

Conference call speech

Interim Report Q1 2010

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Investor Relations

Danske Bank

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Peter Straarup - Danske Bank - CEO

Financial results for the first quarter of 2010

Thank you, operator.

Welcome, and thank you for taking the time to attend this presentation of Danske Bank's financial results for the first quarter of 2010.

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 the outlook for the rest of 2010.

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

Please go to slide 3.

Acceptable net profit, with economic recovery marginally visible

With a net profit of 0.8 billion kroner, Danske Bank is off to a fairly good start to the year despite a 30 per cent drop in total income.

Expenses were lower, in accordance with our intensified focus on cost management. This effort will continue in the coming years. We are leaving no stone unturned in order to streamline the organisation, while at the same time investing heavily in our IT platform to take advantage of technological opportunities.

At 4.3 billion, our impairment charges were still very high, but they have declined for the fifth consecutive quarter since the peak in the fourth quarter of 2008. Many of our SME customers are still experiencing difficulties, and market

conditions are especially unfavourable in Denmark and Ireland.

At the beginning of the year, we had the strongest capital position in the Group's history, and we have managed to maintain it. Our total tier 1 and solvency ratios now stand at 14.2% and 17.9%, respectively, which are also strong levels in comparison with other European banks. Our funding and liquidity positions remained firm as well. We therefore feel well prepared for the future regulatory changes in the financial sector.

Despite signs of recovery, there is no doubt that 2010 will be another challenging year for the financial sector, for Danske Bank and for many of our customers. We will focus on Customers, Credits, Costs and Capital to strengthen Danske Bank and build a strong foundation for the future.

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

Indications of macroeconomic improvement, but turnaround is still fragile

We are pleased that we now see signs that we are on the road to recovery and that the risk of a double-dip is diminishing. Still, we expect it to be a slow and fragile recovery.

GDP is expected to grow in almost all of our markets this year and then to stabilise at a low, but positive level. The Baltics is the exception. This area was hit very hard by the economic downturn and experienced a significant GDP drop in 2009.

We do expect GDP growth in Ireland both this year and next, but it will be very low. The improvement is driven mainly by export growth, and the property sector is still under much pressure.

Of the Nordics, Denmark has been hardest hit by the recession. Very weak domestic demand has extended the downturn, and many corporates are still struggling. We are beginning to see a rise in house prices and consumption, however. Consumer confidence thus appears to be recovering despite increasing unemployment.

Despite our brighter view of the macroeconomic situation, we must not forget that most of the current recovery is based on public stimuli that are debt-financed. For this reason, our

main worries concern the timing and effects of any fiscal and monetary tightening as well as possible adverse consequences of future financial sector regulation. However, the starting point is good for all Nordic countries as the public debt is among the lowest in Europe.

Please go to slide 5.

Income declined to a more normal level; lower expenses and impairment charges led to net profit

In the first quarter of 2010, Danske Bank posted a net profit of 0.8 billion kroner. We find this fairly acceptable given the difficult market conditions.

The 30 per cent decline in income was expected, since the capital markets are slowly returning to a more normal level and we could not book the same extraordinarily high trading income as we did last year.

The 17 per cent drop in net interest income was also expected, as reduced demand has lowered lending volumes during the past year. In addition, we are facing increasing costs from term-out funding and continued pressure on deposit margins.

Expenses were 7 per cent lower than in the same period of 2009. Some of the decrease occurred because integration costs and severance payments were higher last year, but the trend generally reflects our intensified focus on costs. The trend is actually quite encouraging.

Loan impairment charges came to 4.3 billion. That is almost 50 per cent lower than last year and a continuation of the steady decline during the past five quarters.

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.

Seasonality lowered net interest income, but underlying trend is steady

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

It came as no surprise that net interest income fell in comparison with the level both last year and in the preceding quarter. Peter has already touched upon the year-on-year comparison, so let me focus on the rather large quarterly drop of 11 per cent, or 750 million kroner.

Before we look at the volume and margin trends, it is important to note a couple of explanatory factors:

- The fourth quarter of 2009 had more interest days and higher average interest rates. The effects were 147 million and 60 million, respectively.
- Most important, high year-end mortgage activity in Denmark contributed 490 million. It was driven by the refinancing of floaters and a high return on the liquidity surplus on Realkredit Danmark loans with monthly payments. We will see some of this again in 2010, but probably less than half.

We continued our work to make margins better reflect risk, maturity and price. Much of what could be done on the back book has now been done, but we continued to see lending margins rise in the first quarter, albeit at a slower pace than in 2009. We see increased price competition on new loans, and given the future regulatory and macroeconomic outlook, this is actually somewhat worrying.

Deposit margins, on the other hand, continue to put pressure on net interest income because of floor risk from low short-term interest rates and fierce competition for deposits. Nevertheless, deposits at our banking units increased, and we hope that the expiration of the first Danish banking package will have a positive effect on our deposit volume in Denmark.

Lending volumes were flattish in the first quarter. Corporate customers in particular remain reluctant to make large capital investments and are strongly focused on holding down their working capital. The result was lower lending to corporate customers, whereas retail lending rose slightly. It is a positive sign, however, that volumes are stabilising after the steady decline in 2009.

Please note also that some 87 million in one-off interest on a VAT refund for prior years that was booked in Q4 was exceeded in Q1 by 101 million in one-off interest on a refund of surplus tax paid on labour costs.

We have updated our internal funds transfer pricing model, and that caused fluctuations in some of the banking units' net interest income. This is of course only an intra-group allocation, with the effects most pronounced in Sweden and Norway. It does not affect the Group's total net interest income.

In spite of declining net interest income, banking activities are still very robust and will remain our main source of income in the coming year.

Please go to slide 7.

Net fee income remained stable excluding high performance fees in Q4

In the first quarter, net fee income benefitted from increased investments and higher activity in the housing market, which appears to be on the mend.

The quarterly decrease in net fee income reflects the inclusion of performance fees of 119 million at Danske Capital in the fourth quarter.

Please go to slide 8.

Net trading income returning to normal as market volatility subsides

Concurrently with macroeconomic recovery, market conditions are becoming less favourable for Danske Markets, and trading income has declined in step with market stabilisation, as illustrated by the VIX index.

We are approaching a normal level of trading income after the extraordinarily high gains in 2009. It was encouraging to see trading activity rebound in January after a rather quiet December. In the first quarter of this year, we booked 2.4 billion in trading income, which suggests that we have not returned to normal yet.

Upon the release of the annual report for 2009, we mentioned that in the first half of 2010 we would see an approximately 700 million one-off gain in Danske Markets from the merger of partly owned PBS A/S and Nordito AS. This income will be booked in the second quarter.

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 strong investment and unit-link results

In the first quarter, Danica posted net income of 0.6 billion, which was an improvement of 0.5 billion over the same period last year. Income in the fourth quarter of 2009 was extraordinarily high owing to the booking of risk allowance for 2009 and part of the shadow account from 2008.

This quarter's earnings benefitted from a 0.4 billion investment result owing to a good return on the equity portfolio.

In 2010, we expect to book a 0.5 billion expense for a special allotment to customers of the former "Statsanstalten for Livsforsikring", and this reduced the first quarter result by 100 million.

We will not decide whether to book the remaining 0.6 billion of the shadow account until the end of the year.

Our unit-linked business continued to show positive, improving results. This means that income from existing customers more than compensated for the costs of acquiring new customers. The insurance result was 73 million better than last year. This quarter, low sales improved the result because, consequently, we paid low sales commissions.

Unit-linked premiums now account for 66 per cent of total premiums, and the percentage is rising. Given the implications of Solvency II for capital, this is very encouraging.

Now let us turn to expenses.

Please go to slide 10.

Decreasing expenses reflect cost control efforts

In keeping with our intensified focus on cost control, expenses in the first quarter were 7 per cent lower than in the same period last year and stood at 6.4 billion.

We have continued to reduce staff and close branches since the peak in the second quarter of 2008. In the first quarter of 2010, we reduced FTEs 1 per cent and closed 14 branches.

The restructuring of the Irish branch network is ahead of schedule.

The underlying cost base declined 3 per cent, mainly because of our cost control efforts and also because of a time lag in some of our accounts.

Please note that at the same time as we are making these tangible cost reductions, we will also maintain a high level of IT investments in 2010 and 2011 in order to take advantage of technological opportunities and launch a number of new products and services.

Please go to slide 11.

Loan impairment charges trending down

Loan impairments declined to 4.3 billion kroner, a further reduction of 14 per cent from the preceding quarter. We have thus reduced impairments for the fifth consecutive quarter. The annual loan-loss ratio came in at 89 basis points.

The positive elements were a sharp reduction in the Baltics, no further impairments at Danske Markets, and low charges in Northern Ireland and the Nordic countries, except for Denmark. Less positive are the continuation of high impairments in Ireland and an increase in Denmark.

The charges include 636 million in collective impairments, mainly against the agriculture and hotel segments and retail customers.

The largest single impairment was 463 million to cover the expected costs at Financial Stability, the Danish governmental body that takes over troubled Danish banks. The remaining portion of the maximum obligation of our first-tranche loss of 3.3 billion is now 0.9 billion, which is at stake until the end of the third quarter of this year.

Please go to slide 12.

Upgrades/downgrades ratio improving, but Denmark lags

Our corporate book is still showing more credit downgrades than upgrades, but we are getting closer to breakeven. This time, we have split the portfolio into two segments: Danish and non-Danish. The difference in recent quarters is very clear. Denmark has been decoupled since mid-2009 and is now lagging the rest of the Group by six months or so.

This is a clear indication of the continuing difficulties in Denmark, difficulties that can be explained by both domestic and export issues.

Please go to slide 13.

Loan impairment charges still dominated by SMEs

The split into customer segments shows that SMEs still dominate the impairments, at 54 per cent of the total. Besides the impairments on Financial Stability, only seven customers accounted for impairments above 50 million and only 20 customers for impairments of 25 million or more.

Impairments within the SME segment come from a wide range of sectors, with the largest concentrations in commercial property and agriculture again in this quarter. Personal customers account for 23 per cent of total impairments but for 51 per cent of the total loans. Of the total impairments for personal customers, 250 million were collective impairments in Denmark. Here we have seen the number of compulsory property sales increase, and in first quarter the number of repossessed properties rose from 37 to 81, including 61 residential properties.

The increase in loans subject to impairment test slowed in the quarter, to 8 per cent from 13 per cent in Q4.

The coverage ratio is slightly lower than last quarter as credit exposure in rating category 10 increased more than in category 11.

Please go to slide 14.

Nordic impairments: Charges still high in Denmark

A few comments on the impairments at each of our main business units:

In Denmark, almost 1 billion of the impairments were booked to Financial Stability and collective impairments. But even excluding them, we see that the economic crisis is not over yet despite a number of positive signs of recovery. This is classic proof that loan losses are late-cyclical in nature. The annual loan-loss ratio of 111 basis points is a little higher than the Group average.

In Finland, the ratio remained low, at 32 basis points, and the charges were split evenly between corporates and personal customers.

In Sweden and Norway, loan-loss ratios were also low, but they consisted entirely of charges against corporate customers.

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

Other impairments: General improvement, most notably in Northern Ireland and Baltics

The positive trend continued at Northern Bank, which brought its loan-loss ratio down below 100 basis points. This

is very encouraging, and it demonstrates that the crisis is less severe in Northern Ireland than in the Republic.

We saw a declining trend in Ireland, but the ratio remained elevated at 5.8 per cent annualised. Excluding a collective impairment charge, however, the ratio fell below 5 per cent. More than 80 per cent of the charges relate to commercial properties, mainly developers.

Of the total commercial property portfolio, accumulated impairments now account for 5.7 billion, which means that the writedown on the entire portfolio is 22 per cent. The write-downs range from 39% on developers to 13% on commercial investment loans. Of the impaired loans, 97 per cent are covered by impairment charges or collateral.

In the Baltics, impairments declined sharply, and the loan-loss ratio came in just above 2 per cent, which is better than we had hoped. We did not reduce the collective impairments this quarter. Most of the charges are for personal customers, reflecting the difficulties many families in the region are undergoing right now.

Finally, impairments in other areas, whose exposure comes mainly from Danske Markets, fell as expected and ended with a minor net reversal for the 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.

Low funding need in 2010 and extended duration

Thank you, Tonny.

Let us turn to the bank's funding position.

Our need for long-term funding remains low and stands at 30 billion kroner in 2010. Year-to-date, we have raised 18.7 billion, including covered bonds and our US MTN programme. All of the transactions in 2010 were made without using individual state guarantees.

The remaining funding need in 2010 and 2011 can be fulfilled entirely from the unutilised covered bond pool.

In the graph on the right, you can see that deposits, mortgage bonds and covered bonds now make up a larger share of our funding sources. On the other hand, short-term funding is

decreasing, mainly because of lower funding from central banks. This reflects our effort to extend the maturity of our funding.

Please go to slide 17.

Strong loan-to-deposit ratio and liquidity position

Our need for long term funding has diminished substantially owing to the declining gap between loans and deposits. Our loan-to-deposit ratio remained strong, although it grew slightly, from 114 per cent at year-end to 116 per cent, mainly because of the release of 30 billion in deposits held as collateral for three CDS transactions that were terminated in January.

As you can see from our 12-month liquidity curve, our liquidity position also remains strong. We are able to continue operating our business without access to capital markets for much longer than 12 months.

Please go to slide 18.

Strong capital position maintained

Our capital ratios remained strong at the end of the first quarter and even showed a small improvement. Our core tier 1 ratio was up 0.1 percentage point to 9.6 per cent owing to total comprehensive income of 924 million, despite a 4 billion increase in risk-weighted assets.

Including the convertible state hybrid loan capital, our total tier 1 ratio was 14.2 per cent and our total solvency ratio was 17.9 per cent. When we compare these levels with our ICAAP ratio, it is clear that our capital base is very healthy.

As I mentioned, risk-weighted assets increased by 4 billion. This was due to an increased number of lending offers.

Please go to slide 19.

Key points on Basel III/CRD IV

The future regulation of the financial sector has been a key issue thus far this year, and it will surely remain one in the rest of the year. We can now expect to see a complicated political process to determine the new, Basel III rules.

We are in agreement about the need for a more robust global financial system, but it is also important – in fact it is crucial – that the tightening measures are implemented and adjusted

in an appropriate manner. If they are not, they could easily have a negative effect on the current improvement in the real economy. Or they could inappropriately penalise or raise the prices of financial products that customers benefit from today. We are thinking here especially of the Danish mortgage finance system.

The regulatory changes will affect all banks, but in comparison with other European banks, Danske Bank is well prepared for the new financial regime. Even according to the rather stringent net stable funding ratio, we are stronger than other EU banks because of our match-funded Danish mortgage lending.

We are contributing to the process of establishing the new rules, both by presenting our opinions and by calculating the effects of the current proposals. In April, we submitted our contribution to the quantitative QIS studies, and the results will lay the foundation for the changes to the current proposals.

From a Danish perspective, it is clearly very important that we preserve as much of the Danish mortgage model as possible. This would mean that the funding model is accepted and that Danish mortgage bonds are recognised as fully liquid assets on par with government bonds.

Please go to slide 20.

Outlook for 2010

The outlook for the remainder of 2010 has not changed substantially since our full-year report, although with our first quarter result, we got off to a good start to the year.

The overall macroeconomic outlook is still positive, but the upswing remains fragile. In Denmark, we cannot see positive signs at the micro level yet, but we expect they will appear later in the year. The central bank's short-term rate hikes have been postponed until 2011, so we do not expect any support for net interest income in 2010 from general increases in interest rates.

Trading income in the first quarter was closer to a normalised level, and we expect this trend to continue, although the total will depend greatly on trends in the financial markets. And as Tonny mentioned, we expect a one-off capital gain of 0.7 billion in second quarter.

Expenses came in lower than expected in the first quarter, and even though the decline will be partly offset in the coming quarters, we remain confident that, as part of the “Four Cs” strategy, our emphasis on cost control will continue to show good results in the future.

We have not changed our view that impairments will remain high in 2010, although not as high as in 2009. The first quarter was a good beginning in that respect, although we saw an increase in Denmark. Going forward, our base case is that the positive macroeconomic signs will gradually spill over onto the micro level and improve the credit quality of our Danish SME book. The expected increase in unemployment will still be a challenge for our retail book, and the number of repossessed properties and arrears in our Danish mortgage book will most likely continue to rise. The postponement of short-term rate hikes is both a sign of the fragility of the recovery and a benefit for many customers.

In April, Denmark approved an agriculture package that will reduce land tax, among other things. In 2011 and 2012 the package will be financed by an increase in the financial services employer tax, which is a special tax on the Danish banking sector. Beginning in 2011, this will result in an annual expense of about 90 million for Danske Bank.

All in all, our outlook for 2010 remains fairly positive, given the modest recovery we expect in the economy. With our focus on the four areas of Customers, Credit, Costs and Capital, we will strengthen Danske Bank and create a good foundation for the future.

Please go to slide 21.

Q&A session

That concludes our presentation of our financial results for the first quarter of 2010, 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.

Christian Hede - Jyske Bank - Analyst

Yes, good afternoon. This is Christian Hede from Jyske Bank. I have a question, a couple of questions. One is on the allowance account. I see that you have reversals of impairment charges amounting to around 3 billion in Q1. Could you give us some more flavour on how this has come about? What went right, if I may say? Another thing would be to the higher collective impairments in Q1 relating to agriculture: Why is the time in Q1, and what has changed since last quarter? And then finally, I would like to hear if you have some remarks on the falling market shares in lending in Sweden, Norway, and Finland. What plans do you have to improve this development? Thank you very much.

Peter Straarup - Danske Bank - CEO

First, the allowance account. I think while I search for that, I'll answer the second one, which is related to agriculture and the collective impairment charge on that. Our take on it is that the Danish agricultural industry is under significant pressure. And for that reason, we've seen a number of our customers face some difficulties, and that's the reason for that. We can also see quite a number of our customers have negative cash flow expectations for the year.

The impairments in 2010, first quarter, saw, as you indicated, some reversals of about 3 billion. That related to impairment activity that was taken in 2008, the fourth quarter, and the first quarter of 2009, where we also had quite a significant element of collective impairments. The Bank's concern, I suppose, was good enough because it turned out that we needed impairments. We also in that quarter made many specific impairments. And what has been happening here in first quarter of 2010 is, if you like, a bit of a reshuffling. It is not unusual for Danske Bank to have relatively high reversals on an ongoing basis.

The market shares...

Tonny Thierry Andersen - Danske Bank - CFO

...in Sweden, Norway and Finland, I think it's true that you can see that the market share is coming down slightly, on the corporate side in particular, and I think that's also reflecting part of the loan book composition. We believe that in both Sweden, Norway, and Finland, as the other Nordic countries, we have an excellent value proposition to our corporate sector and that we are focused at their growing the business, but obviously also growing at the right segment, at the right

prices, and where we have good full customer relationship. So I wouldn't say that ... you know, put too much attention on market share coming down in the shorter term on those areas. We are very dedicated in all areas to have good relationship with the corporate sector clients.

Martin Gottlob - Danske Bank - Investor Relations

Can I just add that we in both Sweden and Norway have low proportion of retail loans. And if you look at these two markets, the market development has been that the corporate loans declined and the retail loans increased, and therefore the mix is the main reason for you see a 0.1 - 0.2 per cent drop in market shares.

Christian Hede - Jyske Bank - Analyst

Thanks very much.

Aaron Ibbotson - Goldman Sachs - Analyst

Yes, hi there. Good afternoon. Just three or two and a half quick questions, if I may. First of all, I'm just curious about, sort of, the cost-income ratio in your Danish banking operations. It seems to have stabilised around 60 per cent now over the last four quarters. Is this something you're happy with? Are you going to try to bring it down. If anything, it's actually ticking up? And also, are you basically waiting for interest rates to go up, or do you see any other action you can take to improve it? Secondly, if I look at return on allocated capital, return on equity in both Denmark and Finland - your two biggest banking markets - it's sort of difficult to see you come up to more than 12-13 per cent maybe, even assuming normalised or very low loan losses. I'm just sort of trying to understand how you're seeing your core banking business here. And finally, just a detailed question on Finland: When should we expect this integration expenses to subside in Finland? I can't recall now exactly when you had planned for them to be done with. Thank you.

Tonny Thierry Andersen - Danske Bank - CFO

If I take the first one on the cost-income ratio in the Danish franchise, which - you are right - is around 60 per cent range, you have to keep in mind that in those cost figures are included 625 million every quarter, which is the fee we pay to the Danish banking package. That is around 20 per cent of the cost base that are inflated by this, and we know that this ends by Q3 this year. That obviously helps significantly on the cost side going forward. In addition, we are taking out cost in the Danish franchise by using different distribution channels,

netbank, call centres and amalgamation of branches and FTEs also coming down slightly. So I think that you will see that on the cost side we work pretty hard on that, and some of that ourselves and some of that we help externally by, as I said, the fee. And on the top line, obviously we're very sensitive to changes in the interest rate level on a more normalised basis. So normalised, I see no reasons why the cost-income ratio should not be able to improve going forward, even maybe rather significantly given the elements I mentioned here.

Aaron Ibbotson - Goldman Sachs - Analyst

So where... Do you expect it to come back to sort of the high forties level or where do you think you would get...

Tonny Thierry Andersen - Danske Bank - CFO

Well I don't want to give numbers. I think that you can do a little bit math yourself in terms of taking out 625 million a quarter. You can also include your assumptions on what is the net interest level and the impact on net interest income on that. And you can look a little bit on the FTE traction we've had in that market and some of other cost efforts, and I think you could play around with it. I see no reasons why we should not be one of the most efficient banking operations in northern Europe on the longer term on that side.

Martin Gottlob - Danske Bank - Investor Relations

I can take the question about Finland and integration costs. We have two items. We have, in this first quarter, 118 million in amortisation of intangibles. That is a five-year period amortisation that began in February 2007 and therefore would last to January 2012. [Correction: The amortisation will last until 2017] So 118 million per quarter on that. The second part is a depreciation of software development. That's 46 million in the first quarter. That would run until August 2011, so that will be for slightly more than a year again, five quarters and a bit.

Peter Straarup - Danske Bank - CEO

And then you asked for an expected continuing return on the other side of whatever it is we lived through, I think that's too early for us to communicate that. Indicated by Tonny was some possibility of pooling of course the returns in our domestic franchise, which will have an impact, but the same will be the case in others. But I think it's too early to communicate and expect a return on equity.

Aaron Ibbotson – Goldman Sachs – Analyst

Okay, thank you.

Martin Gottlob – Danske Bank – Investor Relations

I will drop in with a question from the Web site relating to the same questions, coming from DnB NOR. He asks two questions. One question is that you say Basel III will take ROE out of the banking sector. Can you say at which level you think ROE will end at if Basel III is fully implemented? And the second question is that in the outlook for 2010, you say insurance income will be lower. Can you please elaborate a little? Thanks.

Tonny Thierry Andersen – Danske Bank – CFO

I think when we look at Basel III, some of the preliminary analysis done by different brokerage houses and international institutions indicate that retail banking's sustainable return on equity could go down to – I don't know – from 9-10 per cent to 12-13 per cent if fully implemented and obviously with huge differences in impact on different countries and different banks depending on particularly the funding structure and the capital position that's going into this. I think that Danske Bank, given what we have shown you on liquidity, we are quite well off on that relative to most of the European peers. Obviously, if fully implemented, the net stable funding ratio, could hurt all banks also.

Insurance.

Martin Gottlob – Danske Bank – Investor Relations

Yeah, I can take the answer to the insurance question. What is the lower income? If you take a normalised result in Danica, assuming a normalised investment return and not including that we take the remaining part of the shadow account, we should have a result in the area of 1.2 to 1.4 billion in a year like 2010, including the 0.5 billion to this special allotment we have warned about.

Thank you, operator.

Jakob Brink – Handelsbanken – Analyst

Hi. It's Jakob from Handelsbanken with a question on the costs. You're talking quite a lot about full-time employees coming down and the number of branches coming down. I heard your Norwegian CEO was out saying something about continued cost-cutting in Norway, also your IT expenses. Could you maybe just give us some indication of, first of all,

how much or, let's say, what units of Danske Bank should we see the largest cost-cutting in kroner in 2010-11. I mean, where your most positive on the cost? And also the IT side: What could you actually cut the cost down with when the IT stuff is fully implemented? Thank you.

Tonny Thierry Andersen – Danske Bank – CFO

When you look at the IT side, we said that over three years we will spend 1 billion in additional investment using the opportunities from digitalisation and also coming through with new products and also thinking harder about how to interact different distribution channels. And it will be in 2009, 2010, and 2011 that this will happen, and that's also key driver for some of the efficiencies you see now coming through our system. Obviously, there are flexibility within IT investment, but I think that it definitely creates a better bank for the future to make these investments. But obviously in the end, you will see a lower level, we expect, of these IT investments.

On the cost side, I think, without going down to the different brands per se, I think it is quite generic that with the changes we're doing to the distribution channels and how we look at all costs in the Group, that you will see all brands will see a good cost performance going forward also. We have done quite a lot in Denmark and we are ahead of the schedule in Ireland. Obviously some branches in some countries will probably see growth coming, but I don't think I want to highlight out any particular branches, saying this is a group-wide focus to really to be top-efficient in all processes in all branches.

Martin Gottlob – Danske Bank – Investor Relations

I have another question from the Web site coming from one of Jakob's colleagues from Handelsbanken, Matti Ahokas. He says the following: Tonny said that Q1 is a classic proof that loan losses are late-cyclical. Why? Shouldn't loan losses in IFRS be early-cyclical instead of late-cyclical, especially when using a large number of collective provisions like Danske?

Peter Straarup – Danske Bank – CEO

I'm going to help Tonny on that. When the economy turns, it's obvious that more companies are subject to impairments. It's also a fact that bankruptcies have a long tail of increasing into the recovery phase. And if you look at the Danish bankruptcies at this point in time, then they are still at a very high level. And when you have this general thinning of quality in the market, you see, unfortunately, some upward pressure

into the recovery also on impairments, and that's what we're trying to communicate. We are aware of the functionality, otherwise, of the IFRS provisioning system.

Yes, operator.

Andreas Hakansson – Credit Suisse – Analyst

Yes, I have two remaining questions. One is on provisions. You booked 463 million related to Bank Package I. Nordea didn't book anything, and I had to call them back today and ask why when you took some. And they say that they didn't have to. I was under the impression that it was more like bills that were sent to the banks and you had to pay it in. So can you just clarify that? The second is on mortgage margins. There were discussions in the beginning of the year about repricing the mortgage portfolio. Nykredit talked about it, and then I think you talked about it. But I haven't heard anything recently. Could you just give us an update on that, please? Thanks.

Peter Straarup – Danske Bank – CEO

The 463 million is one-third of what is left under the Banking Package I scheme. When the Banking Package I scheme matures, then there has to be a new assessment made of the losses in the banks that have been taken over by the government for not living up to the solvency requirements et cetera, et cetera. We are of the opinion that there's a substantial risk that this will show additional requirements for impairments, and therefore we have made a decision to chop that into thirds until the end of the third quarter. I think we are at our free will to make that decision. But as you rightly indicate, it's not a mandatory impairment that we have made.

On the second one, the mortgage book, I think the situation has been that the largest mortgage company in Denmark, Nykredit, has a discussion with the competitive authorities on the timing and the rightfulness of an administrative fee increase. And we are of the opinion that the market is priced very competitive at this point in time, and we watch these developments. And we will most likely make a decision, but not until something new happens.

Martin Gottlob – Danske Bank – Investor Relations

Can I just add on the impairments for the Financial Stability? We have seen a number of other Danish banks doing exactly the same as we have done. There are only a couple of banks

who have done the same way as Nordea, i.e. not taking any impairments in the first quarter on this.

Andreas Hakansson – Credit Suisse – Analyst

That's very clear. Thank you.

Johan Ekblom – Bank of America – Analyst

Thank you. Just two quick questions. First, on NII: You show in one of your slides that the impact from Realkredit Danmark is 490 million quarter-on-quarter. And if I recall correctly, in Q4 you said that the one-off impact was 290 million. So if you can just clarify what's the difference there and what's driven the bigger-than-expected quarter-on-quarter change? And then secondly on the costs: You mention in the report that part of the reasons why costs were lower than expected was that you postponed some investments to later in the year. Could you give us an idea or help us quantify the extent of that? Thank you.

Martin Gottlob – Danske Bank – Investor Relations

Let me start with the NII. It's right that in Q4 we said that the impact between Q3 and Q4 was 290 million, but this is the same as saying that also now, from Q4 to Q1, the difference is 490 million because there's a bigger impact here. We have tried to illustrate that in the presentation in the Appendix, on slide 23, where you can see the quarterly interest income in Realkredit Danmark, besides the customer margins. And there you can clearly see that Q1 came up with a lower interest number than Q3, and therefore there's the difference.

There's two main reasons for these extraordinarily high income in the 4th quarter. One is that is our one-year flex loans, where 90 per cent of our customers are paying interest monthly, and we are paying the interest to the bondholders once a year, on the 2nd of January. In 2009, because we have a high proportion of these flex loans – more than 50 per cent of our mortgage book were flex loans – there was quite a number of payments. And the interest we got was quite high because the interest rates on the flex loans were high, namely 4.75 per cent. That we invested in the same bonds that were funding the flex loans, and thereby we got this high interest. Of course we collect this money throughout the year, and therefore the impact is biggest in the fourth quarter. Now in the beginning of this year, we have emptied the book, so to speak, and start all over again. And then the interest rates has gone down considerably, and that's why the

amount in the first quarter is much lower than the fourth quarter, but also lower than the first quarter last year.

The second part of the reason for the high income is that many Danes decided to lock their interest rates on the flex loan in 2010 earlier than they should because they want to secure that they have the benefit of the falling interest rates we saw throughout 2009. And therefore we got a lot of money in advance, and we earned on that as well. And we were able to have a good return on this money coming in in advance, so that's the second part of the very strong income in Q4.

Tonny Thierry Andersen - Danske Bank - CFO

On the cost side, how much that is due to timing issues? I would say around 100 to maybe 150 million for the quarter. That's a good approximation

Johan Ekblom - Bank of America - Analyst

Excellent. Thank you very much.

Jan Wolter - Deutsche Bank - Analyst

Yes, hi. Jan Wolter here, Deutsche Bank. A couple of questions. Sorry if they have been asked before; I joined a little late. First, on credit quality on the agricultural book: Of these segments which you show in the presentation in the agriculture book, which one is more of a problem in terms of impairments as you see it? And the second question also: What development is most problematic in that book? Is it only the prices on the products there, or is it something else? And then the third question, on the same subject I'm afraid: In the report you say you've taken 1.6 billion in impairments - how much was the impairments in the first quarter on that book? Second set of questions is on the cost programme: What kind of ambition do you have, if you just could remind us on that? Is it to take out inflation or lower cost base nominally or what? And the final one is: The investment programme, the cost for that - is that now fully reflected in Q1, i.e., so one-fourth of that cost is taken now, or will it be later in the year? Thank you.

Peter Straarup - Danske Bank - CEO

On the credit quality in agriculture, I will say that the Danish agricultural industry has been hit basically across the board, but the pig farmers are having an especially difficult situation. Some of the cattle breeding has also been suffering. But most farming industries are under some pressure, but those two I

think will be the most difficult ones. And the pig farming also of course entails that you make major investments into the production unit.

Tonny Thierry Andersen - Danske Bank - CFO

On the cost side - our ambition - I will not give you any numbers on that, Jan. But I will say that we are turning every stone around in the Group to take out unnecessary costs, but also to think costs in a more customer-focused way, i.e., using of distribution channels and how we can make the dialogue with the customer more efficient and how we communicate the documentation and so forth. And our ambition is pretty high in terms of efficiency for the Group. I think you can see the last year or year that we have taken out costs quite significantly on FTEs and other cost items, so I think we're proving as we go along that this is definitely becoming a strong DNA within the Group. So you'll have to do the modelling yourself based on some of our performance so far.

Peter Straarup - Danske Bank - CEO

And the third question I'm not sure I got. You were talking about 1.6 billion impairments, can you just please repeat that?

Jan Wolter - Deutsche Bank - Analyst

Sure. You state in the report that the impairments, total impairments in the agricultural book, is 1.6 billion, and I wonder how much of that has been taken in the first quarter. That's on page 9 in the report, total impairment charges on the agricultural sector.

Peter Straarup - Danske Bank - CEO

About 400.

Jan Wolter - Deutsche Bank - Analyst

Okay.

Martin Gottlob - Danske Bank - Investor Relations

Was that all the questions you had, or was there one more we have missed?

Jan Wolter - Deutsche Bank - Analyst

Yeah, the one about IT investments: If that is now reflected in the first quarter or will be visible much later this year or...

Tonny Thierry Andersen – Danske Bank – CFO

Well, that's probably one of the areas in terms of our saying that the 100-150 million that is pushed forward. Remember that costs could fluctuate from quarter-to-quarter depending on when and how we acquire software and other things that carry through.

Jan Wolter – Deutsche Bank – Analyst

Okay, thanks a lot for that.

Jakob Kruse – Autonomous Research – Analyst

Hi. Thanks. It's Jakob from Autonomous. I just had two questions left. Firstly, on the Realkredit Danmark contribution to your NII (that's slide 23): Could you just give some idea of to what extent the 2009 contribution to NII was exceptionally strong and whether you expect those dark blue bars to sort of match the light blue bars in 2010? And then the second question was just on credit quality in the Baltics. Your losses came down materially in the quarter, and you provided quite aggressively already. So can we expect to see these losses going to zero or to recoveries in the near term? Thank you.

Martin Gottlob – Danske Bank – Investor Relations

First question about Realkredit Danmark: It's of course difficult to say because we don't know exactly how big the activity will be in the end of 2010. But I will roughly say that in a normalised year that the net interest income will go down from these plus 600 million you saw in Q4 last year to less than half, maybe between 200 and 300 million. But again, it depends how many will try to lock their interest rates for 2011 at an earlier state than normal. Wee don't know about that yet.

Peter Straarup – Danske Bank – CEO

On the Baltics and the impairments: It is true that the impairments declined very rapidly. Actually much to our surprise, the market developed better than we had thought. If you look at the impairments at this point in time, collective impairment charges are actually one-third of the impairments, so there's still some cushion to absorb whatever comes. I think it's too early to determine that the stressed situation is over in the Baltics. We remain cautious, so it'll take some time at least before we consider any reversals of any magnitude there. But admitted, it did turn out better than we had expected.

Jakob Kruse – Autonomous Research – Analyst

Okay, thank you.

Simon Christensen – SEK Enskilda – Analyst

Yes, good afternoon. Simon Christensen from Enskilda. I only have one question, which has not been answered. I think you mentioned, Tonny or Martin, that you had a withdrawal of around 30 billion from the CDS agreement running on the Realkredit Danmark portfolio. I think I remember that 20 per cent of the protection was re-bought in the second quarter of 2008. Are these deposits linked to these 20 per cent of the protection, or have you actually chosen to call these CDS agreements? I think I remember that you did not call it in the first quarter and they would be running for a number of years. Could you please explain that, and maybe also just remind us what the quarterly costs on this agreement is? Thank you.

Martin Gottlob – Danske Bank – Investor Relations

There was a number of credit default swaps. One was related to a retail book. That has not been called. And then there were three swaps that related to our corporate books, both in Realkredit Danmark, and they were called in January. And on these three swaps, we had collateral of 30 billion, and it's these 30 billion that was released when the swaps were called in January, of course.

Simon Christensen – SEK Enskilda – Analyst

Okay. So, in terms of, let's say, the starting protection, how much is left in percentage terms?

Martin Gottlob – Danske Bank – Investor Relations

I can't remember exactly the number. It's in our Risk Management Report from February. It's... I think it's around 180 billion. I can call you afterwards and give you the number.

Simon Christensen – SEK Enskilda – Analyst

Okay. Thanks, Martin.

Maths Liljedahl – Nordea – Analyst

Yes, good afternoon. I just wonder if you could shed some light on the new guarantee schedule. You state there will be costs related to 3.2 billion, and you will pay about one-third of that. When is that expected to start, and will it be quarterly payments that sort of resume on the back of ... on the expiration of the earlier schedule. If you can just get some details on that? And I think you stated, in relation to the

special allotment in Danica 100 million, you commented on something that there will be more of this coming. I didn't really get that. If you can clarify that if there will be more of these costs coming later this year. Thank you.

Peter Straarup – Danske Bank – CEO

On the cost side, I was commenting on – concerning the guarantee schedule – was related to Banking Package I.

Maths Liljedahl – Nordea – Analyst

Yeah, but in the new one, the new proposal.

Peter Straarup – Danske Bank – CEO

There it is too early for us to communicate any costs in that. We haven't information about how much it's going to cost the Bank and how much is going to be through commitment, not through paying it in. So that's too early to do that.

The special allotment to Danica relates to an obligation to pay to certain policyholders an additional bonus if the solvency ratio of Danica reaches a certain level. It has now reached this level, and that cost us about 100 million in the first quarter. And what we are signalling is that it could cost us 100 million per quarter during the last three quarters of 2010.

Maths Liljedahl – Nordea – Analyst

Okay, thank you.

Martin Gottlob – Danske Bank – Investor Relations

I have another question, question coming from the Web site, from Thomas Johansson from Carnegie. He asked the following questions: [1] Is the low cost level in Q1 a good reflection of the underlying level, or were projected expenses lower than normal? [2] Why is it that you believe Basel III will take out ROE? Do you see any particular reason why banks will not be able to compensate for this in pricing? And [3] Have you had any discussions with the government regarding early repayment of hybrid loans?

Tony Thierry Andersen – Danske Bank – CFO

Okay, on the cost side: I think we've talked about that before. I think that Q1 is probably artificially around 100 million too low given some of the timing of the projects, so you'll probably have to adjust for that. I think we have a very good traction on

the cost reduction throughout the Group, but Q1 isolated is affected by this.

When we talk about return on equity in a Basel III world, I think it's quite clear that the proposal as it stands today on liquidity, net stable funding ratio, that will demand banks to raise a lot of long-term funding. I think that, without any doubt, if banks do nothing it will take out return on equity. Can they then raise the prices? That's a good question. I think right now the dynamics in the market is not going that way, so I think by any standard this will put pressure on the banking sector. That obviously afterwards probably also will be a more safe banking sector and thereby reducing cost on capital. But it will really take a lot of increase in prices for banks to mitigate this one, and I have no idea what the market reactions will be in a post-Basel III world.

Peter Straarup – Danske Bank – CEO

As far as the hybrid is concerned, it runs according to its text for at least five years. We have not taken any initiative to discuss with the government whether we should pay it out early, and I do not have any intention of us starting to do that, at least not while there's such little clarity about what the future capital regulations would be.

Martin Gottlob – Danske Bank – Investor Relations

I have a follow-up answer to Simon regarding the outstanding CDS number. It's 186 billion, and you can read about it on the Risk Management Report, on page 26.

Peter Straarup – Danske Bank – CEO

Yes, operator.

Fridtjof Berents – Arctic Securities – Analyst

Yes, please. I have two questions, maybe one of them was touched upon in the presentations. Forgive me there. It's just this decline in net interest income in Norway, dropping close to 100 million, and at the same time lending increasing with the roughly 5 billion. And my second question relates to impairments A general observation is that regulation regarding provisions, has moved from collateral to focus more on cash flow, but, as I understand in Denmark, realisation of property value or property within the next six months is a point that as I say makes. So how much of this do you think this effects your provisions? And is this just regarding mortgages, or is it also regarding commercial real estate?

Martin Gottlob - Danske Bank - Investor Relations

The first question about Norway: We have changed our internal model and the funding distribution. And that has meant that we take further details into account - is a bit complicated to go into details here. But the effect is that net interest income in Norway is coming down and on the other hand is coming up in Sweden, so it's only an internal distribution of the funding costs that has resulted in this change.

Peter Straarup - Danske Bank - CEO

When we mesh out impairment charges on properties, we make across the board an assessment as to what value property will fetch in the six months. Of course, that's not all the time easy, but that is the basis on both retail and commercial properties.

Fridtjof Berents - Arctic Securities - Analyst

Have you done any consideration? If you stick just to a cash flow-wise model and not having this realisation principle within the next six months, would that have reduced your provisions or would they be sort of similar?

Peter Straarup - Danske Bank - CEO

I don't know offhand what a cash flow model will result in to be honest with you. My instinct tells me that that would most likely reduce our requirement for impairments because you don't dare take a decline in market value into a consideration and you just base yourself on whatever cash flow is coming. So that will be my point of departure on that, but we don't calculate that.

Fridtjof Berents - Arctic Securities - Analyst

No. Thank you.

Chintan Joshi - Nomura - Analyst

Hi. Three quick questions. The first question: On slide 6 of your presentation pack, you show a positive development of margins. I just wanted your outlook for the rest of the quarters in this year. Do you expect this development to be positive or negative? I know Tonny said earlier that much has been done on the lending side, but what can we expect in terms of the direction here? Second question: I just wanted a quick update on the activity levels in the capital markets in April for Danske. And question three, just a follow-up on the Nykredit rate increase: I didn't quite follow your comments

there. Do you ... would you follow Nykredit in increasing rates, and do you expect that whatever outcome comes could mean slightly higher margins for you there? Thank you.

Tonny Thierry Andersen - Danske Bank - CFO

If I should take the net interest income on slide 6 on the margin, which is positive by 63 million, We still see a little scope of repricing on the back book as loans are maturing or extended again, but we also see increasing margin pressure on the front book. And I think and hope that there will still be a slightly positive impact, but it will not be that big. I think the key driver on margins going forward will be when and if short-term rates come up, because 100 basis point increase in ECB central rate will probably give us around 1.6 to 1.8 billion a year in net interest income. And obviously if loans pick up again, then that could also help that side of it.

On terms of Markets' April trading division, I don't think we should comment on specifically just one month. I think we're quite clear that, as we say, that we expect things to normalise more in our trading division.

Peter Straarup - Danske Bank - CEO

On the mortgage lending in Denmark: I think any change in administrative fees or margins will only be upwards. There are already a single institute that has increased its mortgage rate. We haven't made a decision, I said, but following somebody else that pushes them in the right direction could be something we could consider. But it's too early to communicate on that.

Chintan Joshi - Nomura - Analyst

Thank you.

Nick Davey - UBS - Analyst

Yes, good afternoon, everyone. Nick Davey from UBS. Just one final question on some well-hashed ground already actually. Just circling back on the net interest income from Realkredit: I understand your comments on the seasonal impacts Q4 on Q1. But if I just look at it on an absolute basis, it looks like 147 million Danish kroner for Q1 2010. If I look back pre-crisis, I mean that run rate on an absolute basis was at around 450 million in, say, 2008. So could you just talk to the absolute level, just clarify there? I presume why we should extrapolate that 150 million kroner isn't the right run rate going forward. Thank you.

Martin Gottlob – Danske Bank – Investor Relations

Well, we cannot give a firm number because this depends on the development. The increase we have seen is both because interest rates last year was so high, but also because the portion of one-year flex loans has increased very much. If our customers decide to move back to fixed rate loans, then this amount will diminish quite substantially. So it depends on the development. It's right that it was high last year both because of interest rates and the high amount of flex loans. If it continues at this high level, you will see that the Q1 number will gradually increase over the quarters and certainly be the highest in fourth quarter. And I think I said that a guesstimate could be that we will end in the 200-300 million area in the fourth quarter. What will happen in 2011 depends if people stay in flex loans or will they move to fixed rate loans or what would happen.

Nick Davey – UBS – Analyst

Okay, thank you.

Andreas Hakansson – Credit Suisse – Analyst

Hi. Sorry for that. Just a quick question. On slide 36, you look at your bond portfolio: You have some 30 per cent to governments and municipalities. Could you tell us how much of that, if any, would be to southern European countries?

Tony Thierry Andersen – Danske Bank – CFO

If you take a look at Greece, which I think is the key here: Our exposure is so ignorable, that it would not be visible in anything in the Group, even in a very stressed scenario, so we're talking very, very small amount in Greece. And obviously we have also sovereign bonds in countries like Italy, but otherwise it is covered bonds that we have in some of the more southern space that are obviously still triple-A rated, so this is a small fraction of it.

Andreas Hakansson – Credit Suisse – Analyst

Okay, thank you.

Jan Wolter – Deutsche Bank – Analyst

Yes, one follow-up question, if I may. The 1.3 billion in extra reserves that you plan to take under the first three quarters here this year: You say, Peter, that you see a substantial risk that this will be paid? Why do you see that, or is your decision just a reflection on the calculation that we've seen from the

Financial Stability Fund, where their estimated loss from 5.8 to 7 billion here? Thank you.

Peter Straarup – Danske Bank – CEO

You know the structure. There's a 10 billion kroner first tranche loss that the banks have to share, and Danske Bank has to take a third of that. We have about seven-eight banks that were strong on property lending and thus have given up life and are lying now bankrupt in the hands of the government. Banking Package I matures on the first of October 2010. I think the responsible would carefully go through that loan book, and if you look at developer property markets and also some of the commercial property markets in Denmark that these banks have been active in, there is in my opinion a large risk that they will be needing additional impairment charges. We're still not out of the woods. If they do need additional impairment charges, it's for our expense, and that's why we have that.

Jan Wolter – Deutsche Bank – Analyst

Okay, thank you.

After Q&A session

Peter Straarup – Danske Bank – CEO

It sounds as if we're finished. 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.