

# Conference call speech

Annual Report 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 2009**

Thank you, operator.

Welcome, and thank you for taking the time to attend this presentation of Danske Bank's financial results for 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 and the current macroeconomic environment. Then Tonny will review the most important accounting items. Finally, I will comment on some key developments and give you some observations on 2010.

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

Please go to slide 3.

### **Improved result despite challenging conditions; continued decline in loan impairment charges**

Two thousand and nine was a challenging year. The sector experienced the worst financial crisis in 80 years, and all of our markets suffered from adverse macroeconomic developments. This caused very difficult market conditions for both Danske Bank and many of our customers.

Considering that 2009 is expected to be the worst period in the current recession, a 65 per cent increase in net profit over the level in 2008 is not just acceptable. It is actually a little better than expected - even though a net profit of 1.7 billion Danish kroner is not close to either our ambitions or our potential.

When we look at the results, two items in particular catch the eye: an extraordinarily high level of impairments and also record-high income, driven mainly by trading income. These developments are direct consequences of the financial and

economic crisis, and concurrently with emerging signs of economic stabilisation, both items gradually declined during the year.

In 2009, we intensified our focus on cost management. The actions we have publicly announced are only the top of the iceberg. We are turning every stone internally in order to increase efficiency and improve the earning potential of the Group. As expected, our underlying cost base remained flat.

Capital, liquidity and gearing were focus areas in 2009 in our preparations for future regulatory changes in the financial sector. At the end of the year, we had the strongest capital position in the Group's history. One of the reasons was our decision to borrow 26 billion in hybrid capital from the Danish state.

After the international capital markets improved, we decided to strengthen the maturity profile of our funding. The Group's liquidity position thus also improved significantly by the end of the year.

Finally, our total assets declined 13 per cent, thus lowering our gearing.

There is no doubt that 2010 will be another challenging year for the financial sector and for Danske Bank. I believe, however, that the Group is in a strong position to continue to support our many good customers and to absorb losses from a possible economic downturn in the future. At the same time, we are well prepared to accommodate future regulatory changes and to weather the expiration of the first Danish bank package's general guarantee in October.

Please go to slide 4 for an elaboration on the macroeconomic situation in the early phase of 2010.

#### **Indications of macroeconomic stabilisation, but turnaround is still fragile**

The downturn in 2009 was sharper than anyone could have imagined, and although we are starting to see signs of economic recovery, the recovery is likely to be a slow process. We expect 2010 GDP figures to be positive in most markets, but not impressive.

Of the Nordics, Denmark was the country hardest hit by the recession. We hope Danish consumer spending will rebound in 2010. We have already seen a stabilisation of house

prices, supported by very low interest rates. Unemployment rose in 2009, not only in Denmark but also in all the Group's other markets, and we expect the trend to continue this year.

The effects of the Danish tax reform are still a swing factor, but higher disposable incomes should inevitably have a positive effect on economic activity.

Ireland and the three Baltic countries are the other markets that have been hurt the most in the economic downturn. But the outlook for these countries remains poor, and we expect the recovery to take longer there.

Please go to slide 5.

#### **Record-high income, but net profit hurt by high impairment charges**

Danske Bank generated its highest income ever at 59.3 billion as the economic instability created very favourable market conditions for Danske Markets. Net interest income, which rose 2 per cent from the level in 2008, remains the main income source.

In 2009, we booked 2.8 billion in income from Danica, in contrast to a 1.7 billion loss in 2008. The improvement in the investment result was large enough for us to book not only the full risk allowance of 1.1 billion for 2009 but also 0.6 billion of the postponed risk allowance from 2008.

Expenses rose only 180 million above the figure in 2008. Adjusted for guarantee payments under the first Danish banking package and for goodwill impairments, the operating cost base was actually at the same level as in the year before, which is fully in keeping with our intensified focus on costs.

Loan impairment charges came to 25.7 billion, or more than twice as much as in 2008. The positive aspect is that we saw a steady decline during the year, and we expect the impairments this year to be at a lower level than in 2009.

Please go to slide 6, as I turn the microphone over to Tonny, who will take you through the specific accounting items in more detail.

#### **Slightly increasing and robust net interest income from banking activities**

Thank you, Peter. Let us start with net interest income.

On an annualised basis, net interest income rose by around 500 million, but adjusted for the net cost of the government hybrid capital of about 425 million per quarter, the increase was 1.6 billion. This is a clear indication that our core business – banking activities – is still very robust.

We have worked painstakingly on our margins in order to achieve a better match between risk, maturity and price. As a result, lending margins increased at all of our banking units. We expect no further hikes, but I will be satisfied to see a stabilisation of margins going forward. In the Nordic region, competition on lending margins resumed somewhat in the last half of 2009.

Moreover, deposit margins put pressure on net interest income because of floor risk from lower short-term interest rates and fierce competition for deposits. We expect this competition to increase as we approach the expiration of the first Danish banking package. We will remain competitive on deposit margins, but it is not our goal to become the price leader in this area.

Net interest income was also pressured by lower lending volumes in the fourth quarter. But it is important to note that, throughout the crisis, we have continued to lend to our good, creditworthy customers, and we have also targeted selected new customers. Our market shares have been relatively stable. Moreover, it is positive that we saw a significant increase in new lending to both retail and corporate customers in the fourth quarter.

On a quarterly basis, net interest income has more or less stabilised, and the increase from the third to the fourth quarter was primarily a result of year-end mortgage activity in Denmark and 87 million in one-off interest on a VAT refund for prior years. The 179 million refund itself was booked under Other income.

Please go to slide 7.

#### **Stable net fee income, up in Q4 on performance fees at Danske Capital**

Lower lending was the main reason for the 5 per cent decline in net fee income compared with the level in 2008. But the downward trend has slowed.

The quarterly increase in net fee income was owing mainly to performance fees at Danske Capital.

Please go to slide 8.

#### **Net trading income at more than double the normal level, but declining as expected**

Trading income reached unprecedented heights in 2009 at 18.2 billion. Danske Markets managed to exploit beneficial market conditions in the first half of the year especially. As expected, trading income declined in step with market stabilisation, and the fourth quarter result was something of a negative surprise.

The trend shows that not all of the positive effects we saw last year are sustainable in the long run, but the sharp drop in the fourth quarter does not necessarily mean that we have returned to normal yet. Some of the decline was owing to especially low activity in December.

The result in Group Treasury was 0.1 billion, but it was negative in the fourth quarter because of losses on our bond portfolio.

Please go to slide 9, where I would like to spend a little time on the income from our insurance business, Danica.

#### **Insurance income up on higher investment result, risk allowance and 50% of shadow account**

Throughout 2009, Danica managed to maintain its position as market leader in Denmark, and income from insurance business, at 2.8 billion, showed an improvement of 4.5 billion over the year before. It was driven by three main factors:

- First, the investment result was 2.3 billion higher than in 2008 owing to better investment returns.
- Second, the high investment return allowed us to book the 1.1 billion risk allowance for 2009.
- Third, it also allowed us to book 50 per cent, or 573 million, of the postponed risk allowance from 2008.

I would like to stress that our unit-link business is now showing positive accounting results. The insurance result was 172 million better than the year before because of an improved investment result and lower costs. This means that income from existing customers more than compensated for the costs of acquiring new customers. The unit-link line has thus moved into a more mature phase, with a positive result as the underlying trend. Normalised, this will be about half of 1 per cent of investment assets.

Another thing that catches the eye is the 40 million expense regarding a special allotment to customers of the former "Statsanstalten for Livsforsikring". We expect this figure to be higher in 2010.

The pension market was adversely affected by the economic crisis as layoffs and lower activity caused premiums to decline by 7 per cent in 2009, despite the positive effect towards the end of the year of changes in tax relief for some pension types. The changes are part of the tax reform that took effect in 2010.

Unit-link products (both in Denmark and abroad) accounted for 54 per cent of total life premiums, compared with 49 per cent in 2008. Since the unit-link business is growing faster than conventional life insurance, going forward, both the capital requirement and earnings volatility will be lower.

Finally, I would like to add that embedded value in Danica increased by 29 per cent in 2009 to 2.6 billion.

Now, let us turn to expenses.

Please go to slide 10.

#### **Tangible results of intensified cost focus; momentum sustained into 2010**

Total expenses rose only 1 per cent above the 2008 level to 28.9 billion, while the underlying trend was flat. We were thus able to offset the general inflation of salaries and prices.

In 2009, we intensified our focus on cost management. Some of our more conspicuous cost-cutting initiatives were:

- a reduction of staff by 350 FTEs in February and 220 FTEs in August
- the merger of the corporate functions of our Danish banking activities and Realkredit Danmark in August, which reduced FTEs by 220
- the restructuring of our Irish activities announced in December, which will lead to a 25 per cent reduction of staff and the closure of 40 per cent of the branches
- and finally, also as announced in December, the closure of a number of small branches in Sweden, although the current staff level will be maintained

The chart on the right shows the steady reduction of staff and branches from the peak in the second quarter of 2008. In

2009 alone, we cut FTEs by more than 1,500 and closed some 70 branches.

But our increased cost management efforts are not just a matter of redundancies and branch closures. This is an ongoing process in which we are scrutinising our spending in all areas in an attempt to streamline the organisation and our work processes to achieve higher efficiency and to exploit technological opportunities.

Please go to slide 11.

#### **Loan impairment charges declining, but from a very high level**

Loan impairment charges reached the extraordinarily high level of 25.7 billion in 2009, and the annualised loan-loss ratio now stands at 135 basis points. But it is encouraging that impairments have continued to decrease on a quarterly basis since the peak in the fourth quarter of 2008. In the fourth quarter of 2009, the loan-loss ratio was down to 105 basis points. Total write-offs in 2009 came to 5.3 billion.

With the recent signs of economic stabilisation, we have greater visibility looking forward. We expect impairments to continue to decline, although the level is likely to remain high as our markets gradually emerge from the depths of the economic crisis.

Please go to slide 12.

#### **Increasing number of upgrades in H2 2009, but the real economy is still in a recovery phase**

Recent developments in our internal customer ratings, shown on this slide, support our expectation of declining impairment charges.

The 50 per cent horizontal line indicates the breakeven level between upgrades and downgrades. So downgrades still account for most of the rating changes, but the share of upgrades is slowly increasing. For comparison, we have included Moody's rating drift for Western Europe, and you can see that it has been following almost the same pattern.

Please go to slide 13.

#### **Loan impairment charges still dominated by corporates; stable coverage ratio**

In the fourth quarter, small and medium-sized enterprises still accounted for about half of our impairment charges, but their share declined, as charges for personal customers and particularly for financial customers increased. Charges for large corporates also decreased on a quarterly basis.

The sectors that have been hurt the worst by the macroeconomic situation are property, transportation (including shipping), agriculture, durable consumer goods and private equity. Impairments for financial customers include provisions for expected payments under the loss guarantee to the Danish state in the first Danish banking package. These provisions, which also cover the fourth quarter of 2008, now total 1.9 billion.

We have changed our disclosure of non-performing loans, since it seems that we have used a broader definition than many of our peers by including both rating categories 10 and 11. We have therefore now chosen to show what we call "exposure subject to individual impairment test" and the breakdown of our credit exposure to these two categories. Some 45 per cent of this exposure is to customers in category 10, for which we have an indication of economic difficulties but which have not yet been declared in default. One may say that these loans are actually still performing.

The coverage ratio is stable in the forties, but when we take collateral into account, it comes to around 90 per cent. Please remember that we do not use the coverage ratio as a target: It is rather a result of our impairment tests.

Now let us take a look at the individual countries. Please go to slide 14.

#### **Good trend in loan impairment charges on the Nordic markets**

When we look at our four largest banking activities units, it is striking that in the fourth quarter we actually saw a reversal of impairments in both Sweden and Finland.

Danish banking activities represent the largest share of the Group's impairments, but at 2.2 billion in the fourth quarter, the level declined again after the increase in the third quarter. The impairments consist mainly of a few large segments: agriculture, commercial property and personal customers.

But the single largest segment is the impairment charges made under the shared obligation in the first Danish banking

package, which came to 409 million in the fourth quarter and a total of 1.6 billion in 2009. We have now booked a total of 1.9 billion of our maximum 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 as part of the first Danish banking package. Please remember that, as of October 1, 2010, we are no longer liable for this expense.

The 102 million in fourth quarter impairments at Banking Activities Norway was caused by a few large commercial property customers.

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

#### **High loan impairment charges in Ireland, the Baltics and Danske Markets**

Please note that the business units shown on this slide make up only 12 per cent of our total loan book. Loan-loss ratios remained high at these units, but it is positive that - except at Danske Markets - impairments charges are coming down on a quarterly basis, most noticeable in Northern Ireland.

In both Northern Ireland and Ireland, the property segment still accounted for around 80 per cent of the charges. In Ireland, we believe that NAMA will eventually have a positive effect on the troubled property market.

The economies of the three Baltic countries saw a drastic slowdown and significant deterioration in 2009, and they are still under much pressure. Despite expectations of some stabilisation in 2010, unemployment is forecast to increase even further, and there is no prospect of a quick return to the high growth rates they experienced before the crisis. It is encouraging, however, that impairments are gradually declining in these countries as well. In the fourth quarter, charges were made in both the retail and corporate segments, but they consisted of individual impairments only.

Most of the impairments for Other activities concern Danske Markets, and they have been high as declines in asset values led to impairments on financial counterparties. This was also the case in the fourth quarter.

With these remarks on our credit exposure, I conclude my part of the presentation and hand the mic back to you, Peter.

Please go to slide 16.

### **Significant funding completed in 2009; very low funding need in 2010**

Thank you, Tonny.

Without a doubt, the financial sector will become subject to stricter regulation in the future, and at the moment, international authorities are trying to reach universal standards. In December 2009, the Basel committee presented a proposal for new regulations, and the three areas of liquidity, capital and the leverage ratio are of the most concern to us.

We have taken a number of actions to prepare for future regulation. On the next couple of slides, I would like to elaborate a little on this, starting with liquidity.

The Basel committee proposal introduced two new funding ratios: a short-term liquidity funding ratio to make sure that banks hold sufficient liquid assets; and a long-term net stable funding ratio to address funding gaps in long maturities. I will not comment specifically on these two ratios today, since many details are still unclear. But I would like to stress that, when the conditions on the international capital markets improved from the middle of 2009, we decided to strengthen the Group's liquidity position by extending the maturity of our funding. This was achieved through a number of measures.

We have issued medium- and long-term debt primarily, both with and without the individual state guarantee that was part of the second Danish banking package. Actually, we have not needed to make use of the guarantee since July 2009.

We also issued covered bonds from our cover pools. Most noteworthy was our 10-year-benchmark issue in November for 1.25 billion euros at a mid-swap spread of 63 basis points. The covered bond market was generally very attractive for us in the fourth quarter, when we made 12 issues totalling more than 25 billion, with maturities of up to 18 years. From 2008 to 2009, we actually doubled the average maturity of our covered bond portfolio. And there is still enough unutilised potential in our cover pools to meet our entire funding needs for 2010.

In addition, we have the advantage of the Danish mortgage finance system. Our mortgage book of some 650 billion Danish kroner has an average formal maturity of more than 22 years, giving us one of the longest funding profiles in Europe. Combined with 100 per cent match-funding, this

eases the cost of our pass through long funding and ensures the liquidity for the entire mortgage book.

Having raised more than 180 billion in 2009, we have a minimal funding need of approximately 30 billion in 2010. The improvement is evident in our Moody's 12-month liquidity curve, which shows that the Group is able to manage without access to capital markets for much longer than 12 months. Consequently, we are well prepared for the expiration of the general guarantee under the first Danish bank package in October 2010.

Please go to slide 17.

### **Capital position strengthened further in 2009**

Capital is another area that will certainly be subject to changed regulations, with new requirements and definitions.

Danske Bank's capital position improved significantly in 2009, and it is now stronger than ever, with a tier 1 ratio, including loss-absorbing hybrid capital, of 12.4 per cent. This is owing to a combination of our positive result, the continued reduction of our balance sheet, and the 26 billion in state hybrid capital.

An example of new regulation that has already taken effect is the requirement that Danish financial companies disclose the result of their internal capital adequacy assessment process. Danske Bank's ICAAP result for 2009 was 84 billion, and our ICAAP ratio was 10.1 per cent. Measured against our total solvency ratio of 17.8 per cent, this indicates that we currently have excess solvency of 64 billion.

When you look at our ICAAP ratio of 10.1 per cent, it is important to be aware that the rules on the transition from Basel I to Basel II make the ratio higher than it would be under the final Basel II rules. If the transitional rules had not been extended, our ICAAP result would have been about 3 billion lower, giving an absolute ratio of 9.7 per cent, and the solvency buffer would have been 3 billion higher, or 67 billion in total.

Please go to slide 18.

### **Narrowing loan-to-deposit gap and improving leverage ratios**

Reducing our balance sheet has been a central goal for us for a long time, and in 2009 alone we reduced it by 13 per cent,

or 450 billion, by deliberately limiting the size of our trading and investment portfolios as well as our repo book. In the same period, lending declined 6 per cent, primarily because of lower demand. This had a positive effect on our loan-to-deposit ratio, of course, but we have also made an effort to increase our deposit base. The result is an improvement of the Group's loan-to deposit ratio from 123 per cent to 114 per cent. This means we have reduced our deposit deficit by 40 per cent in the past year.

This brings me to the last subject concerning future regulation: the leverage ratio. There is still uncertainty about the definition of this ratio. We have therefore chosen to disclose the same types of leverage ratio as in previous quarters, and as you can see, we have continually improved all three of them.

Please go to slide 19.

#### **Outlook for 2010**

We are starting to get more visibility and fragile economic improvement, but that does not mean we are through the crisis. We still believe that 2010 will be another challenging year, with only modest growth and even higher unemployment. Many of our customers will therefore continue to experience difficulties, and we expect loan impairments to remain high, although not as high as in 2009.

Our banking activities are still robust. But net interest income is under pressure, and we do not foresee any interest rate hikes until the second half of the year.

Income from Danske Capital, Danske Markets and Danica will depend on developments in the capital markets, but we do not expect trading income to be as high as in 2009. In 2010, we expect the special allotment at Danica will be around 500 million. This will be offset, however, by an expected 700 million one-off gain in Danske Markets from the merger of partly owned PBS A/S and Nordito AS.

Total expenses will benefit from our intensified focus on costs, but we will continue to invest in product and IT development in order to make it easier, cheaper and better to be a customer of Danske Bank in the future. It is therefore my hope that we will be able to beat inflation in 2010. Also, remember that both total expenses and impairment charges will decline after the expiration of the first Danish banking package at the end of the third quarter of 2010.

Robust banking activities, tight cost control, and a strong focus on risk, liquidity and capital management are the ingredients for a good start on the transition from the financial crisis to normalcy and our platform gives us a strong foundation for future earnings.

Please go to slide 20.

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#### **Q&A session**

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##### **Peter Straarup - Danske Bank - CEO**

That concludes our presentation of our financial results for 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.

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##### **Jakob Brink - Handelsbanken - Analyst**

Hi, it's Jakob from Handelsbanken in Copenhagen. I have a few questions regarding loan losses. It all looks pretty good in this quarter, but still I'm just wondering a bit about what happened in Danske Markets? I believe you said in Q3 that losses in Q4, Q1, and Q2 was led by the financial crisis and now it's more of a recession and we should see no more losses in Danske Markets. And yet you have 900 million in the fourth quarter, so what happened there? Secondly, in Ireland, I was just thinking once again you have pretty high loan losses in the Irish business. Your statement reported you expect flat GDP growth, you expect NAMA to start working. And as far as I recall, you have written down around 40% of your construction book there, around 9% of the total book. So how much more should we see in Ireland, just roughly? And then finally in Ireland: It looks like the staff costs are increasing quite dramatically in the fourth quarter. Is that related to the severance pay which was announced in December? Thank you.

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##### **Peter Straarup - Danske Bank - CEO**

On the loan losses in Markets, I don't think we have made a solemn promise that there could not be extra write-downs on some of the outstandings we had here. It is a reflection of the fact that, having gone over and over, we have found other exposures that we thought we should make an impairment

charge on. As the improvement in general economic conditions ... sort of takes firm hold, I would think we were finished with that. But considering the size of the exposure, it's not something that concerns us that much.

Ireland: We've seen high loan losses. There's a flat expectation in macroeconomic developments. One could hope that there is an underpinning under the property market, which, as you indicated, is especially where we are. There's not a lot of liquidity in the Irish property market, to put it mildly. That's why we state that we hope NAMA possibly will bring some liquidity into the market, and that should give us a situation where there will be less requirement for impairment charges going forward. Still, for 2010, we think Ireland's going cost us a bit, hopefully not as much as last year. You're right about the staff costs in Ireland. That is due to downsizing.

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**Jakob Brink - Handelsbanken - Analyst**

Okay. Just one follow-up. In Danske Markets, was the 900 million related to something or some exposures you already had booked losses on and you just found a bit more, or was it a new exposure?

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**Peter Straarup - Danske Bank - CEO**

Predominately, yes.

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**Jakob Brink - Handelsbanken - Analyst**

Okay, thank you.

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**Chintan Joshi - Nomura - Analyst**

Hi. If I adjust your net interest income for the one-offs that you mentioned, the mortgage finance and the VAT refund interest, it's down about 3-4%. I'm just wondering if you can give us an outlook for margins and volumes over the next two-three-four quarters, just to give us an idea about what's happening to net interest income. And then the second question is on risk-weighted assets: If you can highlight the quarter - your quarter-on-quarter movement in risk-weighted assets. I just want to know what is happening there, and also if you see further potential to reduce risk-weighted assets. Thank you.

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**Tony Thierry Andersen - Danske Bank - CFO**

On the net interest income, I believe our expectation on volume is that it will be more or less flattish from going on here on the lending side. Deposit may be coming up

somewhat. On the margin side, we think that lending margins are being stabilised now. We see increased competition on that, so more or less stabilised. And on the deposit side, it would be at the current low level, I think, until the second half of 2010, where expected hikes on ECB rate will benefit us. Keep in mind, for every 100 basis points ECB raises short-term rates, we'll probably benefit on an annualised basis between 1.7 to 1.8 billion.

When you look at the risk-weighted assets quarter-on-quarter, there is a drop of around a hundred billion, and you can divide it into two brackets. The one is lower lending, which accounts for half of it. The second half is because we have individualised previously generic provisions to specific clients that had a high risk weight before they were assigned a provisioning on it. So that is the reason.

And I think going forward, given the outlook I just gave you on the lending side, I think - I cannot rule out - that risk-weighted assets will decline a little bit, but it's not going to be significant to the level here. That will not be a base case per se.

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**Chintan Joshi - Nomura - Analyst**

And if I just follow up on the deposit margin, you highlighted possible competition - would that impact your margins going ahead?

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**Tony Thierry Andersen - Danske Bank - CFO**

I don't think significantly from the current level because it already is quite low when you look at deposit margin in the different areas. And you should keep in mind that several countries will act quickly if the economies move a little bit back into positive area by hiking the rates. So that could help it on the other side.

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**Chintan Joshi - Nomura - Analyst**

Thank you.

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**Martin Gottlob - Danske Bank - Investor Relations**

I will pop in with a question from our website. It's Geoff Dawes from Macquarie who has asked two questions. One is: What restructuring of the non-Danish operation is required, and is the return to profitability a precondition of any restructuring? And the second question is: What needs to change in Denmark for Danske Bank to return to sufficient ROEs, and when does management target this, e.g., 9% return on equity hurdle? That was the two questions.

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**Peter Straarup - Danske Bank - CEO**

If we take the first one with the international franchises: In general it's Danske Bank's observation that we're in the right business - retail banking, which is where we have our skill set, and the franchises we have are also fairly well embedded. So restructuring comes to improvement of the costs and of course improvement of the loan book and the loan-loss activities. If you look at our Nordic franchise - Sweden, Norway, and Finland - you will also see that already there we have seen good developments in impairment charges. So here it's again related to decreasing costs and making the supply more efficient. We have a product portfolio which is very strong, so the Bank's offer to customers is good.

In the Danish Market, it's somewhat the same. We have made a number of branch closures, mergers. Could be a little more of that. The costs have gone down because we've reduced headcount. I think we'll continue to do that. Also here, we have a strong product platform, and we've had too high impairment charges obviously due to the crisis, which we expect will be lower going forward.

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**Tonny Thierry Andersen - Danske Bank - CFO**

And if I may add on the Danish one, keep in mind that as from the first of October 2010, when you no longer have to pay 625 million every quarter in fees for the first Danish banking package. That is clearly impairing our earnings before provisioning in Denmark. We get rid of that, as I said, from the first of October this year.

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**Peter Straarup - Danske Bank - CEO**

And we also get rid of any sharing obligation in case a Danish bank goes under.

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**Martin Gottlob - Danske Bank - Investor Relations**

Thank you, operator. You may continue.

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**Claus Jensen - ABG - Analyst**

Yes, I have two quick questions. The first one is regarding your liquidity. You have already extended your liquidity quite a bit. But I was wondering, do you still have ambitions on extending it even further, and what type of impact should we expect this to have on your net interest income costs for next year? The second question is regarding your non-performing loans: They increased 13% from Q3 to Q4. Could you maybe elaborate a bit on what the drivers have been here quarter-

over-quarter and what type of growth rate we should expect into 2010?

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**Tonny Thierry Andersen - Danske Bank - CFO**

On the first one, on liquidity: I think it's important to say that we have probably the best mortgage system in the world, where we have 700 billion of mortgages that are purely match-funded in duration. So that means that on that side, 700 billion, we don't need to think about the duration at all. For the rest of the loan book and given our liquidity, we have extended our funding profile where we think it should be, so I don't see any incremental impact from now on. Obviously, we need to be observant of future regulation and what will be the definition of liquidity buffers, but that is still up in the air. But on a relative basis, with the Danish mortgage system and with our improved loan-to-deposit ratio, I think we have an excellent point of departure here.

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**Peter Straarup - Danske Bank - CEO**

On the non-performing loans, I think it's a fairly natural development. We've seen an increase in impairment charges. It starts with unallocated impairment charges. Then gradually as the crisis unfolds, there are more and more companies that are having individual impairment charges that slide into non-performing. I would think that would track the general developments in impairment charges by a number of quarters. So we cannot rule out that that also will show some increase in the coming quarters as the loans we have already made impairment charges on go into non-performing. But obviously, it has a very close relationship with the impairment charges in the longer-term, and there, as we indicate, we expect it to be lower impairment charges for 2010.

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**Martin Gottlob - Danske Bank - Investor Relations**

Can I add, we show the graph with the upgrades and downgrades. That indicates maybe the pace will go down because we see less. We see that the relation is improving over the last few months, but we cannot guarantee.

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**Claus Jensen - ABG - Analyst**

Okay, thank you very much.

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**Johan Ekblom - Merrill Lynch - Analyst**

Thank you. Just two questions, if I may. First, in terms of your guidance, you're talking about costs being down year-on-year. I'm just wondering if you can clarify what the basis in Danish kroner for 2009 would you be looking at because clearly if the

reported cost is less ambitious than if you exclude the sort of exceptional expenses for 2009? And then secondly, just in terms of asset quality, there's been, at least in the press, that you mention that there'll be incremental provisions to be taken on non-performing loans in Denmark due to new regulation on how you value land and real estate collateral. And you alluded to this in the statement today, and I was just wondering if you expect any further impact from this, or if this has already been accounted for.

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**Tonny Thierry Andersen - Danske Bank - CFO**

I think on the cost side, we don't give sort of quantitatively ... numbers on that side. You know that, as part of our 2009 results, we also have included goodwill impairment charges, so I think on absolute terms, as we say, we're indicating it will come down in 2010. It could obviously, as a base case, take out the goodwill that will not be hopefully recurring in 2010, and then obviously some of the cost initiatives that we've been carrying through in 2009 will have a full-year accounting impact in 2010. But I will not quantify it further, other than saying that, in absolute terms, we feel convinced and committed to seeing a reduction in expenses.

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**Peter Straarup - Danske Bank - CEO**

On the possible additional credit costs related to the valuation of properties and land bank, I think there's been some discussion in the Danish media about the length of time you could assess that it would take you to sell a property. And I think our regulators indicated that that should be within a short period of time, and there's been some discussion that that might cause some banks to have additional requirements for impairment charges. Danske Bank's evaluation of collateral that we have against exposures ... high valued based on a relatively short span of months before it should be sold, so we will not have anything.

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**Claus Jensen - ABG - Analyst**

I mean, maybe if I can just follow up: I realise you don't want to make any sort of specific guidance on costs for next year. But I'm just trying to get a feel, because if it's total cost, even if we exclude the goodwill, that could still encompass this sort of 5% underlying cost increase and costs will still be down year-on-year. So I'm just trying to say, like if you look at what you did in '09, should we expect you to be able to offset the general wage inflation with cost savings? Or just give us a bit more guidance to ... because the span is very wide at the moment?

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**Tonny Thierry Andersen - Danske Bank - CFO**

Yeah, the answer of course would be hopefully I think we can do so with all initiatives that we've launched.

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**Claus Jensen - ABG - Analyst**

Thank you.

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**Nick Davey - UBS - Analyst**

Yes, good afternoon, everyone. Nick Davey from UBS. Just one remaining question. Just listening to your guidance on loan losses: I know we've been digging into this in some detail already, but could you give us some flavour by region? I mean, if I look at your ratings 10 and 11 lending on slide 31, it looks like your stock of problem loans is declining in Finland, Sweden, Norway. You seem to be increasingly comfortable with the counterparty risk in your Markets division. So I hear your cautious tone in Ireland, but is the rest of your caution based in Denmark or is it a broad-based deterioration that you're cautious of in 2010? Thanks.

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**Peter Straarup - Danske Bank - CEO**

Well, I think there's a general caution also related to what happens in the countries where you see there's a reversal of impairment charges. You're right to point that out. I think one right quarter doesn't make a complete summer [sic]. We have seen in those Nordic countries some retraction in economic activity and we can't guarantee that will get into a quarter where there could be an increase. So our expectation is filled with general caution because of the unusual macroeconomic developments. Other than that, yes, the Danish market was hit harder and the Danish market is not out of the woods, so that's one area. But also think the Irish, as we all know, will still be having some difficult times. But our forecast, I suppose inflexible as it is, covers the entire universe.

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**Claus Jensen - ABG - Analyst**

Okay thank you.

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**Aaron Ibbotson - Goldman Sachs - Analyst**

Yes, hi there, good afternoon. I've got a couple of questions, if I may. First of all, just on the trading sustainability, and I'm not sure if I -- Tonny -- if I understood your comments. You basically said that in Q4 it was a bit disappointing, but also that general activities or, you know, profitability was not necessarily down at a normalised level or steady state level.

So what are your expectations? You've been reasonably forthcoming previously, suggesting that something around a 2 billion mark per quarter is what you're hoping for in the sort of foreseeable future. Is that still relevant? And second question is just a clarification on impairment: Peter, you mentioned that you expected impairment to continue to trend down, and as far as I can tell, both Ireland and some of the Nordic countries are clearly showing good trends. So do you expect it to trend down from the Q4 levels? I realise you can't give exact quarterly estimates, but is that your expectations, or are you just referring to year-over-year? Thank you.

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**Tonny Thierry Andersen - Danske Bank - CFO**

If I take the first on the trading line: We still stick to the ... around 2 billion per quarter. I think that's probably a good estimate on the trading line. When we say that Q4, the general activity, keep in mind that there was a holiday season that was probably playing in, so I think that's one of the things. We still have very good customer activity in our trading area, and have, I think, a very strong franchise in the Nordics. So I feel confident that they hopefully also will deliver in 2010 in this area.

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**Peter Straarup - Danske Bank - CEO**

On the impairment charges: We can't promise that the impairment charges will trend down in one straight line from here onwards. I think in general, though, one needs to see that there's an element of seasonality in our impairment charges, and the fourth quarter is normally actually not a good quarter, if you look at it historically. The first quarter normally does not have such high impairment charges, for whatever reason that lies there. So you could see some ups and downs. Our expectation is that, for the entire year, we will see lower impairment charges. And we would hope that they would trend down from here, but I think the line - we cannot promise you - would not be broken up and down.

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**Aaron Ibbotson - Goldman Sachs - Analyst**

Okay, thank you very much. Sorry, is it okay if I just ask one very quick follow-up, just on corporate lending? As far as I can tell, your corporate lending in total now is down 20% and 24%, I think, in Denmark year-over-year. You mentioned that you expect the total lending to be roughly flat, Tonny. But specifically on corporate lending: We've seen some quite significant drawdowns, maybe more so than the market in general. Do you think it's a consequence of consolidating

branches, both in Denmark and Sweden and Ireland I guess, and do you expect this trend to reverse?

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**Tonny Thierry Andersen - Danske Bank - CFO**

Well, I think that our market share of low-end corporates are more or less stable, maybe coming down a little bit. But when I say flattish on the lending side, it's because I still believe that corporates are cautious on investing, lending for investment, and that working capital is also still coming down or staying at that level. I don't foresee we should have the same drop as we have seen during 2009 going into 2010. I don't see that the changes we do in terms of our distribution channels will have any impact on the corporate segment.

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**Aaron Ibbotson - Goldman Sachs - Analyst**

Okay, thank you very much.

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**Jan Wolter - Deutsche Bank - Analyst**

Yes, good afternoon. Can you hear me okay?

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**Tonny Thierry Andersen - Danske Bank - CFO**

Yep.

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**Jan Wolter - Deutsche Bank - Analyst**

Yes, two questions, if I may. First of all, the question on strategic nature: The markets where Danske Bank operates outside of Nordics - I'm thinking about Baltics and Ireland of course - can you talk a bit about your strategic ambition in these markets? Do you plan to stay there longer-term if you still see the growth opportunities, or if there is a discussion in the Bank if you could downsize not just the cost side there? And the second question is: I see the balance sheet is down roughly 200 million here q-on-q, if you could elaborate a bit on this - if it's been some sort of active deleveraging or if it's just seasonality or what is behind that? Thank you.

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**Peter Straarup - Danske Bank - CEO**

The countries you point out towards, as far as strategic mindset is concerned, have the same kind of banking as we do in the Nordic area. We have some franchises there that are embedded on our platform. We have the same products, same netbank services. They have different positions. In Northern Ireland we are a strong market leader. In Ireland, we are a small competitor. And these markets all have economic turbulence, a meltdown in economic activity, that in some places has been very severe for us. Our expectation is that

the economic cycle is going to turn one day, and the only strategic ambition we have is to pull them through this and then continue operating. And I'm sure that in future they're going to start becoming profitable again, and that is our focus and only that. Because of the fact that we have this common IT platform, they give us scale, and the marginal cost related to having them on our franchise platform is not so large, which is a unique feature of Danske Bank. So it's repair. Let's focus at this point in time, and later hopefully harvesting a bit. On the balance sheet, I'll pass you over to Tonny.

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**Tonny Thierry Andersen - Danske Bank - CFO**

Yeah, I think on the balance sheet, there's a combination of quite active work on deleveraging in our market share area, netting agreements and collateral and also reducing the size in certain areas. That is the bulk of it. And then on the loan side, there's also been a reduction in loans, but that has more been a function of corporates' having less demand for products on the lending side, because on private individuals we still see demand on that notion here. So it's a combination of both active but also how the market has sort of behaved in Q4.

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**Jan Wolter - Deutsche Bank - Analyst**

Okay, thanks a lot for that.

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**Andreas Hakansson - Credit Suisse - Analyst**

Yes, hi. I mean we've gone through most of the stuff, but just if I can follow up one thing on cost. I appreciate you don't want to give any real guidance, but you took out around 7% of the headcount in 2009. Could you tell us about your plans in that area for 2010? Will you do as much, will you do less, or what's your feeling on that side?

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**Tonny Thierry Andersen - Danske Bank - CFO**

On the cost side, we don't want to give too specific on that notion. I think you should expect that the cost reduction in FTEs in 2010 will be through normal attrition predominately. So my guess would be it will be less than what you've seen in 2009. But cost is also other things than just staffing. It's your external spending in all the small categories of this world, and there we will turn every stone around. So it's a combination of those issues. I think ... I also want to stress that we will maintain in 2010 and 2011 a high level of IT investment to fully utilise the advantages of digitalisation, so the cost level we have now is also including pretty high investment on the IT side for the next couple of years.

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**Martin Gottlob - Danske Bank - Investor Relations**

Maybe I just could add that at this point in time, we have ... we had announced that we will reduce staff in Ireland by 150 people. That is not out of the book at the end of 2009, and that will take place in 2010, perhaps also into 2011.

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**Andreas Hakansson - Credit Suisse - Analyst**

So if I hear you right, one line that should definitely decrease would be severance pay, that was around 666 million in 2009?

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**Tonny Thierry Andersen - Danske Bank - CFO**

Exactly, because we booked the severance pay as part of the restructuring in Ireland.

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**Andreas Hakansson - Credit Suisse - Analyst**

Yeah, exactly. And that's all been taken, even though people haven't left yet?

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**Tonny Thierry Andersen - Danske Bank - CFO**

Yeah.

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**Andreas Hakansson - Credit Suisse - Analyst**

Okay, thanks.

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**Christian Hede - Jyske Bank - Analyst**

Yes, this is Christian Hede from Jyske Bank. I have one question left. It's regarding your ICAAP ratio. Could you give us some flavour on the individual solvency need? Is 10% an okay level? Do you have any target or... yeah, could you give any flavour on that please?

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**Peter Straarup - Danske Bank - CEO**

Well, if you look at the level, it's the transition regulations concerning Basel II and I, and the maximum reduction we can get is 20% compared to what it would have been under by Basel I. When Danske Bank has had a quite large expansion in low-risk assets, that keeps the solvency requirement up. We have written more mortgage loans, and that's reason for that. It is not an accumulation of the risk, which is what you would normally see in the ICAAP because of this transaction regulation. If you look at the Pillar I ICAAP requirement, then that's about 9.7. And that is a reflection of the fact that we have evaluated risk and seen that some of our portfolios ... they have higher risk than average. You don't need to talk about Ireland, Baltics again. There are also other areas in our

portfolio where we have felt it's necessary to put aside little extra capital. So it's things like that.

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**Christian Hede - Jyske Bank - Analyst**

Okay. But is it a goal in itself to bring this down towards 8, for example? Or is it going to have 10 and then have a solvency ratio of a 17, and therefore have a lot of buffer anyway?

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**Peter Straarup - Danske Bank - CEO**

Well, the transition we can't do so much about, the transition regulation, and they will be in place for a number of years. So we can't change that much because that's structured from the outside. I think as the economic turbulence abates, the ratio will go down, the required capital will go down, and then the capital cushion will increase. That's a normal development.

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**Christian Hede - Jyske Bank - Analyst**

Thank you very much.

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**Peter Straarup - Danske Bank - CEO**

We don't have a targeted ratio we would like to have.

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**Christian Hede - Jyske Bank - Analyst**

No, that's very clear. Thanks.

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**Mats Liljedahl - Nordea - Analyst**

Thank you. Good afternoon. Just some clarifications. On slide 22, you have this stars, the one-off items related to Denmark, the mortgage product for 490 million. If you could clarify what that was derived from. And also in our Fact Book, on page 14, you have on Sweden - where you have the net interest income - you have other interest that accounts for minus 346 million, if you could clarify what that is. And finally, I know you have...

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**Tonny Thierry Andersen - Danske Bank - CFO**

Could I get the last point you mentioned - where did you see that one, just...

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**Mats Liljedahl - Nordea - Analyst**

Page 14 in your Fact Book.

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**Tonny Thierry Andersen - Danske Bank - CFO**

Yeah.

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**Mats Liljedahl - Nordea - Analyst**

And then you have the maturity profile in the annual report, but if you could just enlighten me on the average duration of especially other bonds, the other funding, and also if you get that from real-credit bonds. I know that is match-funded, but if you could give me the average duration would be really helpful. Thanks.

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**Martin Gottlob - Danske Bank - Investor Relations**

I can start with the NII and the slide 22 and the things related to our mortgage finance company, Realkredit Danmark. The thing we're pointing out here is that the activity in Realkredit Danmark is very high in the fourth quarter due to the roughly half part of the loan portfolio which is one-year floating rate loans, the so-called FlexLoans, which are refinanced every year at the first of January.

Every year, we see a number of people wanted to refi or to fix their interest rates for the coming year well in advance of the new rate is actually fixed during December month. That always, year after year, are producing some extra net interest income in Realkredit Danmark. Now this year, the interest rate has gone down considerably, and therefore we saw what you can call an unusual high amount of people who wanted to fix their rate for 2010 at an early stage.

And therefore we got a lot of these transactions, and all these transactions has generated an extra net interest income. That's why the number is so high. It's very difficult to assess actually how much is unusually much and what should be the normal, but a rough guesstimate should be that, of this numbers, around hundred, maybe a little bit more, could be what you can call unusual high for the fourth quarter. But compared to the third quarter, it's always higher at Realkredit Danmark, and that's what we want to point out.

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**Tonny Thierry Andersen - Danske Bank - CFO**

On the duration side, I think the average duration of our mortgage book is around 22 years, which is the longest you'll probably see in Europe. I don't think we disclosed the average funding duration of the total funding profile, but you can see from the Moody's curve that we are much longer than 12 months in terms of no access to capital markets, which is an indication of extended duration of our total funding profile. But I cannot give you more specific on the other things.

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**Mats Liljedahl - Nordea - Analyst**

Okay. And regarding the interest, the other interest on banking Sweden on page 14?

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**Martin Gottlob - Danske Bank - Investor Relations**

The main reason is, as I said, is higher funding costs, because that's what we have in many of our operations in the last couple of years, and also a change of the way we are allocating funding costs to each business unit.

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**Tonny Thierry Andersen - Danske Bank - CFO**

What we're basically doing is we're telling each banking unit that they are not just paying a charge based on the short-term rate, but based on the duration of the loans they have and the duration of deposits. That net funding gap is what we charge them for. So there is a sort of connection between what the Group has to fund themselves out in terms of the duration and what kind of loans they're doing on the individual brands.

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**Mats Liljedahl - Nordea - Analyst**

Yeah, but it was specifically high for Sweden then.

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**Tonny Thierry Andersen - Danske Bank - CFO**

Well, that's because they've got long-maturity loans on the property side on the corporate side, the mortgage side.

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**Mats Liljedahl - Nordea - Analyst**

Thank you.

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**Torsten Bech - LD Invest Markets - Analyst**

Yes, hello, it's Torsten Bech from LD Invest Markets. Two questions. I just want understand write-downs more in detail. First of all, if we take the statement and look on page 29, normally you had an item called difference between expected losses and impairment charges. It was 2.98 in the Q3 report. Now it's gone. I just need to make sure where these are going to or what level it would be if you include in the capital base at the moment.

Secondly, on the reversal, I was hoping to get some more flavour into where in terms of segments are these reversals coming from and how old were these write-downs before you made the reversals? And finally if you could put some flavour onto what's going on between the collective provisions and the individual provisions. I noticed your collective provisions

are going down by 3 billion quarter-on-quarter, and I was hoping to get some idea here what's moving them in terms of segments and divisions. That was my three questions.

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**Martin Gottlob - Danske Bank - Investor Relations**

I can take the first question regarding the solvency and the capital. You ask about the line called the difference between the expected loss and the book loss in the P&L. And you know that, up until Q3 last year, that was a deduction from our capital base as the loss we had, or the impairment we had, was lower than the expected loss. Now that has changed, and the loss has become higher. And up until Q3, we booked an income of that.

I think it was around 2.3, 2.9 billion in Q3. As plus to the capital base on the Tier II capital, we decided that we would like to be a little bit more conservative when we make up our capital, and therefore we changed the way of accounting our total solvency capital and our Tier II capital. And therefore we have taken that out of the calculation as of the end of 2009. So it's a change of calculating our total capital base, and it becomes slightly more conservative.

I don't have the number of how it would have been, but it would probably not be far away from what we have seen in Q3.

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**Peter Straarup - Danske Bank - CEO**

On the reversals: They stem from a number of accounts. You ask about the age of the reversals. And these are impairment charges that mostly have been made within the present economic downturn, and I don't have a precise age on them.

On the relationship between collective and individual impairment charges, I think it is beautifully correlated to what one should expect and to the economic shock we have gotten. We get a substantial economic shock. We know that that's going to hit our customers. We do not know which specific customers it's going to hit, but our models tell us it's going to hurt.

That's why we in the fourth quarter of 2008 had very high undistributed impairment charges. As we then work through the loan portfolio and the economic turbulence sort of runs its course, we individualise the individual impairment charges and there will be a reduction in collective impairment charges. So I would not expect us to be booking vast collective

impairment charges going forward because now it's a question of individualising what's there. As the economic recovery hopefully takes hold, there could obviously be a development where there would be more reversals, but it's too early to make any prognosis on that.

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**Torsten Bech – LD Invest Markets – Analyst**

Okay, thank you.

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**Jakob Kruse – Autonomous – Analyst**

Hi, this is Jacob with Autonomous. Just a couple of questions. Firstly, I know you didn't want to talk about it too much, but on your net stable funding ratio, could you just comment on how comfortable you feel with your current level relative to where the regulator would want you to be on the current proposal? And then secondly, just on your risk-weighted asset reduction, about half of it seems to come from securitisation, and I was just wondering what actually happened there. And also the risk-weighted asset reduction of, I think, 11% quarter-on-quarter: Does this have any implication for your net interest income going forward in 2010? And then just last question: The exposures that took the losses in the Markets division: Could you tell us roughly how much of those you have on sort of face value or net value basis? Thank you.

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**Tonny Thierry Andersen – Danske Bank – CFO**

On the funding side, with the new regulation, I think in general that we feel quite comfortable on that given that our mortgage book is fully match-funded. I think that's unique by global standards, and that we have 30-year fixed rate mortgages that are funded by 30-year mortgages. So I think that means that, relatively and in absolute terms, we have a very good position on that. I think all banks will have to look at their funding profile and strategy as the final definition is laid out. But I think compared to peers and what the spirit of the new regulation, we feel comfortable of that. But we'll have to monitor in detail. I think, as I said, the key difference being the Danish mortgage system.

On the risk-weighted assets, the reduction of securitisation is due to the fact that we are taking generic provisioning and assigned them to individual provisioning on securitised exposures. These securitised exposures had a very high risk weighting before because they were downgraded, so they had a risk weighting maybe close to 1250%. And as you individualise provisioning, you get a significant reduction in

your risk-weighted assets, and it has no impact on the NII in 2010. The rest of reduction is due to lower lending balance.

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**Jakob Kruse – Autonomous – Analyst**

And just the rest of the other 50 billion of reduction of risk-weighted assets: Do you see that as in any way weighing on your earnings power?

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**Tonny Thierry Andersen – Danske Bank – CFO**

Yeah. Well, because it's reflecting the loan balance are lower, so that obviously will have some impact in 2010, as you see. But that's where we're guiding that we hope total loan balance would be more or less flattish sequentially from now on.

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**Jakob Kruse – Autonomous – Analyst**

And sorry, just to follow up on that: Could that be roughly the same 85 million of volume impact as you saw in the fourth quarter then coming through in the first quarter as you kind of average - - the average - - or the end of the period versus the average?

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**Tonny Thierry Andersen – Danske Bank – CFO**

I don't know. It's too early to say.

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**Jakob Kruse – Autonomous – Analyst**

Okay, thank you.

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**Martin Gottlob – Danske Bank – Investor Relations**

You asked about the losses in Danske Markets as your third question. I think you can see from the report that we have loan book in Danske Markets of 47 billion now at the end of 2009, coming down from 71 billion. We certainly don't expect that to create losses, but we cannot rule out that this book cannot create further impairments in the coming quarters, of course not.

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**Simon Christensen – SEB Enskilda – Analyst**

Yes, good afternoon. I have three or four little questions. Now we talk a little bit about liquidity. Could you tell us how much remain ... the remaining size of your unutilised covered bond pool is? Secondly, you talk a little bit about perhaps that the lending margins is probably where it should be, but what about Realkredit Danmark? We're seeing the contribution margins ticking up a little bit. I guess that's on the corporate side. Would you consider touching the contribution margins on the household side? Also thirdly, you say that you have

now aligned your impairment's definition alongside that of the Swedes. What would the impair figure be in the fourth quarter if you did not do that?

Then my last little question on ... you said that you'll make significant investments on the IT side. Does that mean that you have not, let's say, taken the majority of the cost related to the digitalisation project that you ... I think you mentioned in 2007? That was my four questions. Thanks.

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**Tonny Thierry Andersen – Danske Bank – CFO**

On the cost side, the IT investment: We have said that in 2009, '10, and '11, we'll probably spend 1 billion on utilising the full potential of that, and we're spending quite a lot of money in 2009 and also in 2010. So that's part of the cost guidance we're giving. And we don't see that coming up from what we see the run rate is now on the cost side, but we'll maintain a high level on that.

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**Peter Straarup – Danske Bank – CEO**

On the lending margins, you're right that, in our mortgage company, we've seen an increase in lending margins, to corporates especially. We have no actual plans to increase the lending margin for private households. It would be a development depending on developments in the loan losses, but also certainly in regulation. But actively at this point in time, there are no plans.

You ask about liquidity in the covered bond pool and the size of that. It's not something we disclose precisely, but it's a substantial double-digit figure, which gives us a good cushion.

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**Martin Gottlob – Danske Bank – Investor Relations**

And you asked about the size of the non-performing loans as defined until the third quarter report, and that number will be 81 - 88 billion, sorry - at the end of Q4. You can find that in our Fact Book, page 23, in the normal table we have there.

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**Simon Christensen – SEB Enskilda – Analyst**

Yes, Martin, but didn't you say that you changed the definitions on the impairs?

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**Martin Gottlob – Danske Bank – Investor Relations**

No, 88.1 is the same. That is the two category 10 and 11 together, which we use to call non-performing loans. Now we can say that the Category 11 is more in line with what the

Swedish banks are defining as their impairment loans or whatever the word they're doing... they're using.

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**Simon Christensen – SEB Enskilda – Analyst**

Okay thanks.

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**Fridtjof Berents – Arctic Securities – Analyst**

Yes, good afternoon. Just a short clarification regarding the last subject there first. The gross exposure subject to individual impairment testing, which is category 10 and 11: Is it... if I understand correctly, that is the gross amount, which means that non-performing loans which is not impaired, where you have collateral viewed as sufficient - that is included in that gross amount, am I correct?

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**Martin Gottlob – Danske Bank – Investor Relations**

Yes, that's right.

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**Fridtjof Berents – Arctic Securities – Analyst**

Yeah. My two questions are related. First to risk weights: When I take the exposure at default and use your RWAs, I find the average risk weight on corporate book of around 38%, 38.3%, and that was slightly in line or somewhat less than 40% after Q408. Is that due to provisions taken on higher, more risky loans in general, which leads to such a reduction in the average risk weight, or is it something I'm missing here? And the last question is related to the 400 to 450 million per quarter as an interest rate sensitivity, when it comes to deposit margin: Could we see a change in dynamics in your view as the retail deposits seems to be highly in favour by the Basel Committee?

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**Tonny Thierry Andersen – Danske Bank – CFO**

Well, first on the... when you look at the exposure at default and the average weighting there, I think it's conceivable that once we individualise some of the generic provisioning, that reduces the risk-weighted assets on that notion. I think that's a valid point. You're right that, with higher competition on deposits, the impact could be less than 450 million.

But keep in mind that, with the amount of our shareholders' equity, a 25 basis point increase will at least on that notion give 250 million, and on top of that you have the high earnings on cash flow and also some benefit for the deposit side. So I think it would be around that area - 400, maybe 450, I don't know on the specifics - but it will not be a hundred or something like that.

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**Fridtjof Berents -Arctic Securities - Analyst**

Okay, thank you.

**After Q&A session**

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**Peter Straarup - Danske Bank - CEO**

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.