

Conference call speech

Interim Report Q3 2009

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Investor Relations

Danske Bank

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SPEECH

Peter Straarup - Danske Bank - CEO

Financial results for the first nine months 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 nine months of 2009.

With me today are Chief Financial Officer Tonny Thierry Andersen and head of Investor Relations Martin Gottlob.

Please go to slide 2.

Agenda

Tonny and I have split today's presentation. I will begin with a brief summary of Danske Bank Group's financial performance. Then Tonny will review the most important accounting items. Finally, I will comment on some key developments and take a look at Q4 2009.

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

Please go to slide 3.

Key messages

So far, 2009 has been a challenging year in which we have experienced extremely difficult market conditions. In light of this situation, an 81 per cent decline in net profit from the level in the same period last year is actually a little better than expected, and we find it acceptable, although 1.3 billion Danish kroner is not a satisfactory result in absolute terms.

The effects of the financial crisis are evident in our accounts. Two items have been especially noteworthy throughout the first three quarters of the year: very high total income, driven mainly by trading income; and high loan impairment charges. Both items have gradually declined in each quarter.

To improve the earnings potential of the Group, we have further intensified our focus on cost management. This is most apparent in our headcount, which we have reduced by almost 1,200 FTEs this year, and it is also evident in the

favourable trend in our underlying cost base, which has fallen 2 per cent.

The need for a more resilient funding structure is another consequence of the crisis. We have therefore sought to extend our funding profile and create a better balance between deposits and loans. This can be seen in the development of our loan-to-deposit ratio, which has improved from 128 per cent to 116 per cent since the third quarter of 2008. This means that we have actually reduced our deposit deficit by half in the past year by a combination of lower lending and higher deposit volumes.

With the improvement of our loan-to-deposit ratio, longer funding and high, stable capital ratios, Danske Bank is well-equipped to support our core customers and remain resilient to adverse macroeconomic conditions and tougher regulatory requirements.

Please go to slide 4 for an elaboration on the macroeconomic environment.

The macroeconomic environment

We are still in the middle of a severe global economic crisis, and we expect all our primary markets to post declines in GDP for 2009.

It is encouraging that we do see some signs of stabilisation. But the macroeconomic indicators are not conclusive, and we still do not see a turnaround on the labour market, so it is too early to be too optimistic. The expected rise in unemployment, or the fear of unemployment, poses one of the biggest threats to the revival of economic activity and the magnitude of the recovery. Moreover we must expect that many SMEs will be in a weak position well into the recovery of the macroeconomic conditions.

The outlook in Ireland and the three Baltic countries remains worse than in our other markets, and we expect the recovery to take longer there.

Please go to slide 5.

Performance highlights

Our net profit of 1.3 billion was driven by unusually high income, which was large enough to offset high loan impairments and a rise in expenses.

Net trading income, which came to more than 16 billion, was the primary reason for our high income, as Danske Markets managed to exploit the beneficial market conditions created by the financial crisis. But it is important to note that trading income has declined in each quarter of this year.

Net interest income rose 6 per cent over the level in the same period last year because of our active repricing of the asset portfolio.

At Danica, the year-to-date result was 1 billion, owing mainly to an improved investment result which came to 1.2 billion year-to-date. We were actually in the money to take the nine-month risk allowance of 800 million, but we decided to postpone that decision until the end of the fourth quarter.

Expenses rose 16 per cent above the level in 2008. But if you adjust for guarantee payments under the first Danish banking package and goodwill impairments for the Baltic operations, the operating cost base actually declined, as we had expected.

Loan impairment charges amounted to more than 20 billion. They thus remained high in the third quarter, also matching our expectations. As I mentioned, the quarterly level has declined steadily, but let me repeat that we believe that there is more to come and that loan impairments will remain high in the fourth quarter.

Tonny, would you please take over here and go through the results in greater detail?

Please go to slide 6.

Net interest income

Thank you, Peter. The 6 per cent rise in net interest income resulted from various contradictory factors.

On the positive side, our work on margins has paid off. In the past year, all the Banking Activities units have increased their lending margins for both the retail and corporate segments and we have achieved a better match between maturity, risk and price. Lending margins will remain a focus area, but in the Nordic region we also see the first signs of risk appetite and risk capacity resuming. We therefore see early indications of greater competition on lending margins, which seems somewhat premature given the macroeconomic and regulatory uncertainty.

Deposit margins are another story, however. Floor risk from lower short-term interest rates and fierce competition for deposits have squeezed deposit margins and put pressure on net interest income.

Another negative factor is higher costs for longer-term funding, including our payment of around 425 million on the hybrid core capital from the Danish state.

In addition, we have seen a decline in lending volumes each quarter, mainly because of our reduced exposure to financial counterparties and lower credit demand from large corporate customers in particular, and also because many sectors have experienced a significant drop in activity in 2009. On the other hand, lending to retail customers has risen in each quarter because of good demand for mortgage products. We continue to lend to our good, creditworthy customers and to target selected new customers.

Please go to slide 7.

Net interest income - Q3 2009 vs. Q2 2009

From the second quarter to the third quarter, net interest income fell 282 million, or 4 per cent.

The main reason was the extra 190 million in net interest expense for the hybrid core capital from the Danish state, since it had the full quarterly effect in the third quarter. Total net interest expenses came to 425 million in the quarter.

Lower short-term interest rates were the main reason for the lower interest on equity and lower deposit margins, whose effects totalled 173 million. The 220 million effect of increased lending margins more than compensated for this.

Please go to slide 8

Net fee income

Net fee income fell 9 per cent from last year's level owing to lower activity in the capital markets and lower lending. But we have seen a stabilisation, and the 1.9 billion in the third quarter was in line with the second-quarter performance.

Now let us move on to trading income.

Please go to slide 9.

Net trading income

In the first nine months of 2009, total trading income came to more than 16 billion. Despite a quarterly decline of more than 20 per cent, the 3.9 billion in trading income in the third quarter was still very high.

As we explained earlier this year, market conditions have generally been very favourable, and we have managed to take advantage of them in various ways. For example, we have seen

- a strengthening of our already strong Nordic market position
- high customer activity because of the volatile market environment
- good earnings opportunities for positioning and market making because of increased bid/offer spreads and margins, and
- favourable conditions for market making owing to declining short-term interest rates and steeper yield curves

The quarterly decline in trading income, however, shows that not all of the positive effects we have seen this year are sustainable. For example, margins narrowed again this quarter because of increasing competition, including competition from international players.

We expect trading income to continue to fall in tandem with increasing financial stability, so over the coming quarters we will return to more normal trading income levels. Now, let us turn to expenses.

Please go to slide 10.

Expenses

Total expenses rose 16 per cent year-on-year to 21.7 billion. This is a rather large increase, but it is important to compare like for like. After doing a little exercise in which we adjust for items that cannot be considered general operating expenses, we actually reach a 2 per cent reduction in the underlying cost base. This is in line with our intensified focus on cost management, and it shows that we have been able to offset the general inflation in salaries and prices.

In the table on the right, the two most striking items are the state guarantee fee and the goodwill impairment charge for our Baltic operations.

We made the goodwill impairment in the second quarter because of the deteriorating economic situation in Latvia and Lithuania.

Please go to slide 11, which gives further details of our cost management and FTE trend.

Intensified focus on cost management

We have announced an intensified focus on cost management, and we are scrutinising our spending in all areas. The most obvious initiative in this project is the reduction of FTEs.

The Group's FTE level peaked in the second quarter of 2008, and it has been declining ever since. We have cut FTEs by more than 1,400 from the peak, and the reduction has accelerated this year, with two large rounds of redundancies. In February, we reduced staff functions by a total of 350 FTEs. In August, we merged certain activities of Realkredit Danmark and Danske Bank Denmark, resulting in 220 fewer FTEs. Many of the employees made redundant are still on our books because of severance programmes.

But our increased cost management efforts are not only a matter of reducing staff. We are also looking at external spending such as rental costs, mobile phone use and renovations. We intend to streamline the organisation and our work processes to achieve higher efficiency and exploit technological opportunities. In addition, we are carrying out segmentation and adjusting the Bank to match our customers so that we can offer them the best service and the right channels, including the branch network, call centre technology and Internet distribution. The goal is to reduce the cost of servicing customers while at the same time improving the quality of our service. Our "one platform" approach offers a good foundation for this process.

Please go to slide 12.

Loan impairment charges

Loan impairment charges are still high, and our loan-loss ratio now stands at 140 basis points. In the third quarter, we booked loan impairments of 6.2 billion, or 125 basis points, so the declining trend from previous quarters held steady.

Collective impairments continued to fall and were close to zero in the third quarter. The trend in individual impairments is thus driving the total now.

Write-offs rose to 2.6 billion in the third quarter from to 0.6 billion in second quarter. This figure includes some 2 billion in impairments that is considered uncollectable.

Please go to slide 13.

Loan impairment charges and coverage ratio

Small and medium-sized enterprises still accounted for most of the Group's impairments. The sectors that have been hurt the worst by the macroeconomic situation are transportation (including shipping), property, agriculture, durable consumer goods and private equity.

Impairments for personal customers were still at a low level and actually decreased somewhat on a quarterly level, while the charges for large corporates stayed on level with second quarter and charges for financial counterparties declined. We also made provisions for expected payments under the loss guarantee to the Danish state in the first Danish banking package. These provisions now total 1.5 billion since the fourth quarter of 2008.

After stabilising in the second quarter, non-performing loans rose somewhat in the third quarter, mainly because of increases in Denmark, Ireland and the Baltics. The coverage ratio has stabilised in the mid-forties. When taking collateral into account, our coverage ratio is still above 90 per cent. I would like to emphasise that the coverage ratio is a result of our impairment tests and not a target.

For a geographical breakdown of the impairment charges, please go to slide 14.

Loan impairment charges - geographical breakdown (1)

When we look at our four largest Banking Activities units, two things in particular catch the eye: the high loan impairment charges in Denmark and Finland.

Danish Banking Activities accounted for the largest portion of the Group's total impairments and impairments increased on a quarterly basis. Therefore, I would like to give you some extra colour on our main Danish market, segment by segment.

The high level in the third quarter was still driven mainly by charges for small and medium-sized enterprises in certain sectors, such as transportation – including companies with limited partnership within shipping – and agriculture, as well as companies that depend on domestic consumption. In commercial property, our losses have been limited, and we believe that the worst is behind us. With corporate customers, we still see some challenges ahead.

The credit quality of our retail book is – on the other hand – still good, mainly because of the large proportion of mortgages of which a very low number is loans in arrears. Unemployment has gone up, however, and it will continue upwards in the current quarter. Our impairments have therefore increased and will continue to be on a high level in the near future. In 2010, however, low short-term interest rates will reduce many homeowners' floating rate mortgage payments by some 15 per cent from the level in 2009. This will further improve the ability of homeowners to service their mortgages even if some become unemployed.

The impairment charges made under the shared obligation in the first Danish banking package, however, constitute the single largest charge in the past four quarters. We have now booked 1.5 billion of our 3.3 billion share of the 10 billion first-tranche loss that the Danish banking sector must pay for banks taken over by the state. The undertaking expires at the end of September 2010. This means that 14 per cent of our impairments in that period derive from this obligation.

We see a risk that we will have to pay the remaining 1.8 billion over the next four quarters. In addition to the impairments, we book a quarterly guarantee commission of 625 million to our Danish Banking Activities. This is also part of the first Danish banking package. Adjusted for expenses and impairments related to this banking package, Banking Activities Denmark's pre-tax result for the first nine months of the year would have been a profit of 1.9 billion instead of a loss of 1.2 billion.

The macroeconomic outlook for Denmark is positive in the sense that we have probably seen the bottom of the recession and we expect economic growth going forward. But it will not occur at a fast pace. This means that the recovery of credit quality is also likely to be slow. Denmark was one of the first countries to fall into recession, and the Danish market experienced a sharp drop in activity in a short space

of time. We consider the recession to be over, but that does not mean the difficulties have disappeared.

Let us turn to Finland, where much of the second-quarter impairment charges were made on a few large corporate exposures, primarily in private equity. This was the case again in the third quarter, and adjusted for these exposures, the loan-loss ratio was 50 basis points, which is pretty reasonable in this environment.

Impairments charges are still low in Sweden and Norway.

Please go to slide 15, which covers our other business units.

Loan impairment charges – geographical breakdown (2)

The business units shown on this slide make up only 13 per cent of our loan book, but it is here that we continue to see high loan-loss ratios. Ireland and the three Baltic countries in particular account for large portions of the impairments relative to their size. But considering the macroeconomic environment in these markets, that is not surprising.

In both Northern Ireland and Ireland, impairment charges were still related primarily to property development. We will not participate in NAMA – Ireland's "bad bank" – because the arrangement is advantageous mainly for domestic banks and we believe it imposes significant conditions on participants.

The three Baltic economies are still under much pressure. In contrast to previous quarters, when collective impairments made up a fairly large proportion, the charges in the third quarter were primarily individual, in both the retail and corporate segments.

Most of the impairments at other units concern Danske Markets, and they have been high for the past 12 months as declines in asset values have led to impairments on financial counterparties. The stabilisation of the financial markets has now reduced Danske Markets' impairments to zero, however.

That concludes my part of the presentation, and I will now hand the mike back to you, Peter.

Please go to slide 16.

Liquidity and new funding

Thank you, Tonny. Now let us take a look at liquidity and funding.

In the third quarter, it became easier and cheaper to borrow on the international capital markets, and we are now back to the levels before Lehman Brothers' collapse. We have extended the maturity of our funding this year, primarily by issuing medium and long-term debt, both with and without the individual state guarantee that was part of the second Danish banking package.

To be more specific, I can tell you that in the third quarter we issued unguaranteed senior funding with 5 to 7 years' maturity at 3 months' EURIBOR plus 95 to 120 basis points. In total, we issued around 65 billion without a state guarantee this year.

We also issued covered bonds on our international cover pool, and there is still unutilised potential in this pool.

These measures strengthened our liquidity position in the third quarter. The improvement is evident in our Moody's 12-month liquidity curve, which is now positive for more than 12 months ahead.

Please go to slide 17.

Capital management

The future regulatory environment is a hot topic right now, and without a doubt, the financial sector will become subject to stricter regulations, especially on capital requirements and liquidity.

We have improved all of our capital ratios this year because of the hybrid core capital we obtained from the Danish state in May and due to our earnings and the reduction of our assets.

With core (tier 1) capital, including the loss-absorbing hybrid, of 11.1 per cent, we have one of the strongest capital ratios in the Nordics.

Risk-weighted assets were down 3 per cent from the level in the preceding quarter. The decline owing to lower lending volume more than offset other underlying changes caused by rating migration and an increase in operational risk.

Let me state that we have no intention of raising capital at this time. We have a strong capital position, and according to the agreement, the hybrid core capital from the Danish state is not to be repaid before April 2014. But the conversion option makes the hybrid capital loss-absorbing, and for now a rights issue is not attractive nor realistic.

Please go to slide 18.

Outlook

Our main markets are still under pressure from adverse economic conditions, and even though we see indications of stabilisation, they are not yet conclusive. We therefore expect to see a longer period of limited growth, difficulties for our customers, and impairment charges above the average over a cycle.

In the last quarter of the year, we expect net interest and net fee income to remain at the third-quarter level, while income from Danske Markets and Danica depend on developments on the capital markets and the possibility of booking a 1.1 billion risk allowance. But let me repeat that it is unlikely we will have the same level of income from our trading activities as we have seen in recent quarters.

Total expenses for 2009 are expected to be in line with 2008 expenses, and this means that the fourth-quarter figure will be above the third-quarter level.

Our intensified cost focus will have a marked effect on expenses going forward as we implement the various initiatives and see their full-year effects. Combined with our very robust banking activities, in which we continually strive to adjust prices and products to the current market conditions, this gives us a strong foundation for future earnings.

Please go to slide 19.

Q&A session

This concludes my presentation of our report for the first half of 2009, 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.

Jakob Brink - Handelsbanken

I have three questions. The first one: I know you talked briefly about it, Tonny, but could you maybe put a bit more words on the margin expectations in the four Nordic countries? My second question is regarding your cost cutting. Now it seems like you're mentioning cost cutting more often. You had a slide in a recent presentation as well and an updated one in this presentation, so could you maybe give us any numbers of ... I mean, are you expecting any major cost cuttings next year, and what could we assume could be cut? And then my third question is regarding trading income. You're saying that we should expect more normalised trading income, but isn't it a fact that the yield curve is still very steep and cheap central bank funding is available? So shouldn't you be able to make pretty good trading in Q4 as well? That was it. Thanks.

Tonny T. Andersen - Danske Bank - CFO

On the first question, on the margin expectations: I believe that we, in Denmark... I don't see the margins coming up on the total bank book at any significance. I think that has already taken its course. And as I indicated, we do see increased competition here. In the various other markets, I think the same picture probably goes for Norway and to some degree also Sweden; whereas Finland will probably see a little traction, but consumer protection [inaudible] means that it takes quite a long time. And I must say that, given the uncertainty on the economic environment and regulatory environment, this may seem a little bit early in the process. But I think that's how the market conditions operate, and we want to be competitive towards our customers in all the markets we operate in. You could say the flipside to the lending margins' not coming up that much as one maybe had hoped three months ago is the fact that funding costs have come down as spreads have come in.

On the cost side, I think what we can promise you, Jakob, is that we will just turn every stone around in this Group and look to be more efficient, not just from a cost perspective but also to address that the customer gets faster and more effective service. But you will not get me to say any numbers other than I can promise we look at every corner of this Group here.

Peter Straarup - Danske Bank - CEO

Trading income. While it's difficult to forecast, spreads have narrowed somewhat, and therefore we cannot repeat what we did in the first half. We expect our Markets operation to

continue to provide us with good earnings. We just think that the levels we have seen were extraordinary, and that goes even beyond just the yield curve. So, agreed, we could expect to continue to see decent trading results, but we can't maintain the levels. That's at least our prognosis. We'll make any effort to do so, though.

Martin Gottlob - Danske Bank - Head of IR

Can I add that we are also heading towards the Christmas season, and you never know when markets close for the year. And that's an uncertainty about the fourth quarter.

Peter Straarup - Danske Bank - CEO

Any more questions?

Johan Ekblom - Bank of America Merrill Lynch

Hi, it's Johan Ekblom from Bank of America/Merrill Lynch. Just two quick questions, if I may. First of all, in terms of the risk allowance from the insurance business, can you just maybe talk a little bit about what you take into account when you decide whether or not to book it so we can get some idea of how to forecast that? And secondly, in terms of credit losses, you're clearly saying that credit losses are going to remain high for the fourth quarter. Can you just give us some idea of the magnitude of the decline in credit losses you expect for next year? You said it's going to be a gradual recovery, but what does that mean in terms of actual losses?

Peter Straarup - Danske Bank - CEO

First, Danica. Actually, I think it also appears in the material. We could have taken the risk allowance already for this - for the first three quarters of this year. The requirement to take a risk allowance is that we return the average rate to policyholders - the average required rate to policyholders - and that we meet at this point in time. There has to be quite a bit of setback, for example, in the stock market for that to disappear. So expecting markets to be - if that's possible these days - relatively calm, we should be able to take it for the whole year. We have not made any prognosis for our impairment charges in 2010. We think that the expectation should be that there would be relatively high impairment charges for quite a number of quarters still because the economy is still digesting a recession, but I can't give you a closer shot than that.

Chintan Joshi – Nomura

Hi. One follow-up on the trading income, and then one question around capital. On the trading income, we are being told that it'll return to a more normalised level, but I'm just trying to quantify what normalised would be. If I look at your average from 2006 to 2008, it was about fourteen-fifteen hundred per quarter; whereas if I look at the consensus for next year, we're looking at about 2,000-250 per quarter, which is 60% below the current run rate. I mean, how should we quantify as normal? Is that something you'd be willing to help us with, or even a range would be helpful? Secondly, around capital, I know there's no intention for a rights issue now. But is it possible to go back to the government and tell them to take back this hybrid and assume that it'll be refinanced by a rights issue? Is this something you would look at? Is this something you're already looking at? And why not, if the capital markets are open to start this process? Thank you.

Peter Straarup – Danske Bank – CEO

First, on the normalised levels: I think your calculations were about right. I think before the world changed, we're betting our markets to give us per quarter Dkr1.5 to 2 billion. I think that the markets are slightly, if not somewhat, better at this point in time. So I think one would expect the earnings, unless we see changes to the conditions, to stay above that level, about 2 billion, possibly for a couple of quarters. But you know, please notice the trend, and the trend has been that there's been a decline in earnings going forward. And we also think that's going to continue down towards the average, which you look at. The capital is for a five-year period, and for that reason we have no plans to repay it since we cannot.

Chintan Joshi – Nomura

But is it possible to go ask the government to consider it? Is that possible? And why not think about it if capital markets are open?

Peter Straarup – Danske Bank – CEO

Well, at this point in time, we have taken up a hybrid that's mandatory for a five-year period, which was granted to us by the government. It does not give us an ability to pay it back. We also have to say, though, that, looking at the functionality of the loss-absorbing capacity that the hybrid has and has an interest rate of 9.25, it is not expensive loss-absorbing capital. When about three years have gone, four years have gone, the bank will need to address its capital issue and see

whether it would elect to repay this in one way or another, but we think this is further the down the road. And the hybrid is perpetual, so it's not like we're under pressure.

Chintan Joshi – Nomura

Okay. And just on the trading income: I mean, you've pointed out in previous quarters that there have been structural changes to your market. Would that not mean that the more normalised level would be a little bit above what we've seen in the past and that we should model it that way? Is that fair? Is that a fair statement?

Tonny T. Andersen – Danske Bank – CFO

I think Straarup alluded to it to say previously 1.5 billion a quarter and now maybe closer to 2 billion. I think that you can put that in your spreadsheet.

Chintan Joshi – Nomura

Brilliant. Thank you.

Maths Liljedahl – Nordea

Yeah, good afternoon. I just wondered if you could give me some more colour on Danica, especially the postponed risk allowance from '08. Are there any sort of tax issues related to if you book that this year or if you postpone it further into 2010? And that would be very helpful. And also if you could comment on the trading environment. At least in the fourth quarter, we have had at least one month, and my feeling is that activity has come done a little bit from what we saw in Q3. But if you can shed some colour on that. Thanks.

Tonny T. Andersen – Danske Bank – CFO

On the Danica 2008 risk allowance, we can book it at any time from now until perpetuity. There's no tax limitations on that. So if we have the ability to book it, we could do it in this year, next year, whenever. There's no time limit on that in any way. Trading income: I think ... we're just releasing our Q3 results. I don't think it's up here now to say how the trading has gone just for one month's time, so let's see that when we close the books in Q4.

Maths Liljedahl – Nordea

Thank you.

Torsten Bech – LD Invest

Yes, hello. Just a few questions. First on your funding: You mentioned funding, and you've shown us slide 16 also, where you took some longer-term funding. If you look on your mix longer-term versus short-term funding at the moment and compare that to where you want to go for the future, also taking the possible regulatory changes into consideration, where are you now, and should we expect the funding in terms of duration to go longer in the future? That was the first question.

Tonny T. Andersen – Danske Bank – CFO

Well, I think, Torsten, that first of all, on average, Danske Bank has one of the longest funding durations of the Nordic banks and European banks because our mortgage division is match-funded, and some of those goes out to three-year. When you look at the funding we have undertaken now, both with and without state guarantee, we are looking at the three- to five-year space. We'd done cover bond issuance also this quarter, at 20 years' duration, so we're ... using all spectrum of the duration avenue, so to speak. So we feel comfortable with the initiatives we've done on longer-term funding, three to five years and above, to get the right mix on the funding profile. But point of departure is pretty healthy already with the average duration being so long as it is.

Torsten Bech – LD Invest

Okay. Second question. Last quarter, I believe you said something about the repricing of your book was at 45% or something. Where do we stand now?

Tonny T. Andersen – Danske Bank – CFO

I can't give you a precise number of the legacy book – how much is it that's been repriced. That is an ongoing effort that would take probably the next couple of years to do so, and we are working very closely on that matter. So that's an ongoing project. I can't give you specific numbers of that here.

Torsten Bech – LD Invest

Okay. And the last question on your Ireland division, just could you just confirm on the provisions you take that the NAMA haircuts published in Q3 did not have any impact? I believe they made a quite big haircut on the property and construction sectors, and I was just... Yeah.

Tonny T. Andersen – Danske Bank – CFO

I think the haircuts that you're alluding to in NAMA is around 30-40 basis – 30 to 40...

Torsten Bech – LD Invest

Percent, yeah.

Tonny T. Andersen – Danske Bank – CFO

...percentage, and you say it's fairly high. I think it's probably fairly low compared to some of the conditions that we see right now, if you had to go out and sell properties or land bank in the Irish market. When we look at our book, we look at how we assess the market conditions, and not ... does not look into the NAMA haircuts.

Torsten Bech – LD Invest

Thank you very much.

Per Löfgren – Morgan Stanley

Yep, thank you very much. This Per Lofgren from Morgan Stanley. I have a couple of questions. First of all, I would like to ask: You say that the regulatory requirement will be tougher going forward related to capital and liquidity. And I was also listening to the CFO comments on a little clip here on your Web page that's saying that you believe that you're going to have like some more clarity before year-end, so it's pretty soon. Could you guide us to what will regulators look at? I'm pretty sure you have been in close discussions with them in more, let's say, tangible terms, in terms of ratios and whatever. Number two. I would like to ask you what will be the cost you believe today for exiting the government-guaranteed funding that you have? And finally, I would like to ask you about the very high tax rate here in the this quarter. Could you explain that a little bit further what is the underlying parts that's moving here?

Peter Straarup – Danske Bank – CEO

If we start with the regulatory requirements, I believe you know as well as I what's been published by the Financial Stability Board and what's been discussed, and these are items like increased requirements for tier 1 capital, liquidity requirements, procyclical buffers, all things which we do think is going to increase costs in the financial sector. I can't specifically guide you more. I hope that there will be a tiered introduction of the new requirements. You allude to the fact that we might be too optimistic expecting there to be more

clarity before the end of the year, that may well be possible. We hope, though, that there will be some more clarity.

The cost on the exit of the guaranteed funding: Well, we have two types of guaranteed funding at this point in time. Danish banks are presently covered by a guarantee on all their liabilities by the Danish government. That expires on the first of October 2010. That cost Danske Bank Dkr2.5 billion on an annual basis. Then we have issued some single issues where we have bought, if you like, a guarantee. Those run up for ... until about the end of 2013. That is paid on a single-payer basis, and it is about 80 basis points. There there's no cost to recoup, so what happens is that, from the first of October 2010, out of our expense item drops Dkr625 million.

You ask about the tax: There are a couple of reasons. The material reason is that we cannot subtract goodwill depreciation from the tax bill. Another is that we have losses in areas that have a very low tax rate, and that factors into the tax rate also.

Martin Gottlob - Danske Bank - Head of IR

Per, if you take the Q3 number and take into consideration that the tax rate in Ireland is 15% and in the Baltics is also very low, and you adjust for that, then you will come back to - in the third quarter - very close to the normal tax rate.

Per Löfgren - Morgan Stanley

Okay, that's fine. Can I just have a follow-up on the two - first two - questions you connected? Where you stand today, do you think it's - with whatever it will be that's going to come out in more tangible terms - do you feel that there's anything that you need to do today - what you're going to be working on from now until Christmas, let's say - to prepare yourself for whatever is going to come?

Peter Straarup - Danske Bank - CEO

I think on the liquidity side, we have, as Tonny indicated, already done quite a bit. I think our loss-absorbing tier 1 ratio is so strong that it'll meet any requirement. The only ratio where Danske Bank looks, if you like, leveraged is a crude leverage ratio, where we have to add realkredit book (our mortgage bank) and our pension company on top of the bank book. Here we are exposed. I don't think we will get a crude leverage ratio introduced very quickly, and I hope and think that regulators will think what it is composed of before they

start to introduce it. But on that - in that area - Danske Bank cannot correct that within the next three months.

Per Löfgren - Morgan Stanley

Okay. Thank you very much. That's very clear.

Fridtjof Berents - Arctic Securities

Yeah, thank you. Just one question. Looking back at your Pillar III report, or your management - Risk Management report from 2008 - you stated that the average risk weight for your corporate customers were 36%, the exposure-weighted average risk weight. I wonder if you have some - could you give some indication of what the exposure-weighted risk weight looks like now relative to at that time?

Tonny T. Andersen - Danske Bank - CFO

I don't have the numbers in my head, but I can tell you it's definitely gone up as the customers who migrated down to lower-weighted categories. I can't the numbers top of my head, but they have gone up, no doubt about it.

Fridtjof Berents - Arctic Securities

So those numbers could be available if we ask Martin for them, is it?

Tonny T. Andersen - Danske Bank - CFO

No, I don't think, we do that we as part of our full-year risk management reporting at the end of 2009. There it will be available at that time.

Fridtjof Berents - Arctic Securities

Okay. Thank you.

Andreas Hakansson - Credit Suisse

Yes, hi. I actually have two questions. First one is on NII. If we look in your results note on page 27, we see that your NII in Q3 was 11.4 billion, up 25% year-on-year, and then we compare that to the operational number, which is a lower number and virtually no growth year-on-year. Could you just take us through or remind us of the drivers of that, and is that an indication of how much revenue is actually taken from the yield curve? Second question is on... If you're having the discussions with the regulator, politicians, because when I look at the fees you're paying for Bank Package I, it seems to be very punitive for you that you have to pay for all bad behaviour of the smaller Danish banks. Also, when I then look

at your equity tier 1 ratio of 8.5, on a pan-European basis that is a very strong capitalisation, but the politicians still force you to take in all the hybrids, which also then seems quite punitive. Could you tell us what's the regulator telling you when you ... if you're discussing this with the regulator at the moment? Thank you.

Tonny T. Andersen – Danske Bank – CFO

Just on the regulator on the capital side: The whole premise for the first banking – for the Banking Package – was that the regulator and the Danish central bank, did some stress testing, saying that banks should be able to have at the trough of a recession, a deep recession, a 9% tier 1 ratio. And applying that to the Danish banks, that means that their replenishing with the capital that would make the Danish banking system very resilient. That was part of the arguments for us to undertake the state hybrid into this and be able to meet that strenuous test at that time. We don't feel any pressure from regulators or politicians at that time to say that we need to take in more capital. They can see that the Danish banking sector with this one here are well capitalised.

Andreas Hakansson – Credit Suisse

So, Tonny, just to follow-up on that: When I look at the crude leverage ratio, that's something that could be introduced in a pan-European level, but it doesn't sound like it would be introduced by the Danish regulator. And if that's case would...

Tonny T. Andersen – Danske Bank – CFO

(Inaudible)...

Andreas Hakansson – Credit Suisse

Now if that's the case, wouldn't the Danish regulator...

Tonny T. Andersen – Danske Bank – CFO

Go ahead, Andreas.

Andreas Hakansson – Credit Suisse

I said if that's the case, wouldn't the Danish regulator step back from that stress test impact on your core (tier 1) ratio, which is then being much more strict than what we see in other places in Europe?

Tonny T. Andersen – Danske Bank – CFO

Well, I have to say that we're looking at the issue of leverage ratio. It's still very much up to debate what would the outcome

be. Because if you look at the Basal Committee, they're recommending it's Pillar I. If you look at the EU, they're saying it should be Pillar II discussions. And then the whole notion of what is in the denominator, what is in the numerator... We show in our results and in our IR slide No. 17 what is the leverage ratio in Danske Bank. In US GAAP, it's 4.2. And if you adjusted for the matched-funding here in Denmark, it's around 6%. So there I think that we are actually okay positioned here. It's still very much up to debate when and how and if a leverage ratio is going to be introduced because that would hurt basically the mortgage finance system in the Nordic banks that has worked so well during this financial crisis and it would also hurt repo business that are facilitating liquidity in the financial system in the Nordic system. So I think there will be some political issues here to work around, and we don't sense pressure on that at this stage. But when it is – the definition is – ready and the phasing-in is ready, then we'll have to look at it at that time, obviously.

Peter Straarup – Danske Bank – CEO

You indicate on the banking package that we are paying for all the small banks, and of course we think we're paying quite a bit for Banking Package I. But it needs to be said that we're paying one-third. So somebody else is paying two-thirds, and that of course is all the other banks.

Tonny T. Andersen – Danske Bank – CFO

I didn't understand your question on NII, Andreas.

Andreas Hakansson – Credit Suisse

I was just looking on page 27 of your report...

Tonny T. Andersen – Danske Bank – CFO

Yeah

Andreas Hakansson – Credit Suisse

where the net interest income, which is of course a different NII to your operational account on page 3.

Tonny T. Andersen – Danske Bank – CFO

Well, that's because here, as you know, in our Markets division, we have interest rate income from bonds, and we collide that into one line called "total trading" line. So this is more for the statutory reporting rather than the segment reporting. You can use this way to look at our NII.

Andreas Hakansson – Credit Suisse

But just ... if most European banks at the moment would take the benefit of playing the yield curve straight on NII, which you don't ... But should this be an indicator of how big that impact actually is on your result rather than on the NII?

Martin Gottlob – Danske Bank – Head of IR

Andreas, if you take a look at note No. 2 on page 33 and 35 – I'm sorry, 34 and 35 – you can see that net interest income at Danske Markets in the nine months this year is up from 3.5 billion last year to 10.2 billion this year. This of course an indication of what kind of increased interest rate that Danske Bank – Danske Markets – had been able to reach – achieved – given this net interest environment we have right now. And the one you see in the key figures on page 3 and in the segmentation is more the pure customer-driven net interest income coming from – mainly from margins. However, increasing funding costs are actually transferred to and reducing the net interest income in the business areas.

Andreas Hakansson – Credit Suisse

Okay, that's perfect. Thank you.

Jan Wolter – Deutsche Bank

Yes, hi. Jan Wolter, Deutsche Bank here. Just a couple of questions here. First one: In your world, does anything support volume growth in the Group going forward the way you see it? Secondly, if you could give an update on the NII sensitivity for 100 bp rate hike, does this guidance that you've given earlier include effect from the free float on equity, deposit margins as well as higher funding costs on your trading portfolio, which I assume must be taken into account? And then my third question would be your match-funded 12-month to date: Is the ambition to keep this match-funding at 12 months, or would your ambition be to extend it? Those were my three questions. Thanks.

Tonny T. Andersen – Danske Bank – CFO

The match-funded 12-month curve, which we measure according to Moody's, we maintain, to keep at it 12 months, the minimum, also going forward. And the sensitivity in the Group: if you see a 100 basis point increase in the short-term rate, is around Dkr1.8 billion today in NII per year, full-year effect.

Jan Wolter – Deutsche Bank

Okay. And that's the net effect of the float from equity, deposit margin plus higher funding costs in your trading portfolio?

Tonny T. Andersen – Danske Bank – CFO

You're thinking that if the interest rate would go up, but then also the trading ... we'll probably also see a higher yield on the bonds that we invested in.

Jan Wolter – Deutsche Bank

Okay.

Tonny T. Andersen – Danske Bank – CFO

So it'll be around that area.

Peter Straarup – Danske Bank – CEO

And it depends of course to what happens with the yield curve.

Jan Wolter – Deutsche Bank

Okay.

Peter Straarup – Danske Bank – CEO

I didn't understand the question about growth. What was that?

Jan Wolter – Deutsche Bank

Oh, I'm thinking about, on Group lending, volume growth going forward: Do you see anything supporting volume growth in the Group – Danske Bank Group – going forward, given that you earlier said that in all your core markets, we see a downturn in the economic activity?

Peter Straarup – Danske Bank – CEO

I think in the short-term, loan demand will be very slow, very slack, and that's also what we've seen in the third quarter. Predominately, it's to a large extent major companies that are not drawing up on their overdraft facilities because working capital requirements are coming lower. So I think any sort of reversal of that trend would have to wait for a significant turn of the cycle, which hopefully is what we're seeing starting now. But it will possibly and probably be some quarters before you start seeing growth.

Jan Wolter - Deutsche Bank

Okay. Thank you. Very clear.

Jacob Kruse - Autonomous

Hi. It's Jacob Kruse, autonomous researcher. Just two questions. Firstly, I just wanted to ask you if you have any exposure to CIT, either through bond or CDO portfolios or directly? And secondly, just on your net interest income: Consensus is for 28 billion 2010, and I think you're analysing about 26.5 billion at the moment. So how comfortable do you feel with that kind of expectation in the market? Thank you.

Tonny T. Andersen - Danske Bank - CFO

We don't have any exposure to CIT either directly or indirectly. And on the 2010, we give guidance for this year, and I don't want to give specific guidance already for 2010. I think you know what goes into the equation on NII. Your assumption on the interest rate level - what is that: You can assume on volume, and you can see the current margins on lending and deposits - what is probably going to be more or less the same. And then depending on your assumption on short-term interest rates and the ability to reprice, you can quantify it yourself. But I don't want to give any guidance at this time for 2010.

Jacob Kruse - Autonomous

Okay. Thank you.

Operator:

There are no further questions at this time.

Peter Straarup - Danske Bank - CEO

Okay. Thank you, operator, and thank you all for your interest in Danske Bank and for your questions.

As always, you are all welcome to contact us if you have further questions after you have had time to look at the accounts in detail.

And as usual, we will be ready to talk to you until 9.00pm this evening Central European Time and of course again tomorrow morning.

A transcript of this conference call presentation will appear on our Web site shortly, and a transcript of the Q&A session will be added within a few days.

Operator:

Thank you, ladies and gentlemen. This concludes today's conference.