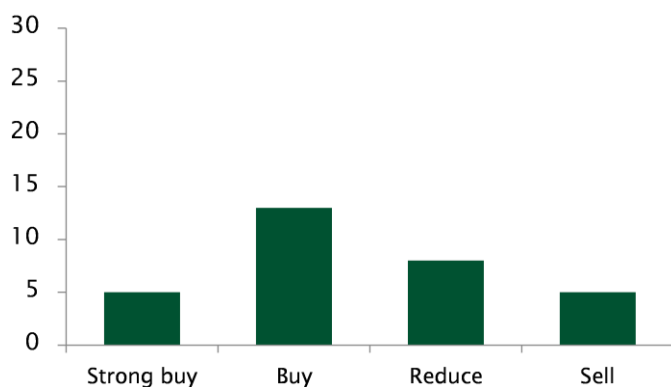
The tabled prices are the latest closing prices to publication of the recommendation. Source: Bloomberg.

*FH: Frans Høyer; FHA: Frank Hørring Andersen; JVK: Janne Vincent Kjær; TE: Thomas Eskildsen

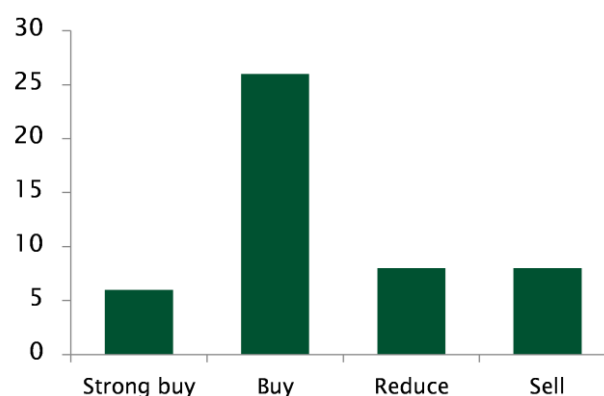


Jyske Bank's share recommendations - current allocation

Allocation of recommendations, Danish shares (number)



Allocation of recommendations, all shares (number)



Source: Jyske Bank

Important Investor Information

Jyske Bank is supervised by the Danish Financial Supervisory Authority (Finanstilsynet).

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This report is an investment research report.

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Company research reports have not been presented to the company prior to their release (unless otherwise stated).

Read more about Jyske Bank's policy on conflicts of interest at:

<https://jyskebank.com/m/en/products/investment/investinfo>

Models

Jyske Bank employs one or more of the following models:

- **Discounted cash flow model (DCF model):** In this model, the valuation of the company is based on the expected future free cash flows generated by the company's operations. The valuation is divided into a forecast period of ten years, an intermediate period, in which it is assumed that the company will be able to maintain its competitive advantage, and a terminal period. The value in the forecast period and in the intermediate period is calculated through a simple discounting of the free cash flows in the individual years with the relevant cost of capital, WACC. The value is calculated as:

$$\text{NPV of forecast period} = \sum_{t=0}^T \frac{FCF_{t+1}}{(1+WACC)^{t+1}} \quad (1)$$

where

FCF_{t+1} = The free cash flows in the period t+1 (both owners and lenders)

$WACC$ = The weighted average cost of capital (both owners and lenders)

EV = Estimated value (both equity and interest-bearing debt)

- **Dividend model:** In individual cases, a dividend model is employed to determine the company's fundamental value. According to this model, the value of a company is the discounted value of all expected future dividend payments.
- **Relative valuation:** The fundamental value is compared with a relative valuation where key figures like P/E, P/B and EV/EBITDA are compared with those of the rivals. If the company is a consolidated company consisting of different business areas, a *sum-of-the-parts valuation* can be used where the valuation of the company is based on the value of the individual business areas determined on the background of key figures from comparable companies.
- **Market sentiment:** The recommendation and the price target are moreover adjusted for the expected news flow and the market sentiment based on knowledge of the industry and company-specific circumstances. This includes the momentum score in the Jyske Quant model. The momentum score comprises factors like earnings momentum, implicit volatility, analysts' estimate changes and recommendation changes.

Read more about Jyske Quant here: www.jyskequant.dk

Recommendation concepts

Our recommendations are relative to the market development and are based on an evaluation of the forecast return within the next twelve months. The forecast return is the difference between the current price and our 12-month price target (the price target includes the expected dividend within the next twelve months). The equity market has historically yielded a return of around 10%, which is why we use 10% as an estimate for the market return in the next twelve months.

Since our recommendations are relative and risk-adjusted, it is possible to compare our recommendations across sectors and risk categories. In addition, the return potential is stated in absolute terms via our price target.

Updates on the recommendation are made regularly. A recommendation will be in force until changed – even if price increases have taken the price ‘too close’ to the price target. Accordingly, it is the recommendation which is the anchor and not the price target.

Recommendation	Risk-adjusted return
Strong buy	>20%
Buy	10-20%
Reduce	0-10%
Sell	<0%

Source: Jyske Bank

For further details about our recommendation concepts, please see our www.jyskebank.com/m/en/marketinfo/equities/recommendations.

Update of research report

The planned update of the research report will be prepared immediately upon the release of the company’s financial statements. Research reports may also be prepared on an ad-hoc basis. See the front page for the initial date of publication of the report.

All prices stated are the latest closing prices before the release of the report, unless otherwise stated.

Risk

Investment in this share is associated with risk. Movements in the equity market, the sector and/or news flows, etc. regarding the company may affect the price of the share. See the front page of the research report for our view of the risk associated with the share. The risk factors and/or sensitivity analyses stated in the research report are not to be considered all-encompassing. If the share is traded in a currency other than the investor’s base currency, the investor accepts an FX risk. In connection with an ADR or similar papers, the FX risk exists relative to the currency in which the underlying share trades.

Return and price development

The future and historical returns estimated in the research report are stated as returns before costs and tax-related circumstances since returns after costs and tax-related circumstances depend on a number of factors relating to individual client relations, custodian charges, volume of trade as well as market-, currency- and product-specific factors. It is not certain that an expected future return stated will accord with the actual development. The stated expected future returns exclusively express our best assessment.

Past performance and price development are not reliable indicators of future performance and price development. Returns and/or price development may be negative. Forecasts included in the research report are not secure indicators of future performance.

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