

# Conference call speech

Interim Report Q1 2009

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Investor Relations

Danske Bank

## CORPORATE PARTICIPANTS

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## SPEECH

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**Peter Straarup - Danske Bank - CEO**

**Financial results for the first quarter of 2009**

Thank you, operator.

Welcome, and thank you for taking the time to attend this presentation of Danske Bank's financial results for the first quarter of 2009.

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 outlook for the full-year results.

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

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### **Key messages**

The global economic recession continued into 2009, and we are now facing the worst macroeconomic conditions in more than 60 years. Repeated downward adjustments of GDP estimates, accelerating unemployment figures and falling industrial production are all evidence of the current market environment.

In light of this situation, Danske Bank's results for the first quarter of 2009 are better than expected, all be it, not satisfactory. We cannot be happy with a return on equity of 6.3 per cent.

Our impairment charges were extraordinarily high. The impairments still derive mostly from corporate customers, while charges for retail customers are low, but increasing.

In the midst of the economic downturn, Danske Markets managed to take advantage of the exceptional market conditions and increase our trading income by more than 6 billion. This, combined with the robust trend in our banking

activities, means that we can now present the highest quarterly income in the history of the Group.

There is no doubt that 2009 will be a difficult year, but we believe that we have a strong foundation which will get us through the economic crisis. With the 26 billion in hybrid capital that we are borrowing from the Danish state, we have strengthened the Group's capital base, and the option to convert the loan to equity means that it provides full loss-absorption capacity on top of our current capacity.

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#### **The macroeconomic environment**

The macroeconomic development has become much more severe than anyone could have imagined. As we enter the second year of the crisis, developments are still trending downwards and we are awaiting the effect of economic stimulus measures from around the world.

The macroeconomic indicators for our home markets all point to an extremely difficult year.

All the Nordic countries entered the crisis with relatively strong economies, however, and we expect at least Denmark and Norway to perform better than the eurozone average. The biggest challenges from a macro perspective are still the critical situations in Ireland and the Baltics, but Sweden is also moving into the danger zone.

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#### **Performance highlights**

The net profit for the first quarter of 2009 came to 1.6 billion. Under the current market conditions, this was better than expected, despite a 40 per cent decline from the level in the same period last year.

Loan impairment charges of almost 8 billion were the main driver of this result, but profit before loan impairment charges was record-high because of higher income.

The most noteworthy single item was trading income, which increased more than fivefold as Danske Markets saw improved market conditions as well as high activity and was able to exploit the market volatility.

Net interest income was up 16 per cent as widening lending spreads compensated for the continued pressure on deposit margins, lower interest rates and higher funding costs, whereas fee income was hurt by lower activity and fell 20 per cent.

The Group maintained its focus on tight cost control. This focus will be intensified.

The effort to reduce our assets was successful, and total assets are down 6 per cent from the level at year-end 2008.

I will now offer some comments on key aspects of the accounts, beginning with the income statement.

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#### **Net interest income**

The increase in net interest income in the first quarter is evidence of the robust nature of our core business – banking activities.

Our steady focus on lending margins paid off, as wider lending spreads were the main driver behind the rise in net interest income. On the other hand, a sharp decline in short-term rates in recent months, increasing pressure on deposit margins, and escalating funding costs all had a markedly adverse impact.

Lending volumes were kept at around the same level as in the preceding quarters. We focused on our current core customers and were able to maintain a reasonable level of lending to this segment.

In the top right chart, you can see that net interest income fell 2 per cent quarter-on-quarter. Moving to the next slide, we will break down this development.

Please go to slide 7.

#### **Net interest income – quarterly trend**

A small movement in net interest income of 138 million includes some important movements.

Lower short-term interest rates, floor risk and pressure on deposit rates – along with a couple of technicalities – reduced this item by more than 1 billion. So, net interest income had a lot of headwind this past quarter.

At the beginning of 2009, we made our internal transfer pricing fairer so that it reflects the differing costs and maturities of deposits and loans. The effect was an increase in net interest income of 250 million and a reduction of trading income by the same amount.

Wider lending margins lifted interest income by 580 million, offsetting most of the negative factors.

Given the current interest rates and business volumes, a 25 basis point drop in the short-term rate generally reduces net interest income by around 450 million.

Now let us move on to net fee income.

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#### **Net fee income**

Net fee income fell 20 per cent from the level last year and 9 per cent during the quarter. Banking Activities in particular suffered from lower investment activity, and lower lending growth also reduced activity-based financing fees. The downward trend in portfolio-based fees was more modest, and it was caused mainly by lower asset management fees at Danske Capital.

Both activity-based and portfolio-based fees are affected by the economic downturn, but – as you can see from the bottom charts – portfolio-based fees are more stable.

Let us move on to the next line of the income statement which is this quarter's positive surprise.

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#### **Net trading income**

Let me repeat that net trading income rose more than 6 billion and ended at 7.5 billion. The market conditions were quite exceptional, and we were able to use them to our advantage and exploit our strong market position. The very high level of trading income should, however, not be seen as an expression of us running higher risk. In fact, our VaR decreased to 0.3 billion from 0.5 billion at year-end 2008.

The main reasons for the sharp improvement in trading income are:

- First, increasing customer volume because high volatility on the fixed income and foreign exchange markets. This created a need to hedge interest rate and currency risks.
- Second, increasing bid/offer spreads as well as rising margins improved income.
- Third, we saw a shift in activity towards plain vanilla products, where Danske Markets has its core competencies. This includes a comeback for classic products like government bonds.
- Fourth, our market shares of local markets increased as international players reduced their activity.
- Finally, declining short-term interest rates and steeper yield curves created favourable conditions for market making.

Will this high income level continue? Probably not, but we do expect that some margins will remain wider, at least for a while.

Please go to slide 10.

#### **Expenses**

Total expenses increased 9 per cent. But excluding the guarantee commission paid to the Danish state, severance payments and integration costs, the underlying cost base was slightly lower, as we had expected. This means that we were able to offset underlying wage inflation of 4 to 5 per cent. Synergies in Finland are part of the explanation.

In the past quarter, the number of FTEs has declined by 470, or somewhat more than the redundancies we announced in the beginning of February.

Going forward, we will continue to give high priority to cost management and intensify our efforts. We will constantly strive to have resources that match our activity level.

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#### **Loan impairment charges**

Loan impairment charges of almost 8 billion, which reflect the continued economic downturn, must still be described as extraordinarily high.

Total impairment charges were lower than in the fourth quarter of 2008. Individual impairment charges amounted to 6.4 billion and derived mainly from small and medium-sized enterprises. We still made only a few charges against retail

customers, although the amount is increasing. In Denmark, the number of repossessed properties was 27 at the end of March, up from 23 three months before. More telling is an increase in 3-month delinquencies, to 1,966 loans, but that is still a fraction of the number back in the beginning of the 1990s.

The 1.6 billion in collective impairments was made mostly on financial counterparties and in the Baltics.

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**

It is evident that our Danish banking activities account for most of the individual impairments. Many were made on SMEs in sectors such as durable consumer goods, commercial property and transportation. Impairment charges against retail customers are also on the rise because of increasing foreclosures and the steep unemployment curve. The charges for Denmark also include a provision of 300 million for expected payments under the loss payment guarantee to the Danish state in the first Danish banking package.

Ireland still accounts for a relatively large portion of the individual impairments, considering the size of the business unit. In both Ireland and Northern Ireland, we made impairment charges on a number of corporate customers, mainly within property development.

The Baltic economies have seriously deteriorated, so we found it necessary to increase the collective impairments for our Baltic banking activities. Our exposure to these markets is fairly small, however. The collective impairments in Danske Markets were owing to continued uncertainty about asset quality.

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

#### **Loan impairment charges – geographical breakdown**

The trend we saw in the fourth quarter of 2008 continued in the beginning of 2009. This means that loan loss ratios were still highest in Ireland, Northern Ireland and in the three Baltic

countries. Positive is that the ratio decreased in Denmark, Sweden and Norway.

The result is that our overall loan loss ratio is still high at 156 basis points, but lower than in Q4.

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#### **Non-performing loans, loan impairment charges and write-offs**

The number of non-performing loans began to rise in the third quarter last year, and it has continued to rise.

When assessing the NPL trend, please note that we use a broader definition than many of our peers. Like other banks, we include loans with 90 or more days' delinquency in NPLs. But very often a significant event occurs before 90 days elapse, and in this case we book an impairment charge and make the loan non-performing at that time.

Whenever a loan is non-performing, we book a charge covering the full expected loss based on cash-flow calculations after taking the value of collateral into account. In addition, we normally take a haircut on the value of the collateral.

The right-hand chart shows the accumulated individual and collective impairment charges since the first quarter last year. Combined we have a total of 23.5 billion to cover impaired loans.

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#### **Total credit exposure**

Reducing the total assets is an important part of our strategy, and this includes our credit exposure. It does not mean we have stopped lending, but we have tightened our criteria in the past six months. Our total credit exposure from lending was down 8 per cent in Q4 and another 3 percent in the first quarter of 2009.

The sectors with the largest declines were banking and other financials, which were both down 2 per cent. We continue to give new loans to our many good customers, both retail and corporate.

Please go to slide 16.

### Liquidity

The Group's liquidity was ample last year, and it became even more solid in the first quarter of 2009. Moody's liquidity curve shows a clear improvement in comparison with the curve at year-end 2008. The improvement occurred mainly in the longer maturities, above five months. The reason is that our new funding focused on loans with maturities of 12 months or longer, although within the original state guarantee period that ends in September 2010.

The extension of the state guarantee means that we will be able to issue papers with up to a 3-year maturity with a full and unconditional guarantee from the Danish State. We expect that the documentation will be in place shortly and that we will be able to issue new loans with this state guarantee soon. This should ensure our liquidity until the end of 2013.

Please go to slide 17.

### Capital management

With a core tier 1 ratio of 7.9 per cent excluding existing hybrid capital and 9.0 per cent including existing hybrid capital, our capital ratios are generally unchanged from the levels at year-end 2008.

The trend in risk-weighted assets has been a major topic this year. How much will they rise because of the recession? The answer in this quarter is: Not very much. Due to the change in credit quality, they are up a mere 20 billion since year-end 2008. More significant is a 45 billion increase due to reduced value of assets held as collateral for our exposure. Every year, including this, we have adjusted our model. This results a 26 billion reduction of risk-weighted assets, primarily due to a reduction of average maturity on loans. You can see the development in the chart on this slide.

The reduced assets means that our leverage ratios are improving and our adjusted ratio now stands at 4.5 per cent.

Capital management is of course crucial in a recessionary period, and we still see various ways of mitigating the effect of customer downgrades. We have strong ratios now, and they will improve further when we receive the hybrid capital from the Danish state. Let us have a look at some of the details and effects of this capital vehicle.

Please go to slide 18.

### Hybrid capital

At the end of the first quarter, the Group applied for 26 billion in hybrid capital from the Danish state. Today we signed the agreement on the loans, and we have also obtained the option of converting 24 billion of the loan to equity capital. Let me summarise some of the main points.

The interest has been fixed at 9.8 per cent, which equals gross interest of 2.5 billion annually. This includes a 0.5 per cent premium for the conversion right.

The 24 billion in Danske Bank can be converted into equity if hybrid capital constitutes more than 35 per cent of our tier 1 capital. The conversion will be made in tranches of 20 per cent of the new hybrid capital each. If hybrid exceeds 50 per cent, we have committed ourselves to converting tranches of 20 per cent into shares to get us below the 35 per cent limit. Please note that conversion into state-owned shares is our last resort. We do have the possibility of asking our existing shareholders first.

We can repay the loans at the end of the fifth year at par under the condition that our tier 1 ratio is higher than 12 per cent or is replaced by new capital of similar quality. After year 5, the repayment price increases.

The loans will strengthen the Group's capital base and thus our capacity to withstand losses. They will also enable us to maintain reasonable lending activity in the markets where we operate.

Since the hybrid capital comes with a conversion option and thus full loss-absorption capacity, it makes sense to look at our tier 1 as including state hybrid capital rather than just core tier 1.

Both the loans and the conversion right should be seen as security measures. We still do not expect that we will need to convert the loan.

This brings me to the last slide of my presentation - our outlook for the rest of 2009.

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### Outlook for full-year 2009

We expect difficult business conditions throughout 2009, but let me stress again that the Danske Bank Group has a good foundation to weather the economic crisis. This includes

- robust banking activities
- widening interest margins
- a focus on servicing our current customer base
- tight cost control, and
- strong risk, liquidity and capital management

With record-high income in the first quarter, we had a very strong beginning of the year. But it is unlikely that we will have the same level of earnings from our market operations in the longer term, although market conditions are still favourable.

We have adjusted our organisation to navigate in a time of crisis, and we are now steering the Group to bring it through the difficult period in the best possible shape.

We expect loan impairment charges to remain high during the rest of 2009, but we do not see the first-quarter level as the run rate going forward. Although the economies continue to deteriorate, we also expect government stimulus packages to have a positive effect later this year.

Please go to slide 20.

### Q&A session

This concludes my presentation of our first quarter report, and we are now ready to answer your questions.

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.

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### Jakob Brink, Handelsbanken

I have three questions. The first one is you say that the new hybrid should be regarded as fully loss absorbing. Have you got any announcements or so from Moody's or any other of the rating agencies if they will increase the equity weights on the equity likeliness or likeness of the hybrid after your conversion has been announced? Then also on the capital side, is it correctly seen that your economic capital, your internal capital requirement is increasing by 10% from the

fourth to the first quarter? Then secondly on your loan losses, it looks like you're booking much higher loan losses than your peers in Denmark and in the other Nordic countries. You said something about your provisioning model being slightly different, but will this be enough to explain the whole difference? Then thirdly, I see that Nordea is out here today saying that they will issue a five-year bond and SEB was out saying something and - - or doing something similar a week ago. Will you be trying to do the same thing without the state guarantee?

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### Tonny T. Andersen - Danske Bank - CFO

If you look at the first question, Jakob, on the response from the rating agencies, Moody's have said that this would carry 50% equity weighting, so that will be I think called "Basket C," so they have raised the quality of the hybrid capital into this one. Fitch is giving it 100% equity feature, and I think Standard & Poor's is 33%. So I think the elements of how it's structured gives it good credit on the Moody's, if you take that specifically. On one of the ratios and another one of the ratio when I look at the total capital, it is 100% that it gives the value of this instrument. So, yes, there is a positive response from the rating agencies on this.

You had a question on the economic capital. I think economic capital is reflecting point in time on the ratings of the clients; and obviously from Q4-to-Q1, you saw a very steep decline in the economies and also the companies posting results that were poor and thus they are migrating down in ratings. That's how it should be when you have a situation that is the worst for maybe for the last 60 or 70 years so... But the constraint on the capital is not the economic capital. That is not the constraint on this Group.

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### Jakob Brink, Handelsbanken

So even if let's say that economic capital would be, which it actually is by now, above the regulatory limit, isn't that the leading model? I think according to FSA, it would be...

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### Tonny T. Andersen - Danske Bank - CFO

No, the one that the regulators look at is the point - - sorry, through the cycle, the pillar one, that is the constraint and not the economic capital for us as an institution, and we are far away from the limits within the capital of this group on economic capital; and if you include hybrid capital that are coming in, then there has to be and almost have apocalyptic

scenario unless you see economic capital be the key constraint.

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**Peter Straarup - Danske Bank - CEO**

Then you had a question on loan losses and obviously, it's not possible for us to compare to other institutions and how they might conduct loan losses. I have to accept the fact that Danske Bank has a glum forecast of how the world is developing; and when we assess individual cases, we are cautious; and that caution means that we do not factor in an improvement, in economic activity, nor do we factor in an improvement in asset value, so that's as far as I can get to that. You can also see our caution is materialized in the fact that we are taking uncollateralized charges also this quarter here, so we are, I suppose, saving up for a future difficult period, especially in the Baltics for one. We have no plans actively pursuing a five-year bond issue.

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**Jakob Brink, Handelsbanken**

But if you would change your impairment strategy to be similar to one of the other Nordic banks, as you were talking about before, would that then lead you to provisions at the same level as the other Nordic banks?

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**Peter Straarup - Danske Bank - CEO**

I don't know if our impairment strategy is different to the other Nordic banks, so I can't answer that question.

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**Johan Ekblom, Merrill Lynch**

Three quick questions, if I may. First of all, there's some comments in the press about you I guess investigating with this in an interest in disposing of your Swedish business, which I was a little bit surprised by. If you can just give a quick comment on that or your general view on disposal of parts of your businesses. Secondly, you make the point that you've reduced total assets by 200 billion in Q1. I'm assuming this deleveraging process will continue. Can you talk a little bit how that process is going as we speak, and what your expectations are for the full year in terms of asset reduction? Then finally, if you can talk a little bit about your projections for risk weighted asset growth over the next 18-to-24 months, that would be great.

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**Peter Straarup - Danske Bank - CEO**

First in investigating Sweden, we have not investigated the Swedish operation. I don't know where this comes from. The bank has only been confronted with it from a newspaper that

decided to print it. We will not dream of making it possible for our Swedish colleagues to have an oligopoly in the Swedish market, so it will not be put up for sale and there are no other parts of our franchises that we're interested in selling. As far as the deleveraging, I think Tony might...

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**Tony T. Andersen - Danske Bank - CFO**

Yes, we're down 200 billion in the first quarter and I think the way we look at is some of that has to do with your balance capacities are more constraint now in globally and we have also been trying to tighten our capital deployment to the areas where we think that we - that is supporting the core business model of the Group, so you could say we're getting more cautious and more how we spend the capital. Another thing is in terms of netting agreements and collateral with counterparties, so you will see this is an ongoing that many players in the market are trying to get the balance sheet down. This is something that will be ongoing in 2009. I don't want to quantify it more than so other than saying that we are conscious about it. It's also an area where we can see, for instance, on repos that the spreads on those for the last six months have gone up significantly, so there's a balance between coming down in the balance sheet that supports your business strategy but also making good money in this environment. But you will see us have an eye on the total balance sheet going forward also.

The risk weighted assets growth, I think, Johan, you have - the one element is what is happening on this sort of - the organic loan demand and I think it's fair to say that as banks are deleveraging, companies are also deleveraging, not that many investment in new properties or new industrial buildings and so forth, people repaying their loans, so inherently you will probably see the loan demand will be very muted. On the other hand, the migration could have another effect putting that up. But I would say that all in all, I would say that the risk weighted asset growth would be somewhat limited because I think we can also work on the capital management side to alleviate some of the procyclicality otherwise.

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**Johan Ekblom, Merrill Lynch**

But do you still expect growth?

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**Tony T. Andersen - Danske Bank - CFO**

On the risk weighted assets in total, probably. It is conceivable, but it will be as I see single digit and it's

conceivable that loans size will probably in certain areas come down as people are repaying their loans and deleveraging themselves.

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**Ronit Ghose, Citigroup**

Just a couple of follow-up questions. First of all on loan losses, I think Mr. Straarup mentioned that he expected the rate of loan loss provisioning to come down in the rest of the year, and I was wondering as you go through the different business areas where you feel the most confident that you're at the peak or close to the peak on loan loss provisioning. I think one of the previous - - one of my previous counterparts on the call was saying that compared to your peers, your competitors, in pretty much every business area you seem to have taken higher provisioning. Like we haven't seen Den Norske Bank's results yet, but based on what we've seen out of the other Nordic banks, I was just wondering if there are particular areas where you feel more comfortable than others in terms of that you're near the top. Secondly on markets, when I'm looking at page 9 where you helpfully break out the different factors behind the high trading income, I mean a lot of the - - a lot of pick up in the spread, in the bid/offer spread, at least the charge you've given us seems to have taken place in Q4 and I wonder if you could help us understand a bit further how much of that Q1 unbelievable trading income took place and was driving spread widening and how much of it was driven by directional factors? Finally just on Sweden, the net interest income quarter-on-quarter seems to have come down 25% and I was wondering if they're anything, any one-offs or funnies or any sort of unusual items there that I'm missing. Thank you.

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**Peter Straarup - Danske Bank - CEO**

If we walk through the impairment charges, firstly I have to say we don't do individual impairment charge forecasts across the Group. I would hope that the impairment charges in the Irish market would take off somewhat. That's relatively the largest area that of course gets hit by the fact that real estate values contract so much. The Danish franchise, which has normally the highest impairment charges, went into recession by the beginning of 2008 and that bites. There was some financials in that. There was also some real estate related that could come off a bit. These are some of the major factors. If you go into the areas that are going to pull us the other way, I would think the Baltic states could pull us up. The economic conditions here are quite glum. Sweden/Norway possibly unchanged at this point in time,

which is still at relatively high levels, so we're not forecasting a material drop, but we are forecasting that we cannot multiply by four.

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**Tonny T. Andersen - Danske Bank - CFO**

On the question on Danske markets, it's true when you see the spread widening on slide 9, but I think it's also important to note that in Q1 that is where you saw an increase in issuance of sovereign government bonds whether it be in the Danish, whether it be in the Swedish state; and in these markets, we have a number one position and has been participating in both. So I think one is the spread; the other thing is actually the volume that has to be issued, and you saw that in Q1. You would also see that some other balance sheets, items like repos have seen higher margins in Q1 also. That is one of the things.

When you look at Sweden, your question on net interest income, I think there are two things that are driving it. One is obviously the low interest rate environment, but also importantly we have changed our interim transfer pricing so we are now giving it more fair and prudent pricing on the duration of deposits and loans and that hits particularly Sweden because we have longer loans and as thus they should pay more on the funding cost than other units also because loans are higher than deposit base. So a lot of this year has a one-off characteristic in Q109 because we had taken these changes. We think it's the right way to incentivize the Group to focus on more sticky deposits and to be more conscious on the duration of the loans that we provide.

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**Ronit Ghose, Citigroup**

Thanks, Tonny. Can I just follow-up on the markets division. On the loan losses, again this quarter like the last quarter you've taken some collective provisioning and it's not a business area we normally take provisions, could you just give us some more colour on who these financial institutions are that you're taking provisioning for or maybe just to quantify the finds of the outstanding exposure and how much provision you've taken against that outstanding exposure?

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**Tonny T. Andersen - Danske Bank - CFO**

It is for international counterparts and where we think that the underlying collateral doesn't have potentially the value. One of the things could be that if you have underlying assets where property prices are coming down in certain areas or

some of the bonds that we're a little bit cautious about, that is the reason. I cannot give any names on it. I'm not allowed to do so, but I think is as far as we can come on this. I think Martin may have a comment.

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**Martin Gottlob – Danske Bank – Head of IR**

I can add that our total loan portfolio in Danske markets where this provisioning are taking a DKK 71 billion. Of course it's not all these loans which are impaired, but it's coming from that portfolio of loans.

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**Jan Wolter, Deutsche Bank**

A couple of questions. Apologises if they have been asked before. First on the trading line, I think Tonny, you said that there's a good chance that you could hold on to part of the trading income here. What would you say is a reasonable level, if you could give any indication of that? Second also a question on the trading line, I noticed that you cite the bid/offer spread as one important factor behind this trading, but if we look at Q1 vis-à-vis Q4, we can see that those bid/offer spreads are down and we also know that in the autumn the private dealers and the government debt management in the central bank in Denmark, you agree that there should be a periodic widening of the spreads, but for how long? Do you have any indication on that if this is one of the sort of key reasons for the good trading. First of first set of questions.

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**Tonny T. Andersen – Danske Bank – CFO**

I think on the trading line to give a point estimate on that is extremely difficult and how much is sustainable. I think obviously in Q1 we benefited from low interest rate environment and I don't think you can take Q1 and multiply it by four by any standard. But I think it's fair to say that structurally things have changed in the trading divisions where we have a dominate position because even though you're right to point out that spreads have come down in Q1 versus Q4 on the bid/offer, but the volume is pretty healthy because a lot of state and sovereigns have to issue bonds to pay some of the budget deficit. You also see in repos spreads coming up quite significant, and the volatility is encouraging people and companies and institutions to be hedging, so the volume in that area I think are quite healthy. So the combination of the volume and the margins all together structurally means it's benign for us. As you can see on slide 40, we are the leading trading division in the Nordics in fixed income derivatives and number two on forex.

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**Jan Wolter, Deutsche Bank**

Thank you. Then one final question: On your definition of nonperforming loans, if we look in the fact book, you say you have crossed nonperforming loans of around DKK 60 billion and I guess you include impaired loans, of course, and then 60 or 90 days overdue in that number. Could you just confirm that you have 60 or 90 day overdue loans in that, and to what extent? Is it the full amount of the 90-day overdue loan, or is it just the part above the collateral value? Thank you.

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**Tonny T. Andersen – Danske Bank – CFO**

It's the full amount and it's of the loan and it's 90 days that are the threshold.

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**Martin Gottlob – Danske Bank – Head of IR**

But there could be other loans besides the nonperforming. If some event has happened without being in 90 days delayed of payment.

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**Simon Christensen, SEB**

Yes, good afternoon. I have three questions. The first question is actually on the hybrid capital now you raise probably 24 billion in the parent company and 2 billion in Realkredit Denmark. Now my question is really just looking down the road maybe two-to-three years, how are you going to pay this hybrid loan back because there will be an increase in the nominal amount that you'll have to pay back after five years? I think you mentioned that, Peter, and also there will be some dividend payout restrictions. So my question is really how you're going to pay it back without perhaps making a cash call on your shareholders because it will take a considerable amount of time turn let's say 24 billion on the net profit line. And the second question is actually on Ireland. Now this NAMA or asset management agency was set up and I don't think we have heard really whether you will be eligible to be included in this and maybe your thoughts on what kind of discount will be offered on these developer books, that would also be helpful or at least eye opening. Also the last question here I think we touched upon it previously. You now made collective provisioning in Danske markets of 1 billion in Q1, 2 billion in Q4, and you took 500 million in Lehman in the third quarter, if I recall correctly, and there's some trouble exposures here you have mentioned before. Could you just say maybe how much you have written down on the Lehman exposure and how much you have written down on the

figures, roughly 5.5 billion in conduits with underlying subprime collateral bonds? Thank you.

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**Peter Straarup - Danske Bank - CEO**

First, on the: How do we pay it back? Well, I suppose this is a five-year pay par and the world could change. We think we will have higher capital requirements going forward. Whether they will have to be exactly at the level where they're put now, which is 12% core tier one capital I suppose, will have an impact on the requirement for capital going forward. Then of course precisely the balance sheet will determine the requirement for capital. Earnings obviously would also be able to take some of it if we were to pay it back. It's possible that the bank in connection with the repayment of this will make a cash call on its shareholders; it's also possible that it would have to go out and issue another hybrid that has the same kind of combination in the commercial market. Our observation is that given the fact that a recession only burns out and improves itself, then if we were to give a cash call to our shareholders a number of years hence in order to take care of this, it would be more attractive for our shareholders and the dilution that's taking place at this point in time. So for that reason we think it's actually a very attractive structure that the government is proposing.

I can't tell you much NAMA. I have noticed that it is a vehicle that will buy debt obligations of banks at market value, so there's no real subsidy in it. So how much one would get out of participating, I don't know. It's unclear to me at this point in time whether we would be included in it. I have noted though that banks that participate in it will be subject to some levy. For that reason, I think we have to think a lot before we consider whether Danske Bank should be included in this and do our math.

On the Lehman exposure, you ask: Have we written... How much have we written down? We have actually increased our reservation on Lehman. We've actually doubled it from what we saw in the beginning, and that's a reflection of the development in asset prices. It might be that the market is rebounding in the state of a certain point in time, but we are not including in our assessment an improvement in economic conditions, and this also takes place when we do the financials. I can't give you a precise figure on the conduits, how much we have done against the conduits in percentage. I think they are subject to individual impairment charges, what takes place within the financial space, but they're also subject to some of the unallocated here, and the reason that we

continue to work at that is that we are actually concerned about asset values, but hopefully we prove to be too conservative.

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**Simon Christensen, SEB**

Thank you. And just a follow-up. I think Tonny mentioned also on the swelling of risk weighted assets at the Q4 conference call that it could be perhaps a maximum of maybe 10-to-15%. Have you been - - come wiser on that because I think you're maybe a bit more let's say positive on that given that your RWA's are not increasing that much?

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**Tonny T. Andersen - Danske Bank - CFO**

I think that we are in uncharted territory with the procyclicality in as deep recession as you see now, but I think the numbers, 10/15%, is still conceivable. But I think what you've seen since Q4 is the loan demand and thus risk weighted assets on the loan stock is coming down. So the whole issue on the deleveraging will, in my view, mitigate the rating migration that you otherwise will see, so net/net and the including you can also do capital management activities so you can, in my view, mitigate quite a lot the impact otherwise from the procyclicality.

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**Maths Liijedahl, Nordea**

Yes, good afternoon. Just if you can confirm a follow-up on this hybrid debt. If there's any linkage to the tier one ratio going forward, I see now that you need to have 12%. But if it falls down to let's say below 10%, is there any rules or restrictions when you need to convert that or need to raise additional hybrid debt or anything like that?

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**Tonny T. Andersen - Danske Bank - CFO**

No, there's not. The restrictions are related to the hybrid compared to the core capital...

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**Maths Liijedahl, Nordea**

Yes.

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**Peter Straarup - Danske Bank - CEO**

And that what regulate it; but it's obviously that if you start taking losses on the core capital, then the hybrid will increase in size.

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**Maths Liijedahl, Nordea**

Of course.

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**Peter Straarup - Danske Bank - CEO**

And that's what regulates it..

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**Torsten Bech, LD Markets**

Just one question actually. I'm looking on page 38 where you put the reversals of write downs, you have quite a high number of 1.9 million - - billion, sorry. This is quite high compared to what you reversed in the whole of 2008. Could you put some more flavour on this in terms of regions, maybe sectors, or anything driving this high level of reversals? That's it.

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**Martin Gottlob - Danske Bank - Head of IR**

Well, it's Martin here. I can tell you that this reversal of 1.9 billion, roughly one-third is because of reduced portfolio provisions. We have to write them back very quickly if we are not using them specifically. Now we have mostly replaced it with some of others, but they're going into the cross numbers. The remaining part is a wide range of individual provisions which has been written back. There's no specific sectors or countries that I can mention here and no single large exposure.

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**Torsten Bech, LD Markets**

Would it be relevant to talk about the maturity of these 0.6 million since you have the last couple of quarters you put us on some quite heavy collective provisions?

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**Peter Straarup - Danske Bank - CEO**

The way these collective provisions are working is that we have to fairly quickly write - -either use them to make them specific or to write them back, and rather quickly that means within 12-to-24 months.

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**Chintan Joshi, Nomura**

I have a couple of follow-up questions. It is mentioned that Danske has some glum forecast in its provisioning model. Could you elaborate a little bit on what kind of economic forecast are we talking about, and have they taken the recent deterioration in the macroeconomic outlook into consideration? Secondly on Slide 17, there's a reduction in risk weighted assets due to new parameters. If you can just elaborate on that, what exactly are we talking about there? Thank you.

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**Tonny T. Andersen - Danske Bank - CFO**

If I take the last question on Slide 17 in the bottom right chart, the trend in risk weighted assets, the new parameters is that in the previous model we assume that all loans had duration of five years and obviously we have loans of one-year, two-years and six-month and three-months and having a more precise view on the duration of the loan book means obviously that the risk weighted assets will come down, so it's a more fair view on that. That is what is included in the new parameters here.

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**Chintan Joshi, Nomura**

Okay.

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**Peter Straarup - Danske Bank - CEO**

On the glumness of our forecast, it's difficult to say whether we have a more glum forecast than others, but we are very concerned; and this means that when we take the individual case that has an impairment, we probably value the collateral at very low rates because it's very difficult to move collateral at these markets or in these markets. We make a cash flow analysis and then we impair what is required and, as we mentioned, normally we take a deduction on the collateral. We can't correlate directly GDP growth with credit losses. We can correlate to a larger extent unemployment and credit losses, and of course we do that and that's one reason also why the Group is concerned. The reason which is the decline in economic - - the expectation of economic activity which has taken place in April has not precisely being factored into our assessment, but it does not influence our evaluation, that is, we will continue to have relatively high impairment charges, but we are not expecting to have to multiple Q1 by four.

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**Chintan Joshi, Nomura**

Just one other follow-up question. Regarding trading income, how is April been so far of year-to-date - - quarter-to-date?

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**Peter Straarup - Danske Bank - CEO**

That would give you information which is not part of this. We are reporting for the first quarter and we can't start reporting for the second quarter.

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**Aaron Ibbotson, Goldman Sachs**

Most of my questions have been answered. I have two clarifications though. First on trading income, again on Page 9, I know this question was sort of asked before; but

comparing to what the other banks have commented both in Europe and in the Nordic region and looking at the charts that you display as the key drivers, it appears to me that the spreads, bid/offer spreads have been sort of similar from the fourth quarter and that's sort of this uptick of some 4-or-5 billion is primarily driven by the yield curve shift. I just wanted to see if that is correct. I know you mentioned primary issuance, Tonny, but when I multiply primary issuance with any type of spreads or margins, I don't get anywhere near that significant contribution to your trading income, so just if we could clarify that. Secondly just on your leverage ratio, you mention under U.S. GAAP here that it's a different leverage ratio. I just wanted to confirm that this is actually according to U.S. GAAP as verified by some accountants of yours or if it's just you making some adjustments which roughly makes it comparable to U.S. GAAP. Thank you.

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**Tonny T. Andersen - Danske Bank - CFO**

On the question on the leverage ratio, this is done by real accountants that knows the numbers, i.e., including netting your derivatives and stuff like that, so it is U.S. GAAP compatible and you can also see it in our full-year report '08. We did the same thing on the comparison on this one and I think I feel confident on that. You can even argue, the thing we also do an adjusted one is where we exclude insurance assets and our match funded mortgage book. I think the leverage ratio have many faces whether you look at Canada, Switzerland, or U.S., we try to show the other one also. So I hope that answers your question. This is not done by...

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**Aaron Ibbotson, Goldman Sachs**

Martin Gottlob.

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**Tonny T. Andersen - Danske Bank - CFO**

Martin Gottlob, no, no, this is real numbers.

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**Aaron Ibbotson, Goldman Sachs**

Very good. Thank you.

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**Martin Gottlob - Danske Bank -Head of IR**

Aaron, you can see there, the way it calculated in the risk management report, I think it is Page 36 or 38.

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**Aaron Ibbotson, Goldman Sachs**

Ok, fantastic.

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**Tonny T. Andersen - Danske Bank - CFO**

On the trading line, I think what we show in the graph; there are many elements that goes into the trading line. One is obviously the spread on the bid offer. You can look at the repo business where we have 280 or 300 billion where margins have gone up maybe two-to-four times for the last six months. You can look at how derivatives are doing well because the uncertainty and the volatility means that the volume on companies want to do hedging. Keep in mind in Denmark and Sweden and Norway, you have currencies that are not totally correlated to the euros so you have companies that are very global in these countries that want to mitigate their risk. Then obviously the steeper yield curve obviously also helps in that regard, but is actually different sources that comes into helping the revenue. I think that you have a point on the yield curve and obviously we cannot expect Q1 multiply it by four, but I think the structural elements on the spread and the fact that balance sheet capacity is a constraint now means the margins have come up quite significantly on, for instance, repos and other elements like this.

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**Aaron Ibbotson, Goldman Sachs**

But I guess what's confusing me and maybe some other judging by the questions is that, as far as we can tell, there hasn't really been a widening of spreads since the fourth quarter, possibly on the contrary, and the big thing that has happened is: a) the long side of the curve or at least the medium/long-term side of the curve has come down, which obviously means that any fixed income portfolio assets will have increased in value. Considering the big decreases in value you had last year, obviously it's tempting as an analyst to assume that some of that contributes when it's coming back, but you seem to suggest that that is the not case. But do you have portfolio revaluations as well as part of these 7 billion; and if so, any idea of roughly how large they are?

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**Martin Gottlob - Danske Bank -Head of IR**

I can answer last the question. In the 7 billion, we had a gain on our investment portfolio of around 560 million that was offset actually by investment portfolio loss of 600 million, but that's not in the P&L, as you know. When it comes to the government bonds, you have to remember two things. First of all, until a half year ago it was almost impossible to have any earnings on trading with government bonds. Actually some are saying that it was loss making to do it, but you have to do it when you are in a Danish fixed income market. Secondly, the introduction of very long-term government

bonds, 30-year bonds in Sweden and Denmark where the margins are so that it spreads are much higher than you see in the short-term bonds, that have helped the earnings in this area.

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**Aaron Ibbotson, Goldman Sachs**

But what volumes are you talking here, because I just played around and you must've sort of turned over three times the entire government debt of Denmark and Sweden in the quarter to get to...

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**Martin Gottlob - Danske Bank -Head of IR**

The volume is not increased in the first quarter.

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**Aaron Ibbotson, Goldman Sachs**

But what in absolute numbers, I mean are we talking about hundreds of billions of euro here or is it...

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**Tonny T. Andersen - Danske Bank - CFO**

I don't think that we should go in and give much more. I mean already today I think we're quite granular in how you see the trading activities, decomposition of that and including what hits the available for sale book. I think there are many elements that goes into it. There's no doubt that the high volatility means that pension companies, institutions, and corporates are thinking much more about hedging and mitigating risk in this very, very unstable environment we saw in Q1. Being number one or number two in all the markets we are in and the volume that go through this and a decreasing interest rate environment, that is where you can make quite good money if you have the flow, and we have that in the Nordics on this so... But also I mean I will not be taken into account to say you can take Q1 multiply it by four for the full year, by no means you can do that, but I don't... I think you have to take in and respect that - - the fact that we have dominate position in all the Nordic markets and that has really been helpful in Q1.

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**Per Löfgren, Morgan Stanley**

Yes, thank you very much. I have just one follow-up question, and that goes back to the question about how you're going to repay the 26 billion to the Danish government. It was quite clear here that you - - I mean you - - a lot of things can happen over this period, so one alternative is to earn your way through or for that sake raise capital, but do you completely out rule the options to sell any assets for this purpose, to repay this 26 billion? Thanks.

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**Peter Straarup - Danske Bank - CEO**

We don't make long-term statements on the development out of our company, and it's very difficult assess what we might and might not do five years hence in the middle of a situation where the financial markets are suffering from recession and financial collapse, I suppose. Danske Bank will focus on its core activities. That's old-fashioned banking activities, we'll focus on these franchises we have at this point in time. We have no plans selling off any of them, and that's as it stands. This is an awfully long time to make prognosis for, but my assessment would be that we should continue with the franchises we have without selling any off.

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**Per Löfgren, Morgan Stanley**

Very good. Thank you.

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**Operator**

There are no further questions.

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**Peter Straarup - Danske Bank - CEO**

Well thank you, operator, and thank you all for your interest in Danske Bank, for your questions. As always, you're all welcome to contact us if you have any further questions after you've had time to look at the accounts in detail and, as usual, we will be ready to talk to you until 9:00 p.m. this evening Danish time and of course again tomorrow morning. A transcript of this conference call, including the Q&A session, will appear on our website