

Conference call speech

Interim Report Q2 2010

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Investor Relations

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Peter Straarup - Danske Bank - CEO

Financial results for H1 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 half 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. 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.

Improving profit, with positive results at most business units

With a net profit of 1.7 billion kroner, Danske Bank's half-year result was more than twice as high as in the same period last year despite a 25 per cent drop in total income. This is an acceptable result in light of the difficult market conditions, and we are moving in the right direction.

It is encouraging that an increasing number of our business units are operating with a positive result again. Last year, only two of our eight banking units showed a net profit. This year, five of them have: Sweden, Norway, Finland, the Baltics and Other Banking Activities. And if you adjust for the 2 billion we paid to participate in the Danish Bank Package I, Banking Activities Denmark is also on the list.

It is also a positive sign that lending volumes have begun rising in several countries.

Please go to slide 4.

Income at a more normal level; expenses and impairment charges continue to fall

Despite the good news, we must acknowledge that 1.7 billion kroner is not a satisfactory level of earnings in absolute terms. It reflects market conditions, which are still difficult, although they are slowly improving. As I said earlier, we are moving in the right direction.

As expected, income was somewhat lower than last year's level. Net interest income was adversely affected by lower central bank rates, lower volumes, narrowing deposit margins and increasing expenses for long-dated funding. There was only a limited increase in lending margins.

After the extraordinary trading income we posted in 2009, this item came in at a more normal level of 5.2 billion in the first half of 2010. That actually represents a good performance considering the volatile markets in May and June in reaction to the turmoil in southern Europe. Other income was fairly stable.

Both expenses and impairment charges show a clear improvement. We reduced expenses by a full 14 per cent year-on-year. The improvement was owing to our intensive focus on costs. It also helped that we did not need to make further goodwill impairment charges. In addition, after the third quarter, we will no longer have an expense of 625 million per quarter for the Danish Bank Package I. Our grip on costs remains firm.

Loan impairment charges are still high. But they have declined for six consecutive quarters, and in the first half of 2010 they were about half of the amount in the same period last year. The trend is positive, but many of our customers are still struggling with strained finances, indicating that it will still take some time to get through this crisis. There are great differences from country to country, however. Ireland and Denmark are still the regions that occasion most of our impairment charges.

Please go to slide 5, as I turn the microphone over to Tonny, who will take you through the specific accounting items in more detail and focus more on the quarterly trends.

Tonny Thierry Andersen - *Danske Bank* - CFO

Net interest income down slightly owing to lower Danish short-term rates

Thank you, Peter. Let us start at the top with net interest income, which declined only slightly from the first to the second quarter.

The positive effect of one extra day in the second quarter – some 67 million – was offset by lower interest rates and continued pressure on deposit margins. Lending margins in Norway were adversely affected by the six-week notice period after the rate hike in the second quarter.

We are still experiencing stiffer competition on lending margins despite uncertainty about the coming regulatory tightening and the fragile economic recovery.

Funding costs were almost unchanged in the second quarter.

Please go to slide 6.

Stable net fee income

It is positive that fee income has stabilised at a level 12 percent higher than in the first half of 2009. This was owing to increased customer activity on the capital and mortgage markets.

Much of our fee income is generated at Danske Capital, which was recently rated the best Nordic asset management company by Thomson Reuters. In the first half of the year, the unit continued to deliver a strong investment performance and succeeded in taking over a number of large mandates.

Please go to slide 7.

Normal level of net trading income despite southern European turmoil

Trading income rose 18 per cent from the first to the second quarter, but adjusted for a one-off capital gain of 659 million related to the merger of PBS and Nordito in May, it declined 9 per cent in the second quarter. The performance is nevertheless satisfactory considering the market volatility we experienced in May and June.

As we have disclosed, the Group has very limited exposure to Portugal, Italy, Greece and Spain. The direct effect of the

problems in southern Europe was therefore very small. We did, however, have some unrealised losses on our Spanish covered bonds, which are part of our AFS portfolio and as such did not influence the P&L, but Danish accounting standards require us to deduct the valuation changes in the calculation of our core tier 1 ratio. On the other hand, declining interest on Danish mortgage bonds offset a good portion of this loss.

Our income from customer-driven trading in interest rate and FX products continues to increase.

Please go to slide 8, where I would like to spend a little time on the income from our insurance business, Danica.

Insurance income affected by lower investment return, but strong growth in market based products

Income from insurance business declined 75 per cent from the first to the second quarter because of a lower investment result and only a partial inclusion of the risk allowance.

Danica continued to show strong premium growth and an increasingly positive unit-link result, but quarter-on-quarter we saw a dip in earnings as long Danish mortgage rates declined.

Consequently, the technical basis for the risk allowance was not sufficient for us to book the full allowance, so 177 million has been transferred to the shadow account, which now amounts to 758 million. Please keep in mind that there is no time limit on when we can book this amount to our P&L.

In order for us to include the full risk allowance for 2010, share prices would have to rise about 0.6 per cent from the level at the end of the second quarter. On the basis of the latest share prices, we would therefore be able to book the full risk allowance for 2010.

Now let us turn to expenses.

Please go to slide 9.

Underlying cost base continues to decline

In the first half of 2010, expenses were 14 per cent lower than in the same period last year, although they increased 6 per cent, or around 400 million, from the first to the second quarter:

- About 67 million of the rise was the result of the announced postponement of costs for marketing, IT and renovation projects in the first quarter.
- 50 million stemmed from the depreciation of cars sold at Nordania Leasing. But this was offset by a rise in Other income, so it had no bottom-line effect.
- Some 118 million was owing to the seasonal booking of holiday payments, which will be reversed in the third quarter.
- We booked 145 million for the deposit guarantee scheme in Denmark and Northern Ireland in the second quarter.
- Severance payments were a little higher than in the first quarter.
- On the positive side, our pension obligations in Norway were 93 million lower.

The underlying cost base fell 3 per cent from the level in the first half of 2009, so we have been able not only to neutralise salary increases and general inflation but also to reduce costs. We are pleased with this trend, but we are not done yet. Our current cost control programme runs until the end of 2011.

On top of this, we will get some help. The third quarter is the last in which we have to pay the 625 million state guarantee fee, as the first Danish banking package expires in September. This alone will immediately reduce our cost base by about 10 per cent.

The total number of FTEs increased in the second quarter, mainly because of summer temps in Finland who will be off the books in the third quarter.

Please go to slide 10.

Impairment charges fell for sixth consecutive quarter

Loan impairment charges declined for the sixth consecutive quarter and stood at 3.5 billion in the second quarter. The annualised loan-loss ratio came in at 71 basis points.

We see less need for impairments in most of our markets and consider the low levels in Finland, Sweden, Norway, the Baltics and Other banking activities to be sustainable. Impairments in Denmark also fell, but they remain high. In both Northern Ireland and Ireland we needed to increase impairments above the level in the preceding quarter.

The charges include 460 million in collective impairments, mainly against Irish commercial properties, Danish housing co-operatives and personal customers. We also booked 464 million to Financial Stability this quarter to cover the expected costs of troubled Danish banks. The remaining portion of the maximum obligation of our first-tranche loss of 3.3 billion is now 0.5 billion, which is still at stake until the end of the third quarter.

On the next couple of slides, I will elaborate a little on the trend in loan impairment charges.

Please go to slide 11.

Upgrades/downgrades ratio improving, but Denmark lags

We have chosen once again to include this illustration of rating changes in the presentation. Our corporate book still shows more credit downgrades than upgrades, and the previously improving trend levelled off somewhat in the second quarter. There is still a ways to go before we are out of the woods, especially at our Danish unit, as the number of new bankruptcies remains high.

Please go to slide 12.

Loan impairment charges still dominated by SMEs, but fewer customers in default

Loan impairments continued to improve at the group level, falling to 3.5 billion in the second quarter from 4.3 billion in the first.

SMEs still dominate the impairments, whereas charges against personal customers, at 24 per cent of impairments, are still low relative to the amount of the loans.

We are still seeing an increase in loans subject to individual impairment testing. This is driven by higher credit exposure in rating category 10 to personal customers and SMEs that are not yet in default but have shown other signs of economic difficulty. Exposure to rating category 11, which contains customers in default, actually declined by 10 per cent in the second quarter.

Please go to slide 13.

Nordic impairments: Declining in all markets, but still high in Denmark

Let us now take a look at the impairments for each of our main business units.

Charges declined on all of the Nordic markets, which represent 88 per cent of our total lending. But they are still high in Denmark.

Danish impairments are still driven by SMEs, now mainly in the farming, fishery and co-operative housing segments. These are our first charges on the latter segment, as we see problems arising from the special construction of housing co-operatives combined with falling collateral values.

Impairments on retail customers make up 25 per cent of the total impairments at Banking Activities Denmark. At the end of the second quarter, Danish banks began publishing reports from the Danish FSA on the FSA's inspections during the quarter. The assessment of the Danish unit occasioned some comments on the credit quality of the retail book. By the time of publication, we had already tightened our credit and lending policies and had thus met the FSA's requirements, including the booking of 218 million in collective impairments.

Add to this the 464 million for Bank Package I that is also booked under Banking Activities Denmark.

Please go to slide 14, which covers our other business units.

Other impairments: Increasing in Ireland owing to declining asset values

Impairments increased in both Ireland and Northern Ireland in the second quarter.

In Northern Ireland, the rise was due to a few write-downs on land bank. The economic outlook for Northern Ireland has become a bit weaker as the new UK plan for cost savings in the public sector will hurt the region.

In Ireland, the commercial property segment is still driving the high impairment level because of updated value adjustments of collateral on commercial property.

The sharp decline in our Baltic impairments was a positive surprise last quarter, and the trend continued at all three units. Most of the impairments are made on personal customers, who are undergoing great difficulties because of

rising unemployment and lower wages. But it is positive that our corporate customers are doing better and that we see a steady improvement in the Baltic economies.

Impairments in Other Activities derive mainly from our exposure at Danske Markets, where we made reversals of 807 million in the second quarter because of positive developments in the US housing market that led to higher collateral values.

That concludes my section of this presentation, which Peter will now resume.

Please go to slide 15.

Peter Straarup - Danske Bank - CEO

Danske Bank passed the CEBS stress test with healthy capital buffer and ranking in the top quartile

Thank you, Tonny.

The stress test of European banks was a hot topic a couple of weeks ago. As you know, Danske Bank passed the test with a solid margin, and our 10 per cent tier 1 ratio put us in the top quartile. This is a confirmation of the Group's substantial financial strength.

Even if you exclude the 26 billion in hybrid capital from the Danish state, we exceeded the 6 per cent requirement by a sound margin.

Please go to slide 16.

Funding need for 2010 completed, duration extended; also very limited need in 2011

Let us turn to the Bank's funding position.

We completed this year's funding of 30 billion kroner by the end of June. In the second quarter, our main issues included a 12-year covered bond for 1 billion euros in our international pool. This is another example of our strategy of focusing on long-term borrowing.

In the second half, we will look at the opportunities in the market, and if we find attractive terms, we will consider increasing our long-term funding further. At about 30 billion,

our funding need for 2011 is very limited, however, and it can be fully covered through unutilised covered bond pool assets

In the short-term funding market, there is much attention on the expiry of the Danish state guarantee at the end of September. We do not expect that this will have any material effect on Danske Bank's funding activities. We have already issued a substantial amount of commercial paper that matures after the expiry date, and we see this as a confirmation of the markets' confidence in Danske Bank as a borrower. Our low CDS spread is another sign of our favourable standing, which was further confirmed in the days after the stress test results were announced.

Please go to slide 17.

Strong capital position maintained

With a core tier 1 ratio of 9.1 per cent, Danske Bank maintained a strong capital position in the second quarter. Including the convertible state hybrid loan capital, our total tier 1 ratio was 13.7 per cent and our total solvency ratio was 17.2 per cent. When we compare these levels with our ICAAP ratio of 10.1 per cent, it is clear that we have a sound capital base, as the EU stress test also confirmed.

Our capital ratios declined slightly in the second quarter because of increasing risk-weighted assets. The rise was caused by a reversal of impairments on our securitisation portfolio owing to improved figures for the US housing market in combination with an appreciation of the dollar.

Please go to slide 18.

Revised Basel III proposal is a step in the right direction, but there are still some issues

Two weeks ago, the Basel Committee published a revised note on the coming Basel III rules that in many ways moderated the measures proposed in the first note from December.

The new set of proposals is an improvement in many respects, although not all issues that were raised last year have been resolved.

We see the note as a clear step towards a set of rules that can work for most of Europe. From our point of view, the main outstanding issue is how to treat the Danish mortgage market, particularly regarding short-term liquidity. We are

still confident that we will end up with a solution that is acceptable to Danish mortgage providers as well as Danish mortgage customers.

After all, the unique Danish mortgage system proved its superiority during the financial crisis.

Please go to slide 19.

Macroeconomic improvement, but growth is still fragile

The recovery of the European economies continues, although somewhat fragile. GDP is expected to grow in almost all of our markets this year and next, but at low levels.

The timing and effects of any fiscal and monetary tightening as well as possible adverse consequences of future financial sector regulation remain the largest threats to the economic recovery in the coming years. In the second quarter, the capital markets once again turned harsh and punished the southern European countries for their overextended public finances. Our main markets in the Nordic region, including Denmark, remain in a strong position, however, with the lowest public debt levels in the EU and high sovereign ratings.

Please go to slide 20.

Outlook for the rest of 2010 remains cautious

Our cautious optimism about the macroeconomic improvement of course influences the way we look at our earnings potential for the rest of the year, and we expect 2010 to remain a challenging year. Our expectations for the remainder of 2010 have therefore not changed significantly in the past three months.

Net interest income is expected to remain under pressure, as we see no changes in ECB rates before the end of next year. Trading income is getting closer to the normal level of about 1.5 to 2 billion per quarter, but it will remain highly dependent on developments on the financial markets. That is also the case with income from our insurance business, Danica, but at this point, we are able to book the full risk allowance for 2010.

We are now less than two months from the expiration of the first Danish banking package. This will reduce our expenses and loan impairment charges by a total of 1 billion per quarter. We do not expect any major negative effects from this. In addition, we continue our strong focus on cost

management (despite investments in IT development), and we hope to see a continuation of the positive trend in loan impairment charges, although we expect them to remain high.

We can now see light at the end of the tunnel, and we believe that better times are in store for both Denmark and Danske Bank.

Please go to slide 21.

Q&A session

That concludes our presentation of Danske Bank's financial results for the first half 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 three questions. One is about your additional write-down for Banking Package I of 464 million. I noticed that other banks have not done this. How do you see the situation? How big do you expect the bill to be? Do you expect the 10 billion of the first tranche to be ... to all ... to be used, all of them? The second question also relates to Banking Package I, but more to the expiry of it. Since you're not allowed to pay out dividends at ... under Banking Package I, have you made ... given any thought to what your policy will be going forward, when you are allowed to pay out dividends? And would it be fair to assume that you won't exceed the ... around 4.80 kroner restriction from Banking Package II? And the last question is relating to the Fact Book, page 24, where I'm looking at the write-offs debited to the allowance account. I noticed that these write-offs are quite small. They're now below 0.5 billion this quarter. When do you expect these to increase? Since I assume you expect to use all 44 billion from the allowance account, and then of course you'll need to have much bigger write-offs. What would be the timing of this? Are we talking increasing in 2011 and then topping in '12, or how do you see the situation? Thank you.

Peter Straarup - Danske Bank - CEO

Thank you. First, on the impairment charges we have booked related to Danish Banking Package I: What we have basically decided is that we think that there will be a claim for the full 10 billion kroner, which is the first tranche. The 10 billion kroner we have one third responsibility for. That means that it's about 3.3 billion. So if we book the same impairment charges which you should expect for this specific item in the third quarter, then we have made a full provision for 3.3 billion. I know that the tally is not up to 10 billion kroner at this point in time. I think the assessment that's going to be made by the end of September will be based on realisable values, and that might take a little out of the present surplus, that is, compared to 10 billion. So to be honest with you, I think in the benefit of caution, there's a high risk that we'll use all the money, and we might as well save up for it.

As far as Banking Package I is concerned, when that expires, you're right, then we can pay dividends again. We can pay dividends if we have earned the money. This will mean that we can pay dividends in 2011 for 2010 for the fourth quarter if that fourth quarter has a profit. How much we will pay in dividends and if and when and all this is an item for the Board and for the annual general meeting of course to decide. You made mention of the threshold, which is related to Banking Package II. That's a threshold where, if we exceeded the interest we pay, the interest expense we pay on the hybrid will increase, and it's a safe bet to assume that the Bank will not go beyond what we have to pay or what we can pay without having an increase. I don't think, though, you should expect us to hit the target for the fourth quarter if we end in a situation where we declare any dividends.

On page 24 in the Fact Book, you're right that write-offs are relatively low when you consider the fact that we have an allowance account of 44 billion kroner. It's a timing issue. There's no policy decision behind it. You see a need for an impairment. A company goes into bankruptcy, and it takes a while before the state and bankruptcy is sort of carried through the court system. And we write-down when sort of the legal proceedings around bankruptcies, et cetera. So you should expect that figure to rise in the coming quarters. I can't be precise on how much it will be, and you should also expect it to fluctuate. It is possible that we, at a certain point in time, would be a little more aggressive on writing off on account on this item and then accumulate a little. We have not done that in the second quarter.

Christian Hede - Jyske Bank - Analyst

Thank you very much.

Aaron Ibbotson - Goldman Sachs - Analyst

Yes, hi there. Good afternoon. I just have a quick question, actually on just some clarification on the movements in risk-weighted assets. I think you mentioned - was it 27 billion or so related to credit risk migration? You said the majority or primarily due to movement in securitisations, but I'm a bit confused how it can be so much. Even if I apply a sort of 12.50 deduction on your sort of 900 or 800 reversal, I get around 10 billion. So I would like if you can give some clarity on those 27 billion. And secondly, and very much related to that, I wonder if you can update us on your expectation of movement in risk-weighted assets that are not related to credit growth, both maybe this year but primarily maybe year-end 2011 when potential new Basel rules ... sort of Basel 2.5 is being introduced. Thank you.

Tonny T. Andersen - Danske Bank - CFO

Aaron, on the question on the downgrades, I think you're right that our securitisation takes up some part of this credit migration. But if you go and look at slide 11, the one that shows upgrades and downgrades on our corporate book, you can see we still have more downgrades than upgrades, and particularly in the Danish corporate book. So adding that to the fact on the securitisation, that is what is consumed in the credit migration.

Martin Gottlob - Danske Bank - Head of IR

It's Martin here. The other thing you also have to remember that the US dollar appreciates against the Danish kroner, and we have a lot of ... we have some exposure, especially when it comes to our securitisation portfolio, where we are exposed to in the U.S. dollar, which are not impaired, but there the risk weight also goes up because of the dollar's gone up.

Aaron Ibbotson - Goldman Sachs - Analyst

But I guess the only thing that confuses me a little bit is - if I compare it to previous quarters and movements in risk-weighted assets during those quarters, when your actually downgrades were even worse than they are currently - we

didn't see really any procyclicality coming through in absolute levels, whereas it's now quite a large one.

Tonny T. Andersen - Danske Bank - CFO

But that's because... yeah, but you also keep in mind, in last quarter's ... previous quarters in 2009 and also the first quarter 2010, you saw loan balances coming down, whereas that has stopped more or less in the second quarter. So the combination that the loan balances came down in 2009 - that absorbed more or less the downgrades you saw on the book.

Aaron Ibbotson - Goldman Sachs - Analyst

This is fair then, if my 10 billion, 17 billion are roughly split over credit versus securitisation.

Tonny T. Andersen - Danske Bank - CFO

Yeah, that would be the expectation.

Aaron Ibbotson - Goldman Sachs - Analyst

Okay. And going forward?

Tonny T. Andersen - Danske Bank - CFO

Well, I think when you look at risk-weighted assets going forward, we could see that our loan balance is being more or less unchanged there. You can look at the graph on page 11 and see that the trend is that there are still more downgrades than upgrades. But it's improving slightly, so you could hope eventually that things would normalise. So there could be some credit migration going forward also that are negative, but I don't think of any particular magnitude, as I see it.

You asked a question on the Basel 2.5, what would the impact be. I don't think there will be any particular impact on risk-weighted assets from that side. I think the changes on leverage ratio and on the minority interest is obviously positive for us, so I don't expect any big drag on Basel 2.5.

Jakob Brink - Handelsbanken - Analyst

Hi. It's Jakob from Handelsbanken. I have two questions, or actually just one question. It's regarding the Irish operations.

I'm quite puzzled about the big jump in provisions in Ireland around 1.6 billion, up around 50 per cent. I think you mentioned some place in the report that it's due to declining asset values on commercial property. But looking at your own graph material some time ago, it's actually ... it's coming down much slower now than it used to do last year. So I'm a bit surprised about the very ... it's actually the biggest write-down you've ever done in one quarter in Ireland. I was thinking if this has maybe anything to do with the Irish bank starting to transfer assets to NAMA, and then you might be getting some pricing ... prices in the market. Thank you.

Peter Straarup - Danske Bank - CEO

Our indication on the property market in Ireland is that it's soft and it continues to be soft and it's softer than we have expected. And you're right that we might have taken some inspiration from NAMA. You saw NAMA transfer the first tranches out of a number of the banks, and they come down much lower than we talked about just five-six months ago, discounts of 48 to 50 per cent. So I don't know if we err on the side of caution here. We haven't done that so far in the Irish property market. But we felt that there was a disappointing development, and liquidity in the market was not very strong. So that's the reason.

Jakob Brink - Handelsbanken - Analyst

So it was basically the remaining of your commercial property book or construction book in Ireland has now been written down to the NAMA levels, or how should I read that?

Peter Straarup - Danske Bank - CEO

By and large, there are individual differences in the individual impairments and where it's built and what is the possibility for rental, so it is individual impairments. But I don't think we owe anything to the Irish banks when we compare the relative level of write-downs.

Jakob Brink - Handelsbanken - Analyst

Okay, thank you.

Andreas Hakansson - Credit Suisse - Analyst

Yes, hi. A few questions. First, just to follow-up on Ireland. I mean, when we listen to the Irish banks, it sounds like they

believe that provisions peaked sometime during 2009. Could you just tell us ... I mean, we saw this very sharp increase in your provisions, but how should we look at ... when did we see the peak? Was this more or less of a one-off quarter as you would get back towards ... well, not normal level, but what we saw in the previous quarters? Then the second question: If I look at NII, you benefited from the 106 million from interest on the tax refunds. You saw that also a similar number in Q1. Could you tell us how much is left to be booked in the coming quarters? And then the last question: Quickly, just on FTEs in Finland increased quite significantly in the quarter. Can you just tell us what's driving that? Thanks.

Tonny T. Andersen - Danske Bank - CFO

Well just on the latter, on the FTEs in Finland: That is summer temps, temps they're using, and they will be out of the books in Q3 in Finland. So that's not a spike in FTEs.

On the net interest impact, income of the tax refund interest on that, we have ... we don't have booked any ... we don't expect to book anything in the future. There could be obviously court cases we win, but I don't think that is something we guide anything about, so don't expect that as part of your guidance.

Peter Straarup - Danske Bank - CEO

On the question whether the impairment charges in Ireland peaked in 2009, I have to say that the picture was that Danske Bank started making impairment charges somewhat higher and somewhat more than the Irish banks. Now the picture is that they by and large have caught up with this in terms of percentage, if you compare them. I would hope that the levels peaked in second quarter here where we made the adjustment, I suppose, based on the latest developments, but we don't know. The Irish market of course is seeing some economic recovery as far as the macroeconomic developments are concerned, and that gives ground for some optimism. But there hasn't been much liquidity in the property market, and that's the reason why we have found it necessary.

Andreas Hakansson - Credit Suisse - Analyst

So just to follow up on that. So if commercial real estate prices would be unchanged from here, should we then see your provisioning go back to the trends we saw in previous

quarters and then go up or down depending on how the macro environment is developing?

Peter Straarup - Danske Bank - CEO

Yeah, that wouldn't be an incorrect guess, I suppose.

Andreas Hakansson - Credit Suisse - Analyst

Thank you.

Claus Højmark Jensen - ABG - Analyst

Yes, my question regards to the Danish operations and basically the return in the Danish operations. Now after Q3, you have the cost for Bank Package I running off. But even if I adjust for those in this quarter, the return on allocated capital is not that fantastic. If we assume - which I don't hope to be the case - but if we assume loan losses to stay at this level, what opportunities do you have to improve your return in the Danish operations?

Tonny T. Andersen - Danske Bank - CFO

Well, I think, Claus, when you look at the profit, keep in mind that the impact from the first banking package is not only on fees, 625 million, but also including 4 to 5 hundred million every quarter on provisioning. So we're talking about 1 billion delta a quarter in our Danish operations that are affected on this one. Secondly, when you look at the things we're moving into, in terms of using customer service centre and we're using technology, I think there's scope for us to continue on the cost side. So I think, taking that into account and maybe the loan losses eventually also will come down, as we see now house prices are beginning to pick up a little bit in Denmark, there should be scope for us to improve profitability going forward.

Claus Højmark Jensen - ABG - Analyst

You seem to have turned a bit more positive, if my interpretation is correct, from what you said on press conference today and also what you just mentioned in your presentation. On the level of loan losses in Denmark, could you maybe elaborate a bit on the reason for your optimism? You mentioned house prices, but I guess they've been increasing since last summer.

Tonny T. Andersen - Danske Bank - CFO

What I'm saying is that you see that export is improving in Denmark. You see that house prices are coming up. You see the unemployment rate is coming slightly down, economic activities coming up slightly. That does not mean it's ... it is a fragile situation, because a lot of stimulus has been pumped into the European economy. So that is where the uncertainty is around this one here. But eventually, we would hope that you will not have to continue with this kind of impairments even though it will take some time to get out of it.

Claus Højmark Jensen - ABG - Analyst

Okay, thank you.

Fiona Swaffield - Execution Noble - Analyst

Oh hi. I had a couple of questions. On ... trying to look at the NIB, an issue in Republic of Ireland, if I take your stock of provisions, I think 9.7 billion is it ... I mean, how much of that would be to commercial property and construction? Can I compare it to the 20 billion in the slides? I mean just kind of get a feel for how far we are along.

Tonny T. Andersen - Danske Bank - CFO

Yeah, about 80 per cent is related to commercial property.

Fiona Swaffield - Execution Noble - Analyst

Okay. And also two more things. One on the securitisation issue in risk-weighted assets: Is there a scenario where we get more risk-weighted assets coming back because you made those? How much? I think you had a reclassification, didn't you, in Q4 where the risk-weighted assets went out because they were written off, and it's quite a big number. And how much have we seen? Is that coming back, and is there a prospect of this happening again?

Martin Gottlob - Danske Bank - Head of IR

In theory, if it turns out that we don't lose one single US dollar on this, then it all can come back, but I think that's unrealistic to expect. But you ... things have improved for some months in Q2. Lately we have had some reversal information saying that things are maybe not as good on this market, so I wouldn't

expect that you'll see a strong improvement, at least not in the near-term.

Fiona Swaffield - Execution Noble - Analyst

But in terms of how much is being reversed from the original. I mean, I think the Q4 numbers were like 90 billion, wasn't it, that went off. So we've seen like 10-15 billion come back, because I think there's quite a lot of things going on in the 27 billion RWA number, isn't there?

Martin Gottlob - Danske Bank - Head of IR

No, but the majority is still left. The provision we have made is still left, a major of that. It's the reversal is much less than we made. We made an impairment of around 3 billion in Q4.

Fiona Swaffield - Execution Noble - Analyst

Okay, thanks very much.

Chintan Joshi - Nomura - Analyst

Hi. Good afternoon. I've got four questions. The first question: Reversal of 800 odd million that we saw in the securitisations: Could you talk about what these underlying assets are, so we get an idea of what's happening there? The second question: I mean, given the kind of changes in expectations of rate hikes, what are your expectations when interest rates go up, and when you expect to see some other deposit margins come back? Third question: On holiday expenses, 118 million: Should we expect the reversal in Q3 to be 118 or will it be more than 118? Just want to reconfirm that. And the fourth question: On your credit outlook statement, in the last quarter you said you don't expect credit losses to be as high as, but in this quarter you say credit expenses will be somewhat lower than. I just want to understand the difference between these two statements.

Peter Straarup - Danske Bank - CEO

Okay, first the reversal on the 800 from Danske Markets: That relates to securitisation, where we have some exposure to the U.S. property market, which has also already been discussed here in connection with the securitisation question. What we have seen - and we base our impairment charges on this, on the use of a model - what we have seen is that the arrears on collateral in the U.S. housing market have

come off over the last five-six months, and the model actually shows that the expected loss goes down. Our model is relatively conservative. We compare, for example, the vintage 2005 with Moody's estimates, and we are having a higher expectation of expected losses than Moody's have even after Moody's have adjusted theirs downwards also here in February. So we think we use a cautious method of assessing this. And we use the model, and we have used the same model over the last five quarters. If you look at the reversals on impairment charges, I think it's important to be observant of the fact that we on an ongoing basis actually have quite high reversals. If you go into our Fact Book – and that you can see on page 24 – then you can see that this quarter, the second quarter, we had 1.6 billion kroner in reversals of impairment charges, which includes obviously the 8-9 hundred that we talk about at this point in time. In the first quarter, we had 3 billion in reversals. And in the quarter before that, the fourth quarter of 2009, we had 1.4. So the interesting thing to note is that new and increased impairment charges are actually low compared to what they have been in previous quarters. They are the lowest we have seen, which also follows the trend of course in the net development in impairment charges, just for clarification, but it's also something that's listed in our Fact Book.

You asked about the changes and the possibility for rate hikes. I think our expectation is that that should not be until the end of 2011, and you are right in assuming that that will continue the same amount of pressure on our net interest account. We benefit from an increase in rates, and therefore we will be looking forward to that.

Tonny T. Andersen - Danske Bank - CFO

On the holiday payment: That will come back in Q3, probably more close to 150 million than the 118 you saw in the second quarter.

Peter Straarup - Danske Bank - CEO

And then you had a question on credit losses. I'm not sure I got that.

Chintan Joshi - Nomura - Analyst

I just wanted to understand ... it's a very slight difference in the outlook statement. What has changed?

Peter Straarup - Danske Bank - CEO

Yeah, it's slightly more positive.

Chintan Joshi - Nomura - Analyst

Thank you.

Martin Gottlob - Danske Bank - Head of IR

Let me just underline, when it comes to the holiday payment, we have a cost this quarter, extra of 118 million. In the third quarter, you probably will see an income or an income of around 150 million or so. So the swing factor between Q2 and Q3 will be between 100 ... 250, and 300 million, swing factor.

Chintan Joshi - Nomura - Analyst

Thank you.

Johan Ekblom - Bank of America Merrill Lynch - Analyst

My questions have been answered. Thank you.

Peter Straarup - Danske Bank - CEO

That was an easy one. Thank you.

Nick Davey - UBS - Analyst

Yes, good afternoon, everyone. Thanks very much for taking the time to take this presentation. It's Nick Davey from UBS. Just two remaining questions really, both relating to spreads in the Danish division. I noticed q-on-q there's been weakness in the lending spreads domestically. I think you referenced this in your presentation about increasing competition on the lending side. Maybe if you could just reflect in a bit more detail on the dynamics that you see there going forward. And second, then, if we can just move down to the deposit margin: I noticed in your group outlook statement, you said you don't expect any offsetting negatives from the expiry of the bank or the state guarantees at the end of Q3. Could you just talk me through exactly how you view the outlook for deposit margins domestically? Clearly you've seen some stability there q-on-q. Would you expect the situation to remain going forward obviously until we see rate hikes? Thank you.

Tonny T. Andersen - Danske Bank - CFO

Well, if you take the first question on the lending margin spread, it's true we saw a little bit in the second quarter, and I think it's important to divide when you look at lending spread a little bit to product segments. On the mortgage side, the margins are stable around 50 bps. On other clients, corporates and particularly large corporates, we do see intensified competition in the Nordics from domestic players, but also certainly players coming from abroad, travelling again to the big corporate market. And as we said, this is maybe a little bit surprising to us given the stage and the economy, but that's how it is. I don't foresee the stock being put under significant pressure going forward. We still can do a little bit of re-pricing off the back book, and I think the market itself will adjust naturally to more sustainable margins on this. But there is tougher competition in from the markets here, but don't expect I think too much pressure on the total stock going forward. There may be some.

You had a question on deposit margins. I think that we do see competition on that. But also think that many banks have in Denmark raised long-term funding in order to prepare for the expiration of the state guarantee, and that could reduce the need for short-term deposits going in here. So I don't see the pressure heating up significantly on that as long as the loan growth is still somewhat muted.

Martin Gottlob - Danske Bank - Head of IR

Can I add that we at this point in time already are issuing commercial paper which are expiring beyond the first of October, and we can see that the prices we pay for that is nothing that is ... will be a dramatic impact on our costs, funding costs.

Nick Davey - UBS - Analyst

That's very clear. Thank you.

Jan Wolter - Deutsche Bank - Analyst

Yes, hi. Jan Wolter, Deutsche Bank. A couple of follow-up questions here: Just the coverage ratio for the Irish book and/or for the Irish commercial real estate part of the book: If you could give that out. We can try to calculate from the numbers that you've given us, but just to be crystal clear what that is today. Then secondly, the size of lending to co-operative housing sector in Denmark: Do you have that

number? I assume that is where we saw some extra losses this quarter. And I wonder why you're seeing those losses now since I guess they have to do with the Danish housing prices moving up and down, and they have come up year-to-date. So if you could elaborate a bit on that. And final question: I noticed that number of staff is up q-on-q for the first time since I think 2008. Does that have to do only with the Finnish situation, or should we expect that nominal amount ... nominal staff and branches as well will come up from here despite the efforts to cut costs? Thanks.

Martin Gottlob - Danske Bank - Head of IR

The coverage ratio: If you take our impairments on the commercial property - I guess that's what you're talking about - we have today made impairments of around 25 of our commercial property book, which we have disclosed in our report. And if you only look at the impaired loans in that book, the impairments we have made is close to the double, 50 per cent.

And then you asked about the staff: I think we have mentioned before that the increase of staff is solely due to summer temps in Finland. They will be out of the book again after the summer. If you look at the numbers last year, they were not included in staff numbers last summer, but we have the same summer temps in it as well.

Tonny T. Andersen - Danske Bank - CFO

Then there was a question on the housing co-ops in Denmark. I think you have to divide the ones that are located in the Banking Activities and the ones in the mortgage institution. The ones in the Banking Activities, there they are around 700 million. And we have made, I think, rather substantial provisioning on those, so we don't foresee us having future losses of any magnitude on that. And the reason why we have that is that some of these were established a couple years ago, and that's ... part of that assumed that they could sell some of the apartments out. But the prices have since come down, so it still performed to make the liquidity, the cash flow make ends meet here. So that is the reason why we see the losses on that.

Peter Straarup - Danske Bank - CEO

Danske Bank, by the way, has a relatively low market share on co-ops.

Jan Wolter - Deutsche Bank - Analyst

Yeah, just a clarification there on the co-ops then: Did you say you have 700 million in...

Tonny T. Andersen - Danske Bank - CFO

In Banking Activities Denmark. Then in our mortgage division, we have around 29 billion, with an average LTV of 76 per cent and which I don't foresee us taking any losses of any magnitude there.

Jan Wolter - Deutsche Bank - Analyst

Yeah, so you took all the losses on this 700 million booking and banking operation then?

Tonny T. Andersen - Danske Bank - CFO

Yeah.

Jan Wolter - Deutsche Bank - Analyst

Okay. And just on the coverage ratio there: Martin, you said something about ... is that 50 per cent ... is that the interpretation of what you said?

Martin Gottlob - Danske Bank - Head of IR

On the impaired loans.

Jan Wolter - Deutsche Bank - Analyst

Yeah, the coverage ratio, if you take the provisions, accumulated provisions over the impaired loans.

Tonny T. Andersen - Danske Bank - CFO

Yes, in Ireland. Yes.

Martin Gottlob - Danske Bank - Head of IR

Yes, on commercial property.

Jan Wolter - Deutsche Bank - Analyst

Yeah. And one final question, if I may there: On the Financial Stability company: They haven't said anything new on the

expected net loss on the guarantee here of ... of the expiry. So, if you have over-reserved them, vis-à-vis the final loss calculation of the September 30, do you know what you're going to do then?

Martin Gottlob - Danske Bank - Head of IR

If we have over-reserved, then we take into profit in the fourth quarter.

Jan Wolter - Deutsche Bank - Analyst

Okay, excellent.

Torsten Bech - LD Markets - Analyst

Yes, hello. Torsten Bech from LD Invest Markets. Just one question, if I may: I've looked on the lending market shares outside Denmark in the Nordic countries, and see they are still trending somewhat down. What do you see as the key to breaking this trend? Is it something with prices, your branding, or is it products. And how do you see the competitive situation in the lending market in those countries?

Martin Gottlob - Danske Bank - Head of IR

In Sweden and Norway, the main reason for the declining market share is that we have in both countries around two-thirds of our loan books to corporates and one-third to retail. And if you look at the growth in these two segments in both countries, we saw that the retail has increased in the last couple of years, whereas corporates has gone down. So that is because of the business mix that the overall market shares has declined. That is, to a little extent also the case in Finland, but also there we have ... but there we have an issue that both we and Nordea are losing market share to OP Bank.

Torsten Bech - LD Markets - Analyst

Okay, thank you.

Fridtjof Berents - Arctic Securities - Analyst

Yes, thank you. Good afternoon. Just looking at page 16 in your presentation about the funding, I wonder if you could just split the new funding in 2010 in covered and senior and just give, related to maturities, average maturity in 2010 on the

new funding and also in total on covered and senior. Thank you.

Tonny T. Andersen - Danske Bank - CFO

I think that's a little bit detailed to do disclosure on. I think what we can say for 2011 that the funding need we have can be ... all that can be funding through ... we have a covered bond pool we have not utilised. And typically when we issue covered bonds right now, we do it between five and ten years, and we have actually done also some private placement, 15 years. So you will probably see around a five-year range that is ... would be the covered bond issuance we were doing in 2011, that range. I think that's the closest we can get on that.

Fridtjof Berents - Arctic Securities - Analyst

And for 2010, the maturity, the bonds you have already ...

Tonny T. Andersen - Danske Bank - CFO

The bonds we issued in 2010 in the second quarter, just to give you an idea, that has been ADS, 12 years, 15 years. And senior unsecured, we have also done that 5.5 years, we have also done that seven years. So I think we are using the whole spectrum of the range of duration on this.

Fridtjof Berents - Arctic Securities - Analyst

Okay. So what would you say your average maturity would be on your long-term funding as of end of 2009 and yeah, or now in that respect?

Tonny T. Andersen - Danske Bank - CFO

Well, first of all, you probably have to divide a little bit because the mortgage book that are match-funded has a very long duration on our ... because it's match-funded...

Fridtjof Berents - Arctic Securities - Analyst

Yeah.

Tonny T. Andersen - Danske Bank - CFO

So taking that aside, I don't think I'll give a specific number on that, or I can't give you that. But it's one of the longest you'll

probably see, given our mortgage book has such a long duration.

Fridtjof Berents - Arctic Securities - Analyst

Okay, thank you.

Andreas Hakansson - Credit Suisse - Analyst

Yeah, sorry, just a follow-up question. I might've missed it in the summer, but what's the status about the court ruling on Nykredit's ability to hike their mortgage margin, and what's your view on what you would do if you have a ruling in either way? Thanks.

Peter Straarup - Danske Bank - CEO

Well, I think the competitive authorities are still considering whether there should be reasons why Nykredit should be able to increase their deposit rates based on this agreement they made about five-six years ago. They came out in, I think, June and commented that straight out there was not a justification for price increase, but it could be justified by changes in the environment. They would now spend some time evaluating whether there have been such changes in the environment. I think one should expect an answer before the end of the year.

Andreas Hakansson - Credit Suisse - Analyst

Okay, thanks.

Claus Therp - Enskilda - Analyst

Yes, hello. The question relates to your trading income. You used to say that a normalised trading quarter will have 2 billion of trading income. In the last quarter, you have 2.8 billion, where we have to deduct 700 million, so we're down to 2.1 billion. And if I look at the trading environment - and within your presentation you also actually have a slide saying that there has been a fairly good environment - then I'm a little disappointed that you actually only reach 100 million above a normalised quarter because, as you're saying in the presentation, you have been wise for not being exposed to the southern European debt market. So you haven't lost on those accounts there, and at the same time there's been in this period of time a flight to the northern region in terms of southern European investors and other investors investing in the Nordic area. So can you try to elaborate? And also on

currencies ... has been fairly volatile. Can you try to elaborate what is the reason why your trading income only just barely exceeds a normalised level?

Tonny T. Andersen - Danske Bank - CFO

Well, I think I'm probably a little bit more enthusiastic than you are about our trading income. I think we have to take into account, in the second quarter, we do have some summer and usually less activity in the markets when that is happening. And you cannot - even though, say normalised around 2 billion - you cannot take that as a point estimate every single quarter from now on until eternity. There will be fluctuations on this. And this time it's around a summer holiday that has some impact there because our market position and the capabilities in markets are very strong. And I don't see why we should not, going forward, be able to fulfil our ambitions at this level. But please don't take it as a point estimate every quarter.

You're right that we don't have any negative exposure on what you saw in southern Europe that goes into the trading book, but nevertheless, I do believe it's a pretty solid result.

Operator: We have no further questions at this time.

Peter Straarup - Danske Bank - CEO

Okay, well thank you very much, operator. Thank you all for your interest in Danske Bank. Thanks for your questions.

As always, you are welcome to contact us if you have any further questions after you have had time to look at the accounts in detail, and, as usual, we'll be ready to talk to you until 9:00 p.m. this evening Central European Time and of course again tomorrow morning.

A transcript of this conference call presentation will appear on our website shortly and a transcript of the Q&A session will be added within a few days. Thank you very much, and thanks for your interest in the Bank.