

Conference call speech

Annual Report 2008

February 5, 2009



Investor Relations

Danske Bank

CORPORATE PARTICIPANTS

Peter Straarup

Danske Bank - CEO

Tonny Thierry Andersen

Danske Bank - CFO

Martin Gottlob

Danske Bank - Head of Investor Relations

SPEECH

Peter Straarup - Danske Bank - CEO

Financial results for 2008

Thank you, operator.

Welcome, and thank you for taking the time to attend this presentation of Danske Bank's financial results for the full year of 2008.

At my side today are Chief Financial Officer Tonny Thierry Andersen and Head of Investor Relations Martin Gottlob.

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Agenda

I will begin with a brief summary of Danske Bank Group's financial performance. Then I will review the most important accounting items and comment on some key developments. Finally, I will present our rough guidance for 2009.

After the presentation, you will of course be able to ask us questions.

Please go to slide 3.

Key messages

The financial markets exhibited extraordinary turbulence in 2008, especially in the second half of the year. What started as a financial crisis turned into a serious deterioration of the global economy. The substantial declines in the stock markets, recessionary GDP figures, double-digit drops in house prices, and sagging industrial production are well-known indications of the magnitude of the crisis. Probably the worst crisis since the Great Depression.

The turmoil of course had a severely adverse effect on Danske Bank Group's 2008 results, and it also affects the outlook for 2009.

The negative market trends were particularly extreme in the fourth quarter. And in January 2009, it became clear that the accelerating crisis was more severe than we had expected. Therefore, in addition to making individual impairment charges, we decided to write down all the goodwill related to our Irish business and to increase our collective impairment charges. These two measures alone reduced the pre-tax profit by more than 6 billion kroner.

Despite this, our business model continued to demonstrate a robust earnings capacity. Our core business – classic retail banking – delivered strong growth in 2008. Since net interest income accounts for more than 60 per cent of total income, this represents the bulk of our business. The gains were driven mainly by lending growth and wider lending margins.

In fact, despite the extremely difficult market conditions, Danske Bank Group posted its highest-ever quarterly revenue in Q4 2008.

Our capital position remains solid. With a core tier 1 ratio of 9.2 per cent and a solvency ratio of 13 per cent, we are comfortably positioned in comparison with the European and Nordic averages. And after the recent credit package agreement in Denmark, we are proposing to shareholders at the coming AGM that we bolster our capital base even further through accepting a government funded recapitalisation.

Please go to slide 4.

Setting the macroeconomic scene

The sentiment surrounding us is changing fast, and the macroeconomic indicators are going from bad to worse. We have included this slide to show you the current state of the macro environment in which we are operating.

Whether you look at industrial production, export growth, consumer confidence, unemployment or other indicators – the trend is always pointing in a negative direction. And we expect GDP to contract in the nine countries where we do retail banking. There is no doubt that a tough year lies ahead.

Please go to slide 5.

Performance highlights

As I mentioned, we – like virtually every other bank – were of course profoundly affected by the market turmoil. Danske Bank Group's net profit fell heavily, to 1.0 billion kroner. This is not satisfactory even though the business environment was tough. These were primary drivers of the decline in our results:

- Loan impairment charges of more than 12 billion, including collective impairment charges of 3.3 billion

- Impairment of all goodwill relating to our Irish banking operation – a total of 2.9 billion
- Negative net income from our insurance business of minus 1.7 billion

The underlying earnings power of our banking activities, however, showed great resilience, as total revenues rose 5 per cent year on year. Given the situation in the markets, this is encouraging.

We intensified our cost management throughout the year, and excluding the commission for the Danish state guarantee and the goodwill impairment charges, expenses showed a modest increase of 2 per cent.

Let me just highlight a few points about 2008 before we move on:

- Net interest income was up 11 per cent
- Synergies are progressing according to plan at Sampo Bank
- We are seeing a substantial widening of lending spreads, particularly in Denmark
- Customer-driven trading revenues at Danske Markets are very strong

Please go to slide 6.

Net interest income up 11 per cent

Net interest income showed great resilience, rising 11 per cent over the 2007 level. The main reasons were reasonable lending growth and widening lending margins.

The amendment of IAS 39 in Q4 and our decision to reclassify certain assets had a positive effect, increasing net interest income by 0.3 billion.

On the other hand, the volatility of the financial markets and the deterioration of economic fundamentals increased margin pressure on deposits and increased our funding costs.

We see lending growth slowing as expected at all our business units because of the faltering economy and a tightening of our credit policy as we adapt to the tougher business climate.

Now let's move down one line in our accounts to net fee income.

Please go to slide 7.

Net fee income

Net fee income fell 12 per cent during the year. Our activity-based fees came in 20 per cent below the 2007 level owing to a sharp drop in investment fees, lower activity in general and a subdued housing market. Portfolio-based fees were 6 per cent lower as asset management fees and lending growth declined.

Now, moving on to the next line...

Please go to slide 8.

Net trading income

Net trading income was 18 per cent lower than in 2007 - which was satisfactory given the market conditions. In fact, if you look at the separate income lines, you will see that trading activities were actually up 67 per cent. This was owing mainly to strong customer-driven activity and favourable market-making conditions.

Prop trading and Group Treasury, however, were hit by unrealised losses of 4 billion as credit spreads on mortgage bonds and covered bonds widened. In our opinion, these unrealised losses were not caused by changes in the underlying credit quality. That being said, the losses were still disappointing, despite the market turmoil. As a consequence, we reorganised our prop trading activities and moved them to Group Treasury.

Because of large distortions in the pricing of many bonds, we decided to use the reclassification option, with effect as of October 1, 2008.

We reclassified bonds worth a total of 117 billion to available-for-sale. During the third quarter these bonds showed an unrealised loss of 1.9 billion. The amount has been charged directly to our equity and is partly offset by interest income from the bonds of 0.3 billion which was transferred to the net interest income line.

On the next slide, I will give you some granularity on why the losses in prop trading and Group Treasury were so high.

Please go to slide 9.

Bond portfolio

The composition of our bond portfolio was largely unchanged during 2008. Of the total amount of 423 billion, some 89 per cent is valued on the basis of quoted prices or other observable data, while the value of the remainder is calculated with pricing models.

The reason for the losses lies in the increasing spreads during 2008. Spreads continued to widen into the fourth quarter. But since the end of October, spreads in Denmark has narrowed considerably, whereas spreads in the other countries has been stable or widened further. The losses in Q4 were thus caused mainly by non-Danish covered bonds.

On this topic, I want to highlight that we have not invested in structured products.

Now let us move on to the trend in expenses.

Please go to slide 10.

Expenses

Total expenses increased 15 per cent. Excluding the guarantee commission payable to the Danish state and the goodwill impairment charges, however, the underlying expenses were up only 2 per cent, which was better than expected. Expenses for the state guarantee amounted to 0.6 billion.

Increasing costs because of wage and price inflation during the year were offset by realised synergies and lower-than-expected integration costs. Because of the general situation, we reduced bonus payments sharply throughout the organisation. And the executive management team agreed to forego bonuses for the year.

We continue to give cost management top priority as we streamline the Group for these new times. Today we announced a staff reduction of 350 positions in our head offices.

However, costs are influenced by goodwill impairments. The rapid deterioration of the Irish economy has led to the impairment of the full amount of goodwill related to National Irish Bank. In Norway, adverse development on the housing

market prompted an impairment of 0.1 billion of the goodwill related to our local real estate chain.

Please keep in mind that the impairment of this goodwill – and any future goodwill impairments that we might need to make – have no effect on our capital ratios because the goodwill has already been deducted from our capital base upon the acquisitions.

Please go to slide 11.

Loan impairment charges

At 12.1 billion, the level of loan impairment charges was much higher than forecasted. It reflects our response to the dramatic economic decline that is taking place worldwide, particularly the developments in the last months of 2008.

When the crisis became worse than expected in the fourth quarter, we decided to make collective impairment charges on vulnerable industries. These included property developers, contractors, transport companies, car manufacturers and international financial counterparties. The charges amounted to 3.3 billion and now stand at 4.7 billion, or 29 per cent of accumulated impairment charges.

On the next slide, I will show you a further breakdown of the loan impairments.

Please go to slide 12.

Breakdown of loan impairment charges

As you can see, the individual impairment charges concern mainly SMEs and our Danish banking activities. A provision of 300 million for the guarantee provided by the Danish state is also included in the individual impairments for Banking Activities Denmark.

Ireland accounts for a relatively large portion of the individual impairments, considering the size of the business unit in the Group. That is because of the serious deterioration of Ireland's economy throughout 2008. The fourth quarter was particularly severe, with a steep fall in GDP, declining house prices and rising unemployment. Until the autumn of 2008, National Irish Bank's financial results had matched the Group's expectations upon the acquisition in 2005.

Danske Markets accounted for a significant share of the collective impairments. As the financial crisis continued to

have a very negative effect on the markets in the fourth quarter, the Group wrote down 3.2 billion in loans to international financial counterparties. Some 2 billion of is collective impairment charges.

For a geographical breakdown of the impairment charges, please go to slide 13.

Loan impairment charges – geographical breakdown

The loan impairment ratio is highest in Ireland, Northern Ireland and the Baltics. To a large extent, the charges concern commercial properties, and within that segment, developers are the most important category.

Ireland continued to suffer from the recession, and in the fourth quarter, the Group recognised additional impairment charges of 1 billion related mainly to the property segment. The Group gradually tightened the credit policy in Ireland significantly, and reorganised the credit functions there as well.

In Denmark, Finland and Sweden the losses were more widely spread among SMEs. In Norway, the losses are mainly related to commercial property and to a lesser extend shipping.

Please go to slide 14.

Total credit exposure

As I mentioned, commercial property is one of the most vulnerable segments at the moment, especially in Ireland.

Our total exposure to commercial property is low, however, and most of the exposure in countries other than Ireland is not a big concern. While it was necessary to make some impairment charges in Denmark, our exposure here still looks reasonable.

The transportation and shipping industries both suffered from falling global demand and a sharp decline in freight rates over a very short period. Credit exposure to these industries was a modest 3 per cent of the Group's total exposure.

Impairment charges for personal customers remained low, and we see no signs of a rapid change.

For further details on our credit exposure please see our updated risk management report and the appendix to this presentation.

Please go to slide 15.

Liquidity

Despite the difficult market conditions, the Group met its targets for short-term liquidity, mainly through stable deposits and large liquid bond holdings, which can be used as collateral for loan facilities with central banks. By the end of 2008, the international debt markets became more accessible again, partly because of the government support packages.

Our liquidity position remains strong in the short term. Using Moody's methodology, including lack of access to the capital markets, we will have positive liquidity for around 6 months. We expect this to improve further as the Group gained access to short- and medium-term funding, by participating in the Danish state guarantee scheme.

Another reason for our relatively strong position is our access to the stable Danish mortgage market, and our issuance of covered bonds also improved liquidity during the year.

The curve shows that our short-term liquidity improved over the year. This is a safeguard for the Bank, but it also has a price, as funding costs have increased.

Please go to slide 16.

Funding

Danske Bank's strategy is to maintain a funding base that is well diversified across source types, geographical regions, and maturities in order to reduce our dependence on single markets and products as much as possible.

Our retail deposits play an important role in this regard. And as most of you know, all loans from Realkredit Danmark are match-funded through the triple-A-rated Danish mortgage finance system. Match-funding means that the Group has no refinancing or interest rate risk on the loans. Half of our total funding comes from deposits and Danish mortgages.

There has been much attention on the wholesale funding market, which was nearly frozen in periods of 2008, especially towards the end of the third quarter.

The state guarantee had a clear positive effect. Access to funding eased, but the maturity was limited by the guarantee period in the first package, which had been set to end on September 30, 2010. The new credit package, however, includes an extension of the guarantee. The extension does not apply to all debt, but we can buy a guarantee on individual bonds maturing until December 31, 2013. Access to medium-term funding will thus also ease.

Since the New Year, we have been able to issue new senior debt of more than 30 billion.

Please go to slide 17.

Credit package

Like many other European countries, the Danish state set up a safety net in the form of a state guarantee in order to maintain financial stability.

This package was supplemented by a credit package that was adopted on [February 3, 2009]. The latest scheme allows Danish credit institutions to apply for state loans in the form of hybrid core capital. After the annual general meeting has approved amendments to the articles of association, the Group will apply for a hybrid capital injection. The intention is for total hybrid capital to constitute up to 35 per cent of the core capital. Hybrid capital cannot be converted to equity if we keep it within this limit.

With the state guarantee for funding and the injection of hybrid capital, Danske Bank will have a strong foundation that can bring us safely through the challenging market conditions.

This brings me to our capital management.

Please go to slide 18.

Capital management

Our capital position remains solid. With a core (tier 1) capital ratio of 9.2 per cent and a solvency ratio of 13 per cent, we are well positioned in comparison with the European and Nordic averages. And as I just mentioned, we are proposing to shareholders at the coming AGM that we bolster our

capital base even further. Such a capital injection would raise the tier 1 ratio to 12 per cent and the solvency ratio to 16 per cent.

At the end of 2008, the Group determined that its old capital targets should no longer serve as the basis for solvency level management because we believe that higher minimum targets will be needed in response to the international financial crisis. We will revise the capital targets when conditions in the financial markets have been clarified.

Our risk-weighted assets were flat over the year, but increased 3.5 per cent from Q3 to Q4. When evaluating the increase, please remember the pro-cyclicality of the CRD/BaseI II framework. As some of you know, we use through-the-cycle estimates for the probability of default and downturn estimates for the loss given default and the conversion factor. This risk-parameter approach makes our risk-weighted assets less pro-cyclical than if we had used a mix of through-the-cycle and point-in-time estimates, as some of our peers do.

The main reason for the Q3 to Q4 growth was downgrading of individual customers. The sharp decline in rating was only partly offset by the pro-cyclicality.

Please go to slide 19.

Outlook

The financial turmoil and economic recession have led to more difficult earnings conditions for the financial sector. The regulatory adjustments in the wake of the crisis will entail significant changes for the financial industry, with an emphasis on increasing resilience. De-leveraging, de-risking and improving liquidity management are vital themes. But we will also continue to improve product features in order to make Danske Bank the preferred financial provider for our customers.

The gravity of the financial and economic crisis makes it more difficult than ever to provide guidance on our financial performance in the year ahead, but let me try to put some colour on our expectations for 2009.

Even though Denmark and the other Nordic countries are starting from a position of strength relative to most countries - with a solid current account surplus, low public debt and low unemployment - there is no doubt that a tough year lies

ahead. We expect GDP to contract in all nine of the countries where we do retail banking. We therefore expect loan impairment charges to remain high.

The costs relating to the Danish state guarantee scheme also reduce the Group's earnings guidance for 2009.

The performance of market-related activities - in Danske Markets, Danske Capital and Danica Pension - will depend greatly on trends in the financial markets, including the level of securities prices at the end of the year.

This brings me to the last slide of my presentation - our key challenges.

Please go to slide 20.

Key challenges

We believe that Danske Bank will continue to deliver robust results as we adapt to the economic challenges by focusing on the following:

- Our core business and servicing our existing customer base
- Maintaining our income stream by continuing to widen lending margins
- Tight cost control, including a staff reduction of 350 positions in head offices and further synergies in Finland
- Restructuring and centralising credit management in Ireland
- Strict lending criteria
- A reduction of non-lending assets on the balance sheet
- Improving liquidity through the extension of the state guarantee
- Strengthening solvency with new hybrid capital

That concludes our presentation. I wish to thank you for your attention.

Please go to slide 21.

Q&A session

I will now turn the discussion over to you and the many good questions I am sure you have collected during the presentation.

If you are listening to the conference call via our Web site, you are also welcome to ask questions by e-mail.

Please operator, we are ready for the Q&A session.

Jakob Brink - Handelsbanken

Yes, I have three questions, the first one regards the credit quality. Can you just tell me are any of the individual or the collective impairments you're doing in the fourth quarter on private individuals or are they all on corporates and SMEs? A second one on the credit risk: The 2 billion collective impairments you do in Danske markets, is that also related to the Danish first bank package? Any potential losses on that? The second question I have is on risk migration. You say you're using a mild scenario assumption in your CRD, what would the impact on risk-weighted assets be if you would go into a serious recession defined, as you defined it in your risk book? The third one is I believe I heard that, you, Peter Straarup, mentioned that there was more to come on the cost cutting in 2009, are you in any negotiations with unions or if so to cut costs in these different business units? Thank you.

Peter Straarup - Danske Bank - CEO

First on the credit quality, there are none of the general unallocated charges that are related to personal. They're all related to SMEs.

On the impairment charges, unallocated as far as financials are concerned, that relates to the non-Danish international, so this does not cover anything that might crop up in the Danish environment.

I'll take the third question also, cost cutting, where you refer to statements made today. It is true of course that we have reduced staff by 350. We also have an ambition to bring down the staff count further during this year. Presently, we are of the opinion that it can be handled through natural attrition and we do have quite a good turnover. We do also have people that go on pension that makes that liable. Should that not be the case, we'll have to look at it. We are not, as

you inquire, having any negotiations with unions about staff reductions at this point in time.

Tonny T. Andersen - Danske Bank - CFO

On the capital side, Jakob, we're using through-the-cycle perimeters on PDs and downturn LGD and that means that pro-cyclicality in a tough recession is difficult to give a precise number but that could on risk-weighted assets be 10/15%. I think if you use point in time methodology, that number could easily be 30/40%. So by using the through-the-cycle, we dampen the otherwise pro-cyclicality on the risk-weighted side, and the methodology we are using is exactly what the Bank of England two or three weeks ago announced that they are asking the U.K. banks to use also.

Jakob Brink - Handelsbanken

Thanks

Simon Christensen - SEB Enskilda

Yes, good afternoon. Simon from Enskilda at Copenhagen. On the loan loss ratios going forward, now you have put this I think it's 173 bp loan loss ratio in the fourth quarter and collective reasoning of that is roughly 60 pbs, so this leaves us with roughly 110 bps in individual. I see some comments regarding that you think Q4 has been an extraordinary quarter, but the January bankruptcies in Denmark is above 400. Should we consider this individual loan loss ratio of roughly 110 bps as some kind of run rate for 2009? In terms of collective provisioning, what do you think is a reasonable level to work with for 2009? Is this it or given that your GDP assumption maybe turn out to be correct, are we there in terms of collective provisioning? That was a long question. I have a small one more. On the net interest income, are there any affects from, you say there are 300 million from reclassifying to available sale in your trading portfolio, but also maybe that could be some kind of positive effect from delaying rate cuts compared to the central banks, i.e. that would be let's say a one-off in the fourth quarter. That was it.

Peter Straarup - Danske Bank - CEO

As far as the run rate in the Danish franchise, it's really not possible just to give you a firm answer on that. I think that the fourth quarter was extraordinarily destructive and also the declines, the percentage declines down were I say almost scary. In addition to that, there was also a large destruction in financial assets and there was some financial assets also

that cost us to have loan losses because customers simply could not be unwound in their positions because of the speed with which it went down. So I would consider that to be not expected level going forward. Could there be one or two quarters where we came out to that level and about? Yes, absolutely, but we do expect it to be extraordinary, so you cannot multiple the fourth quarter by four.

Tonny T. Andersen – Danske Bank – CFO

On the net interest income, it's true that there could be some delaying impact. I also think when you look at the quarterly net interest income; keep in mind that the rate hikes were in October and November, so I will say that you haven't seen the full impact of the quarter on the lending margins. If I look at lending margins end of December in Denmark versus the average for the quarter, they are obviously higher in December. So it shows that we have a good basis moving into 2009 on the net interest income. Obviously, the rate reductions from central banks all over the world will hurt a little bit on deposit margins, but that's why we are focusing so sternly on the lending margins.

Simon Christensen – SEB Enskilda

Thank you. On the collective provisioning, I think my question goes more in terms of you have changed your GDP assumptions quite rapidly from October to January. My question is: Are we there yet in terms of collective provisioning, or should we expect perhaps it to pop up in a quarter or two again if your GDP growth assumption turns out to be let's say a bit on the positive side?

Peter Straarup – Danske Bank – CEO

It's not structured that firmly correlated to GDP growth or decline, so I can't answer that question.

Simon Christensen – SEB Enskilda

Okay, thank you.

Per Löfgren – Morgan Stanley

Yes, thank you very much. I have a question here, and this relates to: I was looking in the balance sheet and it looks like your loan book is flat quarter-over-quarter, actually it's decreasing a little bit. I just want to hear your view on this. Are you deliberately managing down your loan book, or is it any other structural effect going on from this quarter compared to the last one? I also want to hear your view on this: Going forward, is it possible to manage down your loan

book given that you plan to take on government hybrids? That's the question.

Tonny T. Andersen – Danske Bank – CFO

Okay, Per, I think the key reasons for loans coming down is the currency impact because if you translate the loans we have had in Sweden, Norway, and in Northern Ireland with a lower currency rate, that is the reason for the decline. I think when I look at the last two or three months, it's definitely a sign that the economic situation means that the demand for loans by itself are quite modest in many of the markets. I think that the credit package in hybrid that has now been allowed for the banking sector will give a little bit more space to facilitate lending, but it doesn't mean that a poor quality client now suddenly becomes a good credit quality, so I think there's still the credit elements inside this one. It's difficult to reduce the loan book by itself. I think where we will look at our balance sheet side is through the trading portfolio assets. That is where you would see that we will work on shrinking that during the year so our total balance sheet comes down during 2009.

Peter Straarup – Danske Bank – CEO

It's important to note that the credit package does not give us any quantitative obligations to expand the loan book with a certain percentage or anything like that.

Per Löfgren – Morgan Stanley

All right. Thank you.

Johan Ekblom – Merrill Lynch

Hi. It's Johan Ekblom from Merrill Lynch. Just two quick questions: First of all, when did you reclassify your assets from the trading book to AFS? Did that have any capital impact; and if so, how much? Secondly, you mentioned a couple of times now that you're looking to shrink your overall balance sheet by reducing your trading book asset. Can you give us any indication of either how many assets you think you can get rid of during 2009 or some indication of what you're targeting in terms of the leverage ratio?

Tonny T. Andersen – Danske Bank – CFO

If you look at the trading book, I think I don't want to be too specific. My point is that I think it should be conceivable to reduce it by maybe 5-7%. For netting, collateral, and also shrinking, we should be able to do so. We're not talking any specific leverage ratio, because I think it's quite difficult how

you would compute it, depending on regimes, but you will see the balance sheet coming down on that.

On "Available for sale", the impact is that it's 1.9 billion is deducted in our shareholders' equity. You can see the reclassification we did in October in the notes.

Martin Gottlob – Danske Bank – Head of IR

But the actual reclassification, which took place with impact from 1st of October, has no impact on capital. So the 1.9 is the mark-to-market change throughout the fourth quarter.

Johan Ekblom – Merrill Lynch

Yeah, and that's all deducted out of Tier 1?

Tonny T. Andersen – Danske Bank – CFO

Yep.

Martin Gottlob – Danske Bank – Head of IR

Yes.

Tonny T. Andersen – Danske Bank – CFO

There's no hold to maturity funky in this one here.

Johan Ekblom – Merrill Lynch

Okay, thank you very much.

Claus Hejmark – ABG

Yes, good afternoon. Just a couple of questions: First of all with now that you take on this hybrid capital and given that you also guide in your report that you expect interest rate decreases of 100 basis points, do you expect to be able to carry or to pass on the full interest cost of this hybrid capital into your lending margins? That was question number one. Question number two is a more hypothetical question and that is: Now with these new capital rules that allow the hybrid capital to increase up to 50% of your equity or of your core capital, but it isn't a loss bearing. So given hypothetically speaking that you start booking a net loss it starts eating into equity, what are your thoughts on equity? How comfortable do you feel in letting your equity be reduced in this new scenario or would you be looking to increase your equity if you see that you are heading towards a negative net profit? Thank you.

Peter Straarup – Danske Bank – CEO

Well there are two questions. One is: Will we be able to take the hybrid capital and take the expenditure of that and pass it on to the customers? There are a number of items on the liability side which have increased our funding costs in addition to this hybrid capital and the lower gearing which that results in this, obviously also the extra cost related to more costly financial markets in general. We are doing our utmost to try to widen interest margins. I would not think it possible to take this new hybrid in 2009, pass on the full amount, but no doubt it will become more expensive for bank customers in general and we are trying to increase it also. But I wouldn't think we will be able to pass the full amount.

You're asking about our thoughts about a possible future situation where we might see credit losses and the developments in general eat into our core capital before hybrids. I can really not answer that, but I think with the widening of lending margins that we are seeing, the capacity of the company to take credit losses is quite high just out of the profits that we make before impairment charges. There's still ample room to take losses on the old fashioned core Tier 1. If we were starting to reach a situation, then we would have to look at it and we'll have to look at it in the framework of the capital markets at this point in time, but it's not possible to make prognosis on that.

Claus Hejmark – ABG

But can you maybe then elaborate on what advantage the equity investors will have in this hybrid capital? I mean it probably won't give you cheaper funding as much of your funding is state guaranteed anyway. So won't this just be an interest burden that you can't pass on to customers and it still won't change the fact that if you get large losses, so you will need equity?

Peter Straarup – Danske Bank – CEO

No, that's not true. It widens the distance between necessary capital and the total solvency. That means that the company has a much more ample position moving forward. So for that reason, this is also protecting shareholders' funds.

Claus Hejmark – ABG

Okay, thank you.

Aaron Ibbotson - Goldman Sachs

Hi there. I've got a couple of questions, some have been partly answered. But first of all, my question relates to your stress test on loan losses. We touched it on before, but you have a GDP growth forecasting a severe recession of 2.3% negative and unemployment at 8.5%. This is more than twice as bad as your current 2009 forecast and indeed the consensus forecast, yet you seem to suggest that your loan losses will be sort of in line and you've reported above that level. I just wanted to know if you feel that there's a need to revise your stress test or what exactly this stress test is supposed to tell us because with a much more favourable economic environment, it's still seems like loan losses are coming in at or above the level of your severe recession. That's my first question. My second question relates to NPLs on commercial real estate that you highlight on Slide 23. It seems like about half of your total NPLs in commercial real estate currently at around 7.5%, and I was a bit surprised about how high they were in relation to the construction which was lower. Then my final question relates to, and apologies if you have communicated this, what is the total cost of the hybrid you intend to use in Danish kroner, and what type of risk free or whatever, however you plan to put it to work, would you expect it to achieve from it? That's all. Many thanks.

Tonny T. Andersen - Danske Bank - CFO

This is Tonny on the stress testing. If you look at the scenarios we're doing that are based on last 15 years of history in terms of the GDP and the unemployment rate and property prices, and I think what you have seen in 2008 is the unprecedented nature of this crisis and I guess that to stress test in one in 25 years gives you a certain result. If you're going to do stress testing in one in 100 years, i.e. you're going to a much larger degree on the tail risk, that would imply higher loan losses. The stress testing here are compliant with what you also see in the U.K. FSA, the one in 25. We also have other sort of more apocalyptic scenarios where you assume one in 100 years and that would obviously give a higher loan losses than whatever you can see in these scenarios. When you look at the key assumptions, it's property prices down 19%, and when you look at the bulk of our losses, you take Ireland, you take some of the generic provision we've made, I think if you exclude the generic provisioning we've been doing, then I don't think we're far off from the severe recession that we've done here. But I think the good question is whether this situation we see right now

is something that goes beyond the 1 in 25 that we have been looking at in sort of when you do modelling, and I think that is something all banks need to reassess whether the stress testing has been severe enough, whether it's going to be on credit risk, whether it's been on market risk.

Aaron Ibbotson - Goldman Sachs

Sorry. Is it okay if I just clarify because if we look at GDP forecast, unemployment, property prices, and we look at the weighted average of your geographies, I guess we're not really looking at one in 100? For most countries, it still look better than the 90s if we look at the Nordic countries for sure, which is sort of the absolute majority of your book. So basically what I'm trying to allude to then is it fair to say that your required units would've had an underwriting standard that you sort have found now is unexpectedly aggressive or something? I'm trying to square this because neither house prices, GDP, or unemployment has any indication currently that they're running above the 90s, which I guess is if you want to use the one in 25?

Tonny T. Andersen - Danske Bank - CFO

The best data we have is on the Danish franchise, obviously on the mortgage side and on the general property side in Denmark. In Ireland, the data doesn't go back that many years so obviously there's more uncertainty attached to this, the ratios in Ireland and in the Baltics for that matter. I think that is a fair observation going back on this one here. I think when you look at this data here, probably the most relevant would be the property prices and also the otherwise declining asset prices you've seen putting pressure on financial institutions, putting pressure on commercial property, more than the unemployment rate per se. I don't know whether that answered your question, but I think it's fair to say, we all need to reassess whether the stress testing has been severe enough with the things we've been doing.

Aaron Ibbotson - Goldman Sachs

Okay.

Martin Gottlob - Danske Bank - Head of IR

Just a comment on your question about the cost of the hybrids. Assuming that we will get the 26 billion and we pay 9% of that and we probably will get some risk free return of 4%, then the cost would be 5% and that would equal 1.3 billion on an annual basis before tax and roughly 1 billion after tax. We will probably get this money sometimes in the

second quarter we expect and of course there will not be full impact for this in 2009.

Aaron Ibbotson – Goldman Sachs

And the government guarantee you will pay until 2013, is that correct to assume, the it's 600 a quarter?

Martin Gottlob – Danske Bank – Head of IR

The 625 for the state guarantee will run until the end of Q3 2010.

Aaron Ibbotson – Goldman Sachs

Okay.

Martin Gottlob – Danske Bank – Head of IR

After that we can issue new loans where we can attach the state guarantee and then we will pay for a guarantee on that on market prices.

Aaron Ibbotson – Goldman Sachs

Then commercial real estate on Slide 23?

Martin Gottlob – Danske Bank – Head of IR

What was your question?

Aaron Ibbotson – Goldman Sachs

Well basically what I'm trying to understand here is, it seems to me that the actual commercial property is the one that has deteriorated whereas in other cases, particularly in Ireland, U.K. but also other parts, it has been construction and to some degree developers that have seen this sharpest deterioration, but you seem to have had a huge uptick in NPLs in sort of pure commercial properties. I just wanted to know where you have seen this, if it is for instance again in Northern Ireland where you have an overweight?

Tonny T. Andersen – Danske Bank – CFO

Yep, and to a very modest degree in Denmark. So it's Ireland and Northern Ireland and not particularly Denmark, Sweden, or Norway.

Aaron Ibbotson – Goldman Sachs

Okay.

Martin Gottlob – Danske Bank – Head of IR

But within commercial property it's developers.

Aaron Ibbotson – Goldman Sachs

Yeah, you got developers in there, but, I mean, looking at the numbers, I assume you don't have 50% NPLs and developers, so it must be quite a large degree in commercial properties.

Martin Gottlob – Danske Bank – Head of IR

Well you can say that for instance in Ireland a very big part of the provisions we have made up there is two developers.

Aaron Ibbotson – Goldman Sachs

Okay. Thank you.

Haakon Boenes – Pareto

Yes, hi. I have two questions. The first question is really on the maturity mismatch on your balance sheet right now and how that is compared to earlier and to what extent that has affected your net interest income, if you can say anything to try and quantify that effect in any way. The other question I have was also in relation to the Danish credit package, and I understand that your lending policies are going to be subject to a review twice a year, and I was just wondering if you have any idea what sanctions or how that review process would work and what sanctions you might be subject to if there is disagreement?

Tonny T. Andersen – Danske Bank – CFO

On the loan book, if you take the question on the mismatch, obviously our Danish mortgage book is perfectly match funded 100%. That's required by law. That's more than 600 billion. For the rest of it, you have seen, that also with the state guarantee and the new banking package that you would see that the mismatch would be reduced further than we have seen. And I think by the end of January close to 40% of the funding need for this year is already in place.

Peter Straarup – Danske Bank – CEO

On the credit package, there is an obligation to communicate developments in your lending. There is no obligation to have a certain percentage of growth and there are no penalties attached to this credit package, so it is a communication obligation and that's it. Obviously we will communicate what happens in our markets and also the reason for any development.

Haakon Boenes – Pareto

I understand the communication part, but I guess the politicians want to be informed in order to have an opinion of whether you are doing your, I should say, fulfilling the moral part of the contract.

Peter Straarup – Danske Bank – CEO

We expect to fulfil the moral part of the contract. The communication is precisely that. It's precisely what's going to make it possible also for politician but the world at large to see what the developments are. So you could say the only penalty there is in it is public shaming, if you do not live up to the intentions of the credit package. Now our ambition is obviously to live up to the intentions of the credit package, also so our customers are helped with the credits that they require, but with a cautious risk profile which is required in any recession.

Haakon Boenes – Pareto

Okay. Thank you. Just on the maturity portion, I guess I was trying to get at whether your maturity structure on your liability side, now that average maturity is shorter than it's been in the past, has in itself had a positive effect to net interest income.

Tonny T. Andersen – Danske Bank – CFO

No, no.

Haakon Boenes – Pareto

Okay.

Ronit Ghose – Citi

Yeah, thanks. It's Ronit from Citi. Just a couple of questions: First of all, provisions, can I go back to the Slide 12 on your comments on the collective impairments in Danske Markets is that about 2 billion was for international financial counterparties of generic provisions and I'm still wondering if there's any further colour you could give in terms of: Are these bank counterparties? Are these non-bank counterparties? I'm surprised that you've taken such an amount in the fourth quarter. Secondly, on bad debt and NPLs in the balance sheet, you...I mean obviously quarter-on-quarter has seen a very large jump in your bad debt ratios and I hear what you said about the fourth quarter, but I'm just wondering in terms as you look ahead, is there any guidance you can give us; and obviously you don't know where bad

debts are going in absolute terms, what kind of coverage ratios you'd be comfortable with in terms of stock of provisions in the balance sheet relative to bad debt? My third question is on net interest income. When I look at the Danish business, which had a very strong Q4 NII due to loan re-pricing. Previously you've guided, if I remember correctly, something like every 50 basis point rate cut takes off what 350/400 of NII before you re-price? I was just wondering if there's any guidance you can give. I don't know if you updated that guidance and I missed it. Given that we're expecting Danish interest rates to come down this year, how do you see that?

Peter Straarup – Danske Bank – CEO

On the first one, banks and financials, it's both, and we don't have it specified beyond that.

Tonny T. Andersen – Danske Bank – CFO

On the net interest income, then the current status on the sensitivity for 25 basis points is around 400 Danish million, but I think that is one of the things where we have exerted a high degree of management intervention during '08 on checking up the lending margins whenever we had the possibility to do so.

Was that it, Ronit? Did you have a question more?

Ronit Ghose – Citi

Yeah, on the bad debts, I was saying that given the strong increase in the fourth quarter, if there's any comments on where the ratio is going and PL ratios, any colour you can give us and what level of coverage you feel comfortable with, i.e., loan loss provisions on the balance sheet versus the bad debt, just to get an idea of how high your P&L provisions could go. I mean clearly you've guided in the past in conversations of 30 to 60 basis points in a regular downturn though we're clearly beyond the regular downturns. I'm trying to get a sense of what kind of P&L provisions you assume.

Tonny T. Andersen – Danske Bank – CFO

That is difficult to say, Ronit, because that really depends on how the real economy is going to develop. Four months ago, many of us thought that fourth quarter would be different than it actually turned out to be and nobody maybe expected Lehman Brothers to go bust, so it's difficult to do any guessing of any quantitative standard here I think.

Ronit Ghose – Citi

Would you feel comfortable with your coverage ratio materially declining from the current level?

Tonny T. Andersen – Danske Bank – CFO

Probably not, not materially, but I also think that with the coverage ratio, be careful what is entailed because you can have a lot of provisioning that are really lost that gives you high coverage ratio, when you're going to have low provisioning because you... So I'd be careful on that ratio, but we'll probably not see that deteriorate significantly.

Ronit Ghose – Citi

Right, the current like 50% is where it's going to be.

Tonny T. Andersen – Danske Bank – CFO

You asked me the question if would I feel comfortable if it deteriorated significantly, and that's what I answered.

Ronit Ghose – Citi

Thank you for your time. Thank you.

Martin Gottlob – Danske Bank – Head of IR

Can I just add? You also have to look at the collateral we have and you can see that in our risk report. But also on the NPLs we have quite a substantial amount of collateral and that will impact the coverage ratio. In most areas, we have around 60-70% collateral.

Jan Wolter – Deutsche Bank

Yes, good afternoon. Jan with Deutsche. Can you hear me okay?

Tonny T. Andersen – Danske Bank – CFO

Yep.

Jan Wolter – Deutsche Bank

Hi. I have a couple of questions on the credit losses, if I may. The first one, if you could put some colour on that collective reserve. I guess it was 2 billion in Q4 Danske markets. I understand you're saying in the presentation that it has something to do with facilities to international financial counterparties. That's my first question.

Peter Straarup – Danske Bank – CEO

Well since it's unallocated, it's very complicated to give additional colour on it.

Jan Wolter – Deutsche Bank

Yeah.

Peter Straarup – Danske Bank – CEO

I suppose our observation is that asset prices have been, if you like, hammering around, and it's been very difficult to see the effects. You would expect some counterparties to face some difficulties for sure, and without knowing full details about the full damage of what had happened in 2008 fourth quarter, we found it pertinent to make a reserve here, but it's not allocated to any specific areas.

Jan Wolter – Deutsche Bank

Okay. Thanks for that, anyway. Then there was a loss I guess on this Danish IT company which you took this quarter, is that correct, and how much was it?

Peter Straarup – Danske Bank – CEO

It's about 350 million kroner.

Jan Wolter – Deutsche Bank

Okay, sorry, gross, yeah, okay. The credit loss in Ireland, if I look at the full year, it is 1.7 billion and I wonder is it fair to say that sort of 90% of that loss has been realised and you have main collective reserves, I understand, as well in the developer and construction, building material segment, that part of the book which is roughly 13 billion.

Peter Straarup – Danske Bank – CEO

Pretty much.

Jan Wolter – Deutsche Bank

Pretty much, okay, so almost nothing in commercial property?

Martin Gottlob – Danske Bank – Head of IR

Well included in commercial property is developers.

Tonny T. Andersen – Danske Bank – CFO

Exactly.

Peter Straarup – Danske Bank - CEO

So this is a combined.

Martin Gottlob – Danske Bank – Head of IR

So it's included in commercial property.

Jan Wolter – Deutsche Bank

Okay, so it's those 1.7 basically on a volume of 16 then billion which is the commercial property developer and construction in Ireland? Is that correct?

Peter Straarup – Danske Bank - CEO

Yes.

Jan Wolter – Deutsche Bank

Okay. Then the last question if you could give some colour on Finland here, where you have roughly 90 bp loss in Q4. What sort of industries are you afraid of there or where do you have specific losses?

Tonny T. Andersen – Danske Bank – CFO

I think in Finland the reflection of what's going on in the economies obviously is quite export related and adjacent to the Russian border and I think that export related industries may face some more issues. I think also on the consumer side, maybe some property. It looks like so far the Finnish economy have held up better than many of the other economies and it's also the country in Europe with the lowest public debt to GDP, but it's fair to say that our assumption is it could also be a little bit slower here in 2009 and we have seen that for the last couple of months, it has impacted in the real economy. They haven't had the same housing bubble as you've seen in all the countries in Europe and in the Nordics on the private side.

Jan Wolter – Deutsche Bank

Okay, thanks a lot. Yeah, those were my questions.

Andreas Håkansson – UBS

Yes, hi. Big apologies if I am asking the same question has already been answered. I came in very late on the call. First one: On the 26 billion hybrid, could you tell us just the structure of how loss absorbent they are basically if they passu with the common equity? Second question: On the guarantee fee from the first banking package, we know that

the environment is deteriorating in Denmark like in other countries of course. Should 2.5 be the minimum, I guess 5.5 per annum is the maximum. What's the most likely in your view at the moment? Then, you don't give any real outlook anymore of course but when I read point 13 on Page 3 of your report, you talked about that you can't avoid losses here and there, recession and so on. Could you tell us, is this that you expect losses in a Group level and that's why you need capital to absorb that, or could you just explain the word in there a little bit. Thank you.

Peter Straarup – Danske Bank - CEO

The hybrid is core Tier 1 and increases the core Tier 1. If you start taking losses, the hybrid is after traditional capital. On the guarantee side, which is what we call Banking Package One, we have an obligation to pay a fee of 2.5 and it's true that then there is a loss sharing obligation divided into two tranches. The first tranche is of 10 billion kroner, then comes a 15 billion kroner tranche that the government has to pay out of the guarantee commission it gets from all banks and then at the end of that an additional 10 billion kroner tranche which the banks are sharing. Now this means that in a bad run, Danske Bank's total loss on this, including the charges we are paying could be 11 billion, which includes the 2.5. Now I would think, and I think most observers agree with that, that the Credit Package, which also includes capital transfer to banks that might perhaps be close to the solvency, will reduce the joint liability because the government is participating and recapitalising the banks, so we do not expect the bottom half of it to come into question. How much there will be in addition to 2.5 expensed in this year and how many banks will go bust? It's a difficult question and I can't answer it, but we are at risk for it. But again, also the first tranche might actually be a little less cumbersome because of the recapitalisation. But it's only something we can start charging each time a bank has gone under.

Tonny T. Andersen – Danske Bank – CFO

I didn't understand the other one, Andreas. Which page was that you read the bullet point?

Andreas Håkansson – UBS

Just on Page 3 of your report today, you have a number of bullet points on the overview.

Tonny T. Andersen – Danske Bank – CFO

Yeah.

Andreas Håkansson - UBS

Just to understand when you talk about the hybrids just after it says, Danish kroner 26 billion and it says that you wanted the strength of the capital base to absorb or whatever you say about losses that will occur in coming recession.

Tonny T. Andersen - Danske Bank - CFO

Yeah, that is related to the loan losses line. When you have a recession the loan loss line obviously would be higher than if you have a steady economy.

Andreas Håkansson - UBS

But you're not talking about losses at a Group level?

Tonny T. Andersen - Danske Bank - CFO

No.

Andreas Håkansson - UBS

So just then following up on your first question, since the hybrid capital is seen to your common shareholders. I mean we saw SEB today going out asking for common equity, could you just reason with us why that hasn't been your solution, so why do you taking equity or capital at senior to your common shareholders today?

Peter Straarup - Danske Bank - CEO

Well I think we avoid a cash call on our shareholders. I think the dilution at these levels is quite low and I also hope that once we get out on the other side, this is something that the bank can repay or in other ways handle, so that's the reason for that. Our opinion is also that the capital markets in general are very precarious and the rights issues that have been made by a number of banks of course also have been complicated to put through. So for that reason, I think our choice here is the best one for Danske Bank.

Tonny T. Andersen - Danske Bank - CFO

Also I may add that if you look at our point of departure from the capital side comparing to our peers, it's important to note that in the Danish FSA we deduct our insurance earnings in a Tier 1 ratio. I think if you do that for the Swedish peers, you will see that the Danish banks would have a relatively stronger capital position as a point of departure. So I think you got to look at what is your point of departure in terms of your capital base and your business mix and your earnings

volatility and when we do that, we think that hybrid is the right vehicle to bolster the capital position.

Andreas Håkansson - UBS

Thank you.

Christian Hede - Jyske Bank

Yes, good afternoon. This is Christian Hede from Jyske Bank. I have one question left, which is quite specific which is relating to the Danish credit package. You indicate that you expect to take up the hybrid capital loan in Q2 this year and therefore, I assume that you're not going to use the option to wait until the end of the year to get the capital injection. Could you give me flavour of the thoughts behind not waiting and therefore not having the extra cost in 2009? Thank you.

Tonny T. Andersen - Danske Bank - CFO

Well I think this opportunity is up right here. We are standing in a recession and we don't know what the outcome will be, and we want to replenish so we get a Tier 1 capital at 12% and leave that behind us, so that we have unquestionable strong capital position. That's the reason.

Christian Hede - Jyske Bank

But could you have that unquestionable strong capital position at the end of the year?

Tonny T. Andersen - Danske Bank - CFO

Yeah.

Peter Straarup - Danske Bank - CEO

Well I think also in terms of rating bureau consideration, it doesn't start counting until you've gotten it in.

Christian Hede - Jyske Bank

Thank you very much.

Fridtjof Berents - Arctic Securities

Good afternoon. I have got two questions. The first one is more hypothetical maybe. I've been reading in the newspapers that there might be new referendum regarding the Euro and I wonder if you can just give me some brief updates on how it would affect Denmark if you went into the Eurozone, or Danske Bank first of all? The second question is more related to the shipping exposure which you reveal on page 23 which is a cost of 48 billion. Sorry if I've then missed

it, but have you ever specified how much is dry bulk container and so on?

Peter Straarup – Danske Bank – CEO

No. On the last one, no. We have never specified that. As far as the referendum on the Euro is concerned, I don't think you should expect that to take place this year. It's possible that it takes place next year provided the political parties at parliament agree to it, on a, I suppose, broad basis. Danske Bank is supporting the Euro. It will change some of our funding activities because we then get into a larger currency area. Of course we will lose a little exchange rate conversion commission. That is immaterial, also because there's a fixed relationship between Danish kroner and the Euro, a fixed relationship that everybody believes in, so there's no hedging on that. But our funding, we believe would be better. In addition to that, this will reduce interest rates in Denmark in general because we have higher, and over a period we have had somewhat higher, interest rates than the Euro area, which of course, will not be the case any longer, so that's going to be good for the Danish economy. In addition to that, the government's ability to do fiscal measures will increase, because the currency is not an issue any longer. So, we vote for the Euro if we're asked to go to the polls.

Fridtjof Berents – Arctic Securities

Okay. Thank you.

Simon Christensen – SEB Enskilda

Yes, just a follow-up. Now I can see that because of rating class migration, your RWA has increased by I think it's roughly 50 billion or so, and then you stated earlier Tonny that if we move, let's say, to a severe recessionary environment, then we could see risk-weighted assets move up by 10-15%. But if we take the level today and let's say that we enter a harsh loan loss environment, and let's say you provide us with a nil result for 2009, then with a increase or a swelling of a risk-weighted assets of let's say 15%, you would operate at a Tier 1 ratio, excluding hybrid capital, of 6.5%. I mean is that a level that you are comfortable with?

Tonny T. Andersen – Danske Bank – CFO

Well I think you got to keep a couple things in mind. One, when you have a recession, then the underlying loan will be low, probably shrinking by itself. That you can see in the system. On top of that, when you make provisioning on a loan, then obviously you deduct that from what kind of capital it is

consuming so if you make let's say 10 billion of provision and that reduces by itself the risk-weighted asset consumption here. I agree with you that if you have prolonged time of deficits on high loan losses that deplete the capital, then you come down in capital base. What is the right level? That's a good question. I think the U.K. FSA is out saying that for the U.K. banks a Tier 1 ratio around 6-7% at peak recession is what they are aiming at giving the current capitalisation, and so it's different from country to country. I think there is a recommendation that banks will have a capital that can be depleted if necessary. I think there's also the element on management intervention where you can work with your balance sheet in order to mitigate the impact of risk-weighted assets and finally also on your revenue and cost side so the net/net impact may not be as bad as you otherwise would come into. But it's a fair point and I think it is the real test on the pro-cyclicality of the new Basel II framework how that will pan out.

Martin Gottlob – Danske Bank – Head of IR

Can I just add one thing, and that is that if you look at the numbers, we have said that the downgrading of our customers has cost us around this 40 billion. We should have added that it also includes deteriorating asset value, because some other collateral has gone down in value, that's also in the impact in Q4. Also, I'd like to point out the slide 34 in the appendix where we try to illustrate it even though through the cycle should give a flattish development of risk-weighted assets, the actual word is slightly different. So you can see some hiccups in some quarters and then it downs in another quarter, in a period like we have right now.

Simon Christensen – SEB Enskilda

Thank you. Then you also mention that you'll probably scale down your non-credit risk-related risk-weighted assets. Do you know how much that could impact the RWA for 2009 and maybe also what kind of impact it will have on trading income?

Tonny T. Andersen – Danske Bank – CFO

No, I think the primary focus will be communicating that on the balance sheet side this has probably a modest impact on risk-weighted assets.

Simon Christensen – SEB Enskilda

Okay. Thanks.

Peter Straarup - Danske Bank - CEO

Okay. Well thank you, operator. Thank you all for your interest in Danske Bank and for your questions. I'm sure many of you will have further questions after you have had a time to look at the accounts in detail. Please do not hesitate to call us. As usual, we'll be ready to talk to you until 9:00 p.m. this evening Central European Time and of course again tomorrow morning. A transcript of this conference call, including the Q&A session will appear on our website within a few days.