

# Conference call speech

Financial results 2007

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Investor Relations

Danske Bank

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## SPEECH

**Peter Straarup - Danske Bank - CEO**

**Annual report 2007**

Thank you, operator.

Welcome, and thank you for taking the time to attend this presentation of Danske Bank's financial results for 2007.

At my side today are CFO Tonny Thierry Andersen and Head of Investor Relations Martin Gottlob.

Please go to slide 2.

### Agenda

I will begin with a brief summary of Danske Bank Group's financial performance and then comment on some key developments. Afterwards, Tonny Thierry Andersen will lead you through the most important accounting items and present our outlook for 2008.

Afterwards, you will of course be able to ask questions of all three of us.

Please go to slide 3.

### Key messages

Two thousand and seven was a busy and transformative year for the Danske Bank Group.

Our earnings came in slightly below the estimate we presented with our third-quarter report but in line with our original guidance. In light of the increasingly difficult conditions in the financial markets, we consider the results satisfactory.

It was even more gratifying that we were able to strengthen and diversify our revenue base in 2007.

We are seeing positive developments at our business units outside Denmark, whose good growth and profitability compensate for the lower growth at Banking Activities Denmark.

The integration of Sampo Bank Finland is proceeding on schedule, and we feel ready to carry out the largest IT operation in Danske Bank's history.

We also introduced a variety of new products throughout the Group in 2007: high-interest deposit accounts in Denmark and Sweden, no-fee packages for our retail customers in

Denmark, the RenteDyk mortgage loan from Realkredit Danmark, and Totalpension in a joint effort between Danica and our Danish banking division.

There has been much attention on the general funding situation for banks. Danske Bank has a sound foundation in this regard. With about one third of our lending financed through the issue of Danish mortgage bonds, we have access to a very robust funding machine that helps to maintain a solid liquidity position.

The Group has a better platform and is better integrated than it was a year ago. We are now focusing on organic growth.

We have therefore set some financial targets for the year 2012 based on our vision and mission. The targets are ambitious, and they will ensure a competitive return for our shareholders.

Please go to slide 4.

#### **Financial targets for 2012**

As the chart shows, we are aiming for income of at least 55 billion kroner and a cost/income ratio below 45 per cent by 2012, and over the next five years we also intend to deliver annual EPS growth averaging at least 8 per cent.

To support this effort and ensure that we meet these targets, we have decided to invest around 500 million a year in the next two years to upgrade our IT platform. The objective is to aggressively digitalise our infrastructure and platform and thus to accelerate the introduction of new products throughout the Group.

With our unique shared IT platform, we have a singular opportunity to carry out an ambitious rationalisation and digitalisation programme.

Falling integration costs and increased synergies will give us some of the improvement we are pursuing. But the markets are not easy at present. We may well meet hindrances in the form of lower growth and increased credit loss expenses. So our goals are ambitious, and we will not reach them without a clearly focused effort. And that is our intention.

Please go to slide 5.

#### **Financial targets for 2012 (cont'd)**

This next slide shows where we are and where we want to go. The financial targets require that we take both our income and efficiency up to a new level.

But we feel convinced that we have the business model to realise these goals.

Please go to slide 6.

#### **Performance highlights**

The Danske Bank Group's net profit for the year was 14.9 billion kroner, against 15.4 billion in 2006. The result was slightly below the estimate we presented with our third-quarter report.

Total income rose 5 per cent. Our units outside of Denmark continue to post healthy gains, and we realised a 12 per cent increase in total lending.

Our expenses rose a little more than we had expected, unfortunately. An increase in costs of 11 per cent is not something you see very often at Danske Bank. For the most part, however, it can be explained by higher integration costs, performance-based compensation and amortisation related to good growth in operating leasing.

As expected, we began booking credit loss expenses again in 2007. Generally we still have good credit quality in our lending portfolio, which suffered losses mainly on a few individual customers. But it is fair to say that the global economic outlook is weaker now than it was a year ago.

Since the corporation tax rate in Denmark was reduced to 25 per cent in 2007, our tax liability fell.

The Group's return on equity was 15.1 per cent, while the cost/income ratio stood at 55.6 per cent. Excluding integration costs, ROE was 17 per cent and the cost/income ratio was 51 per cent.

Please go to slide 7.

#### **Underlying profit**

When we adjust for integration costs, our underlying earnings are 13 per cent higher than the reported figure.

Our total integration costs will fall by about 400 million in 2008, mainly because in March we will be finished writing off intangible assets for Northern Bank and National Irish Bank.

Please go to slide 8.

#### **J curves: ROE before credit losses and tax**

When we speak of underlying earnings growth, it is worth emphasising the developments at our units outside Denmark.

As you can see from the chart, the profitability in Sweden, Norway, Ireland and Northern Ireland shows a very positive trend. To a great extent, this trend offsets the lower growth at our Danish operations. This will become an even more important factor going forward.

Please go to slide 9.

#### **Unique funding of mortgages in Denmark**

The rising price of liquidity has of course also affected Danske Bank.

Our position has remained relatively strong throughout the financial crisis, and it still is. One of the reasons is our capital structure at Realkredit Danmark, which is unique from an international perspective.

The mortgage finance market in Denmark is a 100 per cent straight-through system in which we, as an institution that offers mortgage loans, have no funding or interest rate risk. I repeat no funding or interest rate risk. Credit risk is the only risk we need to manage.

As the chart shows, the mortgage finance market in Denmark has proved very stable, with almost no change in the price of the underlying bonds. The small widening of spreads that has taken place is absorbed by customers, not us. The market has also functioned without interruptions during this entire period. About one third of our lending is financed through the Danish mortgage finance market, and that also gives us a solid funding structure that reduces our need to raise loans from the international markets.

Please go to slide 10.

#### **Liquidity**

It is Danske Bank's policy to maintain a strong liquidity reserve at all times. But it is clear that, in a situation such as the present one with rapidly escalating prices, our conservative position on liquidity is expensive. In 2007, it cost us about 150 million.

As the chart shows, the Bank's liquidity is positive until Q4 2008 according to Moody's classification requirements, which assume that access to the capital markets is cut off and there is no management intervention, among other things. In other words, we have a strong liquidity base, with a surplus of more than 200 billion.

Please go to slide 11.

#### **Backup liquidity facilities to conduits**

Liquidity and backup facilities attracted much attention in 2007.

Our exposure has been reduced continuously since the credit crisis arose. We have made an internal assessment of the credit quality, and despite the generally worsening market conditions, our exposure has retained its high quality.

During the fourth quarter, the total lines were reduced from 58 to 46 billion, while the drawn amounts were generally unchanged at around 20 billion. I can add that the exposure was lowered further in January, to 44 billion a few days ago.

We have divided the facilities up into three groups: SIVs, ABCP programmes and Polonius, which is the Group's own sponsored programme.

Please go to slide 12.

#### **Special investment vehicles (SIV's)**

The Group's SIV exposure involves a total of 16 companies: nine administered by banks and seven independent companies.

The chart shows a breakdown of the individual SIVs' assets by rating. As you can see, most of the assets have a triple-A or double-A rating. These are clearly secure assets.

Please go to slide 13.

#### **SIV's subprime exposure**

Most of the SIVs have no subprime bonds in their portfolios, and except in one case, the companies with subprime exposure are administered by banks. For that reason, it is very unlikely that Danske Bank's lines will be drawn at all.

One independent company has a small percentage of subprime bonds. But as the chart shows, the shareholders' equity is much larger than the subprime holdings and the rating breakdown is reassuring.

Please go to slide 14.

#### **ABCP's**

The next table shows the quality of the assets in the ABCPs. As you can see, the quality is very high. Between 70 and 80 per cent of the assets are rated triple-A and none is rated below single-A. Since the third quarter, the total exposure was reduced by 26 per cent to 22 billion.

Please go to slide 15.

#### **Assets backing for liquidity portfolio**

This slide shows the asset backing for our total credit line exposure including Polonius.

The US mortgage finance market has been the subject of many negative headlines, but we are comfortable with the situation, both regarding our own position and on behalf of our customers. The Bank's facilities for ABCP programmes have a total exposure to the US housing market of about 9 billion, and about half is in senior tranches of subprime bonds. I repeat, senior tranches. The remainder is prime exposures.

The entire subprime exposure still has a triple-A rating. None of it has been assigned a negative outlook. The triple-A bonds are 2005 and 2006 vintage. We have also indicated the size of the loss that must occur on these bonds before our tranches will be affected. The average is 40 per cent and minimum is 30 per cent. The tranches are spread over 16 separate asset structures. Because of their seniority, we expect that these ABCPs will be repaid within a relatively short period of years.

Even from a very pessimistic perspective, it is our assessment that we will not incur losses on this holding. This has been confirmed by stress tests conducted externally as well as internally.

Please go to slide 16.

#### **Polonius - the Group's own sponsored conduit**

The last slide on this business area concerns our own sponsored company, Polonius, which is fully consolidated in our balance sheet.

Polonius has not invested in subprime bonds, and its credit quality is very high, as shown by its WARF level of only 3.6, which corresponds to a triple-A to Aa1 rating.

For all practical purposes, Polonius is part of the Group since the funding no longer comes from its own CP issuance.

For the other companies, the Group's policy is still to reduce the exposure as opportunities to do so arise, but this will take place in a way that best secures the Group's outstanding debts.

Please go to slide 17.

#### **CRD**

In November, the Danske Bank Group received the approval of the Danish FSA to use the advanced IRB approach to calculate credit risk under the new capital adequacy rules of the CRD.

This is an important milestone for us because, on the basis of the 2007 balance sheet, it would reduce our risk-weighted assets by 23 per cent. A key factor in the reduction is the large proportion of loans secured on real property.

As you know, the rules do not take full effect in 2008. They will be implemented gradually until 2010. We will therefore see a reduction of 10 per cent in 2008, 20 per cent in 2009 and the full amount in 2010.

Please go to slide 18.

#### **Update on Sampo Bank**

At Easter 2008, Sampo Bank Finland will be converted to the Group's shared platform. Fourteen months after acquiring Sampo Bank, we will face the largest IT operation in the Group's history.

The preparations for the migration are progressing well, and we are convinced it will be a success.

We expect that after Easter, with Sampo Bank on our platform, we can begin to introduce new products in earnest and see a return on our investment.

Please go to slide 19.

#### **Update on NB and NIB**

In 2006, Northern Bank and National Irish Bank underwent a similar process, and now in the beginning of 2008 we can say that the integration process has concluded with good results. Integration costs were slightly higher than expected, but synergies were as well. Since the acquisition, the staff has been reduced by 25 per cent and income has risen 28 per cent. And we expect that cost synergies will increase by another 30 million in 2008 and up towards 60 million in 2009. The Group's unique shared IT platform has been a strong engine in this process.

In the most recent quarters, the two banks' earnings have improved significantly. In 2007, excluding integration costs, they achieved a total return before tax of 11.5 per cent on invested capital, including integration costs and subsequent capital injections. In the future, it will be even better. It was good that we bought them.

That concludes my portion of the presentation. I will now turn the microphone over to our CFO, Tonny Thierry Andersen.

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**Tonny Thierry Andersen - Økonomidirekteur**

Thank you. Let us now look more closely at the accounts themselves and the trend going forward.

Please go to slide 20.

**Net interest income**

Net interest income rose 7 per cent, slightly less than we had expected.

Growth of 7 per cent can still be viewed as satisfactory considering that in 2007 we were burdened with interest expenses of around 600-700 million for the purchase of Sampo Bank and that funding costs increased in the second half of the year.

As the chart shows, we continued to see good lending growth in almost all our markets, and the table on the bottom right indicates that the pressure on our lending margins subsided in the fourth quarter while rising short interest rates at the beginning of the year widened the deposit margins.

Please go to slide 21.

**Net fee income**

Net fee income ended only 1 per cent below the level the year before, which shows the stability of our fee income considering the volatile market conditions and lower activity in the housing market.

At the Group level, we had expenses for credit default swaps related to the Sampo Bank transaction. These expenses were 292 million higher than in the preceding year. Adjusted for this item, fee income rose 2 per cent above the 2006 figure.

Please go to slide 22.

**Net trading income**

Net trading income rose by a full 8 per cent. Given the difficult conditions with turbulent stock markets and heavy volatility in the credit and liquidity markets, we consider the result quite satisfactory close to outstanding. It is actually somewhat better than we had expected at the beginning of the year and slightly better than our estimate at the end of the third quarter. Once again we have shown that this income source can be less volatile than one would expect.

Please go to slide 23.

**Other income and insurance**

Other income rose 2 per cent over the level in 2006. A key reason for the gain was proceeds of 199 million from the sale of five Norwegian branch offices.

Net income from our insurance business declined 17 per cent, somewhat more than we had expected. The heavy volatility in the financial markets led to a lower return on investments at Danica, mainly because of falling share prices.

Despite the correction in the stock markets in the fourth quarter, we were able to take the full risk allowance, partly because of positive income from Danica's property portfolio.

Please go to slide 24.

**Expenses**

Total expenses were up 11 per cent over the 2006 figure. That is a little higher than we had expected after the third quarter.

There were several reasons for this rise. Total integration costs jumped 84 per cent, performance-based compensation climbed 13 per cent, and increasing activity in operating leasing drove associated costs up 17 per cent. Adjusted for such factors, the underlying cost base grew 4 per cent, which is a more reasonable rate.

This increase was still higher than we had expected, and it reflects, unfortunately, the inflation pressure we are experiencing in all our markets at present, including wage inflation because of low unemployment, among other things.

Please go to slide 25.

**Credit loss expenses**

As we announced upon the release of the Annual Report for 2006, we expected actual credit loss expenses in 2007. The amount was 687 million. The loss was owing to impairment charges against a few individual loans to corporate customers in the Nordic region and Germany and not to generally declining credit quality in our loan portfolio.

Loan losses are a normal part of the banking business. Although we are seeing lower economic growth in Europe and in Denmark in particular, most of our customers' finances are sound and unemployment is low in many of the countries where we operate. These factors indicate that in 2008 we are also likely to see credit loss expenses below the average for a business cycle, albeit rising from the 2007 level.

Please go to slide 26.

### Capital management

At the end of 2007, the Group's solvency ratio was 9.3 per cent, and the core capital ratio, excluding hybrid capital, was 5.6%. We thus remained within our target ranges.

Since 2004, we have steadily lowered our capital targets and our actual capital in order to build a gradual bridge to Basel II.

We have chosen not to change our capital base for the time being, so the transition to the CRD rules will mean only higher capital targets. The target range for core capital ratio excluding hybrid will thus rise from 5.5 to 6.0 per cent to 8 per cent. It shows the low risk on our loan book.

Please go to slide 27.

### Outlook for 2008

We expect that 2008 will be another satisfactory year for the Danske Bank Group.

These are the most important assumptions behind our expectations:

Weighted economic growth in Danske Bank markets of 2.5 per cent versus Euroland average of 2.2 per cent.

Slightly lower average short-term interest rates.  
The volatility in the financial markets will gradually subside in the first half of the year. Lending growth lower than in 2007.

I wish to emphasise that the current macroeconomic outlook and the unrest in the capital markets make our full-year guidance more uncertain than usual. That is implicit in our rather wide estimate ranges.

For 2008, the assumptions I have outlined will mean growth in net interest income of 6 to 9 per cent.

We expect net fee income to rise 8 to 13 per cent. A continuation of strong activity, especially at our units outside Denmark, as well as a continuing focus on cross selling, will drive this improvement.

There is an unusual degree of uncertainty about trading income this year. But we still expect that Danske Markets can continue to expand its customer-driven activity and therefore estimate that net trading income will be only slightly below the strong level in 2007.

We expect other income to rise 5 to 10 per cent, mainly because of property sales and higher activity in operating leasing.

Income from our insurance business is likely to increase around 20 per cent, but it will also depend to a great degree

on financial market developments, which in the first weeks of 2008 posted capital losses.

These items add up to total income growth of 5 to 9 per cent in 2008. Again, because of current macro conditions, our estimates are less certain than usual.

We expect total expenses will rise 2 to 5 per cent, mainly because of increased investments in our IT platform of 500 million and a continuation of strong activity.

We estimate that credit loss expenses will be somewhat higher than in 2007, but still lower than the average for a business cycle.

The Group's effective tax rate is expected to be 26 per cent, against 23 per cent in 2007, when we benefited from changes in the Danish corporation tax rate.

Altogether, we expect net profit for the year to rise up to 7 per cent over the level in 2007.

Please go to slide 28.

### Q&A session

That concludes our presentation. I would like to thank you for your attention. I will now turn the discussion over to you and the many good questions I am sure you have gathered during the presentation.

If you are listening to the conference call via our Web site, you are also welcome to ask questions by e-mail.

Please operator, we are ready for the Q&A session.

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### Q & A TRANSCRIPT

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#### Anders Hornbak - Carnegie - Analyst

Congratulations with the results. I have two questions that relates to your guidance for 2008. We had a flattish trend year-on-year on the commission income line in 2007; you have the credit default swaps; you have one month with Sampo Bank, but your growth target for 2008 looks quite challenging. Could you give us a flavour to how that will be reachable? Secondly, the divestment gains that you've included in other income, could you give us a figure for these new items? Thank you.

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

If you look at the divestitures of property that is probably around 400 million mark range that we expect in '08 on property. When you go to the question on the fee income, I think when you look at the advances from '07 to '08, there's a couple of key elements as you pointed to, Anders, and that is: One, we got one month more of Sampo Bank coming into our accounts. Secondly, we expect that the foreign units, the more emphasis we are putting on wealth management, some of the new product that we're launching where we can see the learning curve moving better and more steeper in our foreign units will continue in '08. The third part being that when you look at the fee income '07 versus '06, you've got to keep in mind that in that time the property turnover in Denmark came down significantly, meaning that our mortgage division did not have, actually did have 30% less activity year-on-year, and we can see from last couple of quarters that this is at a steady level. So year-on-year you will probably not see the same decline. On the contrary, we believe that we can maintain more or less at least, the same level in '08. But there's no doubt this one is reinforcing that we are better at cross-selling. It also reinforces the need that investment we're doing in wealth management and other sort of keen fee enhancing areas will pay off in '08 and obviously that we don't see a total crash in the capital markets that would make everybody freeze in terms of buying equities and bonds.

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**Anders Hornbak - Carnegie - Analyst**

Could I add one question on Danica? What's the required equity return for the full year in order to be able to book the risk allowance assuming basically unchanged interest rates for the full year?

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

Well you can say that assuming unchanged interest rates we should have around a zero return on equity portfolio. You can see that on the additional slide, Slide No. 40 we have put a figure that shows you that. We will have some smaller gains on our property portfolio to be able to do it based on these things you can see on Slide 40. So we are a little bit behind when you measure at today's levels on the equity market.

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**Per Lofgren - Morgan Stanley - Analyst**

Yes, thank you very much. This is Per Lofgren from Morgan Stanley, London. Two questions here from my side. One related to the financial target set, just wanted to ask you: Does this alter or change your target for market shares in

geographies like Sweden, Norway, Ireland? The second thing is more like a clarification and that was on the net fee income slide where you talked about this 292 million of increased fee expense for CDSs as part of this transition to CRD. Explain this to me, should we expect more of that to come into next year as the transition continues or is this a one-time character, one-off character? Those were my two questions. Thank you.

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

If you look at the fee expenses, you would see that there will be, this is not a one-time expense; this is a yearly expense that we have on CDS, so in our guidance we included a full year impact of the CDS we made as part of the Sampo transaction in the first quarter of last year. So this is a repetitive impact you will see until we will call the CDS eventually in the Basel II world.

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**Per Lofgren - Morgan Stanley - Analyst**

Yeah, exactly. So it's the... That is part of what previously had been guided. It's not like on top of anything?

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

Oh no.

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**Per Lofgren - Morgan Stanley - Analyst**

All right, good.

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**Peter Straarup - Danske Bank - CEO**

On the market shares on the targets that we have put for 2012, there are no changes in our ambitions as far as market share is concerned.

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**Per Lofgren - Morgan Stanley - Analyst**

All right, thank you.

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**Derek De Vries - Merrill Lynch - Analyst**

Yes, thanks. Derek from Merrill. A couple balance sheet questions for you. First with the Polonius conduit that you

have, if I understand it correctly, and please correct me if I'm wrong, you are, you've consolidated it on your balance sheet and you're treating this like you would treat any loan, i.e., look at the probability of default and loss given default. My question is: If you had to put this on a trading book and try to value it sort of using fair value accounting using sort of prices that you see in the market, what would be the impact you think on the value you'd assign to it? I mean clearly not a lot of subprime or no subprime in there at all, but credit spreads have just blown out across every asset class. So I'm trying to gather how much would I have to mark it down if I were going to market-to-market?

So that's the first question. The second question: I think in your text somewhere you say it's the impact of higher funding costs next year is going to be relatively modest, at DKK 150 million, so a couple questions related to that. On Page 9, you give your breakdown of your funding, when you come up with that 150 million, do you assume any change in that funding or is that on a like-for-like basis? Then to follow-up on that, have you any evidence that you are able to pass some of this on to your customers?

I mean actually if anything the wholesale funding markets have gotten better so you've known about this for awhile now. Have you seen any evidence where you can say, "Yes, we've passed it on to our corporate customers; yes, we passed it on to our residential customers"? Then the last question, still on the balance sheet, I'm looking at your targets for your capital management and I'm looking at your sort of existing targets under the current rules of say 5% to 6% for core capital ex-hybrid capital and then you say that target goes to 8% under the CRD level, and I'm just wondering, am I missing something? If I... You say a 23% savings going to sort of Basel II, 23% reduction risk weighted assets, so if I kind of reduce the risk weighted assets by 23% and take a midpoint of your current target, I get to a sort of 7.5%. So have I done that right? Are you guys just sort of saying, "Okay, we're going to be a little bit more conservative on our capital ratios" or have I done the math wrong there? Those are my questions.

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

If I take it on the capital side, I think you know how to use a calculator, Derek DeVries, so I think that...

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**Derek De Vries - Merrill Lynch - Analyst**

Okay, I just wanted to make sure it was just that straightforward; it was just a math thing. That's fine.

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

We're saying approximately 8 percent, this is still the first year in operation of the Basel II so this is the 8% range that we will talk about, but I think your math is correct on this one here.

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**Peter Straarup - Danske Bank - CEO**

On the Polonius conduit, we can't give you a market rate also because it's not market traded bonds that's in there. But the WARF is about three or something like that, which means that it is extremely low risk. What's interesting for us and under the guidelines that we have is to find out whether we will get the money back and it's subject to the normal impairment regulations and that's how we put it on.

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**Derek De Vries - Merrill Lynch - Analyst**

That's a bit of an issue right now given that the rating agencies are not exactly proving to be the most forward-looking in this and the questions we get from investors are, of course: I believe the market prices and the market prices are suggesting higher default rates than the rating agencies would say. But your view is stick by the rating agencies?

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**Peter Straarup - Danske Bank - CEO**

Well we stick by the rating agencies and our own assessment and we go through them as we go through every other loan we have on the books here and we ask ourselves whether the cash flow is sufficient to pay us back. I can assure you that I will almost guarantee that we will never see any difficulties in the Polonius portfolio also with the WARF it has so that is no issue in our opinion.

On the higher funding costs, well it assumes basically the same breakdown. I think all banks and we are also looking at our funding structure going into 2008 and there could be minor changes and obviously the fact that we have gotten a covered bond legislation in place in Denmark means that we can access that market as we did in December of this year. So I would hope and expect us to be able to issue somewhat more long-term funding.

You asked about passing it on, I think there's no doubt that we will have to pass the price increases on to our customer-base. We have shied away from that in the Danish market. We have seen some of our competitors pass on the more expensive funding that they are seeing; and if this continues, also Danske Bank will have to do that.

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

I think, Derek, if you look at Slide 20, you may see the first indication that the market is changing in terms of the lending margins of Slide 20. The bottom right chart shows that the change in NII due to lending margin changes have gradually subsided over the last couple of quarters, and I think this is a question that all banks need to ask themselves, and I can assure you we look at this also given how liquidity is working right now in the market and how to have that passing on in a good way to the client there.

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**Derek De Vries – Merrill Lynch - Analyst**

But if I'm reading it correctly, the slide on Page 20 would suggest that actually the lending margin is still negative, so not only have you not been able to pass on any increase funding costs at all, quite the opposite, you're still suffering from competitive pressures. Is that right or am I missing something there?

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

I think that's right if you look at the hole in the cheese, but I think when you look at a positive, you can see the reduction is much less and there's also a timing lag in certain countries you need to announce changes in the margins before you can implement it.

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**Derek De Vries – Merrill Lynch - Analyst**

That's fair. No, that's good. Thank you.

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**Jesper Brydesholt – Kaupthing - Analyst**

I have a couple of questions relating to net interest income and then also a little bit on the credit risk side. Taking net interest income you see a decline in Denmark in net interest income in the fourth quarter and if you could comment a little bit on that. Also, the very strong increase in net interest expenses in the other areas from 461 million in the third quarter to 575 million in the fourth quarter, how we should look at that and also going forward. And general relating to net interest income, if you could give a little bit comment on how you see the deposits so called war going on between the countries whether you find that Denmark is also in risk of seeing deposit margins coming in as some risk in the other countries perhaps. On the credit risk side, is it correct understood that when you expect the lower than you expect a

loss in 2008 that means that 10 basis points that you have revised your expected loss on the average for the group too down from 14 basis points so it's below 10 basis points that you're guiding? Also, how come that you're seeing, we're seeing a decrease in these expected loss from 14 to 10 basis points when we are seeing macro coming down and we're entering a more risky, risky outlook at least?

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

I will start with the last question. The reason when you see the expected losses, that is obviously derived on the history and the kind of data you have on the losses you have to incur, and when you look at the last several years in the Danish market and other markets, loan losses has really not been that visible. So that would mean that that would repair itself as you have a longer duration of loan losses and also maybe changes in the book with more mortgage loan with collateral in the banking book at Danske Prioritet that is helping that also going forward. This is an expected loss through a cycle of what we see, and I think it shows you partly that whether you have, as I said, a lot of years here recently with a good macroeconomic situation. This is through the cycle, so obviously if you have a real bad downturn you will have more than that.

If you look at your question on deposits, I think it's fair to say that we actually embark on raising deposit margins in Denmark last year as one of the first one here in the Danish market and I think that you will see all banks will be more focused on achieving deposits like you've seen in other Nordic countries. So I would expect that it will still be tough competition on deposit. That is also one of the reasons why banks need to look even closer at the lending margins if they want to mitigate some of the impact from that deposit squeeze you're alluding to. Then you had a question on other areas, Jesper?

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**Jesper Brydesholt – Kaupthing - Analyst**

Yeah, it goes up by one more than 100 million from third quarter fourth to fourth quarter in net interest which is quite a steep increase.

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

This is what you can say is the increase funding costs we have during the fourth quarter in terms of getting liquidity in our general funding base. We put in the report that for the whole year have increased in cost of 150 million and roughly 100 million is from the fourth quarter.

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**Jesper Brydesholt - Kaupthing - Analyst**

But is it fair to say that this has come to some kind of a surprise as after the third quarter, the conference call, this was not really the outlook that we had for the fourth quarter, that it should go up by more than 100 million. As I can see it, the net interest income at least in Denmark is flattish or actually down in fourth quarter.

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

I think at the third quarter conference call, I don't think anybody anticipated that the European Covered Bond would come to a halt in December. I don't think many expected how the liquidity market and interactions from the Fed had to be embarked on in the Q4 as it did. I think this testifies to some of the liquidity challenges that were in the system. We are lucky that 600 billion and a good position of 600 billion of our mortgage book is match funded so we don't have that issue here; otherwise, the impact would've been even greater.

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**Jesper Brydesholt - Kaupthing - Analyst**

Okay, and then just finally on the net interest income, how do you look in your, these core markets the total spread on lending deposit margins going in 2008 looking apart from what ECB might do?

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

I would expect that you will see tough competition on deposits and I think banks need to be really diligent on the lending margin and work to get that up.

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**Jesper Brydesholt - Kaupthing - Analyst**

The net of these two, is that flattish?

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

Yeah, that's difficult to stay because it differs from country-to-country how the funding position are, but I think on a group level we would expect some maybe net margin squeeze, but we'll try to work it the other way around.

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**Jesper Brydesholt - Kaupthing - Analyst**

Thank you.

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**Garth Leder - Redburn - Analyst**

Good afternoon. I wanted to ask which country that you operate in are you least pessimistic about?

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

Least pessimistic about?

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**Garth Leder - Redburn - Analyst**

You're painting quite a pessimistic outlook, which I think is appropriate, but is there, are there any of your markets where your perhaps not quite so gloomy?

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**Peter Straarup - Danske Bank - CEO**

I think you start in Norway, you go to Finland and then you land in Sweden in about that order. Then comes Denmark and then I suppose we still also expect a fairly high growth rate in the Irish market but there is some contraction that has to be digested.

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**Garth Leder - Redburn - Analyst**

Thank you.

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**Ronit Ghose - Citigroup - Analyst**

Hi, it's Ronit Ghose from Citi. Just a couple of questions, first of all a big picture question: This is the first time I can remember you guys giving us such a long-term forecast, at least long-term sort of business plan. Could you just give us what you're thinking behind why you chose to do it at this stage? You've talked a lot in this presentation about the uncertainties and the risks to your '08 numbers given that we're in this difficult financial market environment, so why give us a five-year business plan now, at least a few numbers from it? Secondly a more narrow question: On the cost of, this is the other areas, the cost of capital line, could you just explain why it goes up so much quarter-on-quarter Q3 to Q4? Last specific question: On loan losses, you've talked about a few specific issues in the Nordic region, in Germany, but when I go through your divisions, it looks like in Finland, you've seen another like in third quarter but in fourth quarter a rather big loan loss quarter compared to previous quarters and also in Ireland. Is there any kind of... I mean is there any kind of reassurance you can give us that this is, this is all take

in the fourth quarter, there isn't more sort of one-offs to come in the first half of this year, for example?

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**Peter Straarup - Danske Bank - CEO**

On the loan losses, first, the cases we see were isolated cases as we indicated in Germany but also a couple of in the Finnish market that could be a marginal adjustment to some of our policies Sampo has only been on the books for about 11 months when we closed them. In the Irish market, it's also single cases and then I don't know if you are familiar with the lawyer cases in Ireland where some lawyers have been issuing documentation which are not in accordance with the actual facts and there was some investment there and we decided to write that off completely.

You're asking why we are giving up long-term forecasting, there are various reasons for it. One is that if you look at Danske Bank results over the last couple of years, 2007 also but going into 2008 and '9, they're full of extraordinary stuff. They're full of integration costs; they're full of depreciation of immaterial assets and now they will also be full to a certain extent of the establishment of new branches as they have been in the Swedish market and the Norwegian market for a couple of years. So we feel that when you look at our potential, it's about time that we try to communicate where can the franchise go when you disregard all this fussy stuff that we have for the coming years. That's one reason.

The other reason is that we have the firm belief that we can actually produce good products and create good revenues because we have an excellent platform. So I would say for one, it makes it possible to see where Danske Bank will be when we don't have all this extra stuff. The second is: I think it also focuses the mind of the management and the team here, so that's the reason for that. Cost of capital question, I believe that is for you Tonny or Martin?

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

Yes, the cost of capital: one reason is the one I gave under the net interest income just a few minutes ago. The funding costs has come up in the third quarter, sorry in the fourth quarter and that has increased the cost of capital by around 100 million in Q4. The second reason is that we in Q3 had a net reversal of some expenses and therefore the Q3 numbers were a little bit on the low side, so that's the other main reason for this.

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**Ronit Ghose - Citigroup - Analyst**

Okay great. Thanks. Can I just have a quick follow-up on fee income, someone has asked this already but just to go back to your guidance for '08 of 8% to 13%, you're basically saying assume the mortgage housing related fee income to be roughly stable, what kind of assumption are you making on market related fee income and also can you quantify any kind of assumption you're making on approving in cross-selling or selling more packages and etcetera, etcetera?

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

I don't think we're in a position to do that granular decomposition. We have obviously made budgets down on the different countries, the different business area in terms of their fee income. Keep in mind, the fee income related to our trading division is all booked in the trading line, not in the fee line. But obviously the fee associated in work wealth management and capital goes into that line and we have had made a push in '07 that we'll also do in '08 on the wealth management, that should help that line. The fact that you have one month more of Sampo Bank being consolidated into the account, the fact that we can see that in some of our small international units that they should be able to do it better in '08 as the organization is in place and the emphasis on fees should be there. There's also obviously a precondition saying that the capital market is working and that we are saying that we expect that to gradually during the first half of this year to come back to more normal conditions being behind these assumptions here.

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**Simon Christensen - Enskilda - Analyst**

Yes, hi there. Simon from Copenhagen, and SEB Enskilda. Just wanted to ask you, I got the impression on the Q3 conference call that in your guidance on Q3 that the net interest income guidance was based on a normalization of interbank spreads and then that of course showed up in other areas here in Q4. But what kind of normalization do you have in your current 2008 guidance on net interest income?

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

We are expecting that the liquidity market gradually during the first half of this year will ease up to be more normal conditions. I cannot give you the different point estimate month-by-month, but that is the key assumption. We expect that you will still see higher funding costs in the first half of this year and the way we try to work with it is, as we have indicated earlier on, is to look at our funding structure, use

the cover bond issue, look at how we can in terms of the lending margins work with that as part of the group also.

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**Simon Christensen - Enskilda - Analyst**

Also a follow-up here on the Danish operation, you said that you, and still you haven't really participated in some of the smaller banks increasing their rates, is that something that you're going to do in the future?

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**Peter Straarup - Danske Bank - CEO**

I think it's quite likely that interest rates will be pushed up within the first quarter provided that the present turmoil on the financial markets continue in to the first quarter, and I would think it does.

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**Simon Christensen - Enskilda - Analyst**

Thank you.

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**Johan Ekblom - Merrill Lynch - Analyst**

Hi, it's Johan Ekblom from Merrill Lynch. Just a very quick question on Finland: You say in your statement that the underlying net interest income growth was 8% and the 2% growth is due to the accrual of the fair value adjustment. Can you just remind us how long that will go on for and if it's a constant amount every quarter?

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

The NII impact in 2008 will go down by 100 million and then they will be constant for four years more. To be sure that the negative impact will be reduced by 100 million in 2008.

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**Kim Bergøe - FPK - Analyst**

Good afternoon. I got three questions. First, if you could sort of in layman's terms explain to use these investments, the 500 million next year and the additional 500 IT investment digitalization, I think you're saying. What does that mean in practice? The second question on the performance-based cost, we see that as a bit of step up in the sense that that's just I guess wage inflation coming through in a different way that you have to sort of for the same type of activity and resource in the division pay a higher performance based cost. Then in terms of trying to figure out your sensitivity, you

describe the sensitivity to interest rates and if people would expect falling interest rates, would that have a meaningful... If we were to expect that, would that have a meaningful impact on your expectations on re-mortgaging in Denmark? I mean with falling interest rates are there sort of a build up of potential re-mortgaging in Denmark that we should take into account? Thanks.

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

When you look at the digitalization program, I think there is several components of this one. First of all, as a group we have one single IT platform which means that when we look at some of the infrastructure being put into place in Denmark and other countries during the next couple years - digital signature, electronic deed-processing, we have the benefit in terms of how we're dealing with clients on the Web, how we can make straight-through processing. There's also the fact that we have been approved to CRD advance and we have quite sophisticated credit models which means that we could aim for 78% automatic credit approvals in the system on the private clients that will enhance the process and limit a lot of the work. We can also see stamp costs that we can reduce that by using the digital world. So you would see us in terms of the processes, in terms of the different distribution channels to ramp up that investment and that for the clients would mean better products, quicker response and for us also would mean that we can do this in a much more efficient way than we do today. We have made a specific roadmap covering '08 and '09 that with specific deliverables in Denmark and the other countries for those two years, so it would be a gradual process that will be rolled out throughout the entire group.

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**Kim Bergøe - FPK - Analyst**

So the payback so to speak for that investment is both on the cost and on the income side?

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

Yeah, but obviously it is much more tangible to look at the cost side and we have also identified what should the payback be specifically in which areas over the course of the years, and that is one of the drivers behind the 2012 goals to be accomplished. In terms the performance payment, I think when you look into it, when you look at markets being at a higher performance pay given that the revenues actually were flattish maybe slightly down and you know that the very different performance models, different areas last year, sorry, in 2006 we had revenues in markets that were really not

giving a very high bonus because it was some of the unlisted shares that were coming up in value. We think we have a bonus model in our markets division that are enticing, good business behaviour, but also are asking for people to do a good job in order to make that payment and we strive to have bonus model that encourage value creating behaviour.

In terms of the sensitivity in interest rate, I think you're raising a good point, Kim, that obviously 25 bps reduction on a standalone basis will reduce our net interest income by more than 425 million. But, and this is a big but, it does not take into account any activity on refi and it surely does not take into effect any management action from our side to use a reduction in the interest environment to widen the lending margin. So it's a standalone observation.

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**Peter Straarup - Danske Bank - CEO**

I think you asked also whether there would be big blocks of mortgage loans that would be ready for refinancing if interest rates came down a bit.

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**Kim Bergøe - FPK - Analyst**

Yeah exactly.

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**Peter Straarup - Danske Bank - CEO**

Now one has to remember that these are long-term rates that come down for us to have a refinancing activity, and there will be some but they would have to come down quite bit the long rate before we have a massive amount of refinancings.

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**Kim Bergøe - FPK - Analyst**

Excellent. Thank you very much.

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

But maybe you should add that we have not added such remortgage activity increasing in 2008. It should be more or less flattish activity.

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**Andreas Haakanson - UBS - Analyst**

Yes hi, it's Andreas from UBS here. A few questions: The first is if I look on Page 45 in the movement of your equity, there seem to been some 603 million hit that hasn't been taken through the P&L yet, just over the equity here. Could you just tell us a bit what this is and go into some detail on that? Second, is on Page 15 of your presentation concerning asset backing for liquidity portfolio, but if you could tell us again how big it is, it might be on some other page in the presentation but I just got in front of me. Thanks.

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

Movement of the equity is mainly due to an internal transaction we have made in Danica, our life insurance and pension company where we have moved our Swedish unit link company from as part of the traditional, owned by the traditional company in Denmark to be a separate owned company of the insurance group, thereby we have had a goodwill payment of 400 million that comes up in that context.

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**Andreas Haakanson - UBS - Analyst**

So there's no value adjustment to some other parts of your portfolios or anything?

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

Pardon.

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**Andreas Haakanson - UBS - Analyst**

There's no value adjustment on some other parts of the portfolio or anything like that?

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

No, no, it's not.

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

Then you had a question on Page 15, what was that, Andreas?

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**Andreas Haakanson – UBS - Analyst**

The size of this, you give the split, but could you just remind us of the size of...

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

Of the U.S.?

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**Andreas Haakanson – UBS - Analyst**

Well you see that when you give the total size here on asset back of liquidity portfolio, what's the size of liquidity portfolio?

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

That's the 46 billion.

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**Andreas Haakanson – UBS - Analyst**

The 6 billion.

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

46 billion.

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**Andreas Haakanson – UBS - Analyst**

46 billion.

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

Yes.

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**Andreas Haakanson – UBS - Analyst**

Derek's question about if you value things to market or to model and so on, I mean in a way could you turn it around and say that if your models say that things are actually much better than things are in the market, could you actually go back and buy the stuff in the market today or how do you view things?

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

I think given this turmoil, to go out and buy things in this market will be somewhat a bold move though you can think that the prices are low. I think there's a communication issue here as to, so you understand that this is an area for us that we think will come down in size. We make money off it but it has created too much attention after giving the benefit we get from this area.

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**Andreas Haakanson – UBS - Analyst**

So and then very last questions. The house prices in Copenhagen have come down a lot, especially on flat some 18%/19% from the peak, there must be quite a lot of people in negative equity, at least that's what the papers are writing. What's your view on that? How many people or what percentages of people are in negative equity and when do you start to provide for such occasions?

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**Peter Straarup – Danske Bank - CEO**

I think it's fair to say that house prices have actually not come down a lot, house prices have been flattish and marginally soft in some of the more expensive areas. But condo prices have come down quite a bit in the Copenhagen area. After having run up very quickly over the last couple of years, the portion of the customer-base that sit on, if you will, unrealized losses in the condo market in Copenhagen obviously it's very small compared to the total books so that is non-minimal. We made a review by the end of the year to find out whether we had customers that sat on two properties because that would be more concerning than if you sit in a property where you perhaps have paid slightly too much. There's not so much of that either so we actually feel fairly comfortable about it.

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

On top of that just to give you some flavour on our mortgage division, we have 430,000 clients in our mortgage division. Out of those 430,000, we have 242 clients that are in arrears of more than six months. We have four properties, not 400, but four properties we have taken into possession, repossession, so I think it shows you that the Danish mortgage market is still doing well. One of the key drivers is obviously that we have the lowest unemployment rate for 25 years; it's around 3%, and the wage inflation in the Danish system around 4.2-4.3% which obviously makes the affordability for people higher and to pay somewhat the rate going forward, so the structural healthiness of the Danish system is secured. We've got fiscal surplus and trade balance surplus and that I think are key indicators for how

you look at the mortgage market. Obviously if you saw the unemployment rate move to 10%, we would see different loan losses in the system.

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**Andreas Haakanson - UBS - Analyst**

Thank you.

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**Fredrik Gutenbrant - Cheuvreux - Analyst**

Hi, it's Frederic from Cheuvreux here. Three very quick questions: First of all, I didn't quite catch how much lower interest rates you were actually factoring into your guidance. Secondly, if you can just reiterate what 25 bp reduction in rates would do to your net interest income, excluding any refinancing effect or management intervention. Thirdly, on the cost side, if I look at the '08 cost base, and I tried to exclude all the extraordinaries, I get to an underlying cost inflation of 4% which is in line with what you saw in 2007. Would you agree to that? Do you agree to that, or do you see any change in where the cost inflation is heading?

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

If you take the first point on the interest rate, in our assumptions we're guiding for two times 25 bps reduction in the ECB rate and thereby the Danish rate in September and then late Q4 and the impact of every 25 bps standalone on a yearly basis is 425 million, so that's a standalone partial analysis on that part. On the cost side, your question was to the '08 number, I think it's fair to say that wage inflation in different countries in the Nordic and Ireland is right now at least 4% and you saw that the euro inflation, core inflation is around 3%, so I think the core inflation around 4% I think is probably a good view what is going on in the system.

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**Fredrik Gutenbrant - Cheuvreux - Analyst**

Thanks a lot.

*Operator: The next question comes from Richard Henze from ABG.*

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**Rickhard Henze - ABG - Analyst**

Yes, good evening. I have two questions. Firstly, regarding if you could shed some light on the guidance for 2008? When did you actually issue or decided on what guidance you will have, implicitly meaning what assumption do you have in the

stock market development given that it's declined almost 15% this year? Commission is depending somewhat on this because the investment side of it is almost 50 percent admission part. Second question is about how actually if you could help me understand how you reduced the exposure to the liquidity portfolios, is it that you're taking active measures for this because it is down 25% almost in one quarter and what could we expect going forward in the next quarter, do you think you can take that down additionally or have you reached some kind of floor level? Thanks.

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

I think on the guidance process within the group is that we have the budget process in Q4 and we have a sign off by the Board of Directors in December and obviously as we saw the market how it evolved during December and also January, we took that into measures. That is why you see that we put a lot of disclaimers, not to be funny, but a lot of assumptions about how the market has to restore back to normal as a key assumption, the fact that liquidity markets would work. We also on the guidance give you explicit sensitivity as to what would happen if loan growth would come down or interest rate would be otherwise not as expected, or if the risk allowance at Danica would not be met. So I think we are showing that there are great uncertainty on the guidance for our bank and any other banks right now when you stand in middle of this financial turmoil. But we have looked at the guidance up until here in January when we closed our guidance as part of the annual report. But I think it's fair to stay and we stress that there are greater uncertainty of every banks' guidance given for '08.

On the conduit exposure, this is a combination of several things. One is it's a natural runoff of some of these conduits and exposures as they may have invested in credit cards or other short-term assets that just simply runoff. They're also investors who can see that this is not a good investment case any longer so they just close it down or some of the banks' sponsored units have taken it on their own balance sheet now and just eliminated some of our exposures in this regard. I don't think we will give a number for '08 and '09, but our expectation is that this will come down also in '08 and in January it was reduced by additional I think 1.5 or 2 billion from what we disclosed at the yearend.

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**Rickhard Henze - ABG - Analyst**

All right thanks.

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**Jakob Brink - Handelsbanken - Analyst**

Hey, Jakob from Handelsbanken in Copenhagen. Just have a question regarding your 45% cost income ratio in 2012. Though you talked briefly about it before, but are you assuming any kind of branch closures in Denmark, as I see it you are quite over branched? Secondly, I would like to talk a bit more on your capital targets which you also talked briefly about before but you're writing that this is presently that you're using 8% Tier 1. I would just like to know how long-term are these targets if financial markets calm down would you then be maybe taking it down again or what? Thanks.

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**Peter Straarup - Danske Bank - CEO**

If you look at the 45% cost income ratio and then the question related to the branches, whether we're over branched or not in Danske Bank depends on the kind of glasses you are using. I think if you look at the size of our customer-base here in Denmark, we have fewer branches than any of our peers. However, still we plan to close a number of branches and this year also in connection with the BG Bank merger, we will probably be at merging about 70 branches. So already in 2008 there will be some reduction. On the capital targets, I suppose we will be assessing those on an ongoing basis and your indication that we might mark them down if markets return to some kind of normalcy, is acceptable but let's see.

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**Jakob Brink - Handelsbanken - Analyst**

Thank you.

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**Anke Reingen - Execution - Analyst**

Yes, I'm calling from Execution, good afternoon. I just had a question sort of like follow-up on your slide on the expected loss in the fact book. I'm just wondering as trending the expected loss is sort of like trending down across all countries yet probably the economic environment and also the trend in Q4 in some of the countries is looking slightly different. So what would basically make those expected losses go up, or what is sort of like the leading indicator and how long does it take to actually feed through into your expected loss? Thank you.

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**Peter Straarup - Danske Bank - CEO**

Well the problem is that the expected loss are based on the historical performance and the historical cycle and we feel that with the present composition that the expected loss is

lying around 14 basis points for the total of the group. However, going forward it will depend of course on the new cycle. It will also depend on the depth of the downturn if we are heading for a downturn. Historically it's been such that losses turn up if the downturn takes a bit longer. So this is the... If this is an initial stage of a downturn, you shouldn't expect the losses to spike up just immediately and they become worse as we move on. So it's a very difficult question to answer. We feel though that our portfolio is structured such that it's unlikely within the next year that we will spike up towards what we have as historical loan losses.

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**Anke Reingen - Execution - Analyst**

When you talk about historic normal losses, you're talking about the 2003/2002 level or?

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**Peter Straarup - Danske Bank - CEO**

No, no, no, that goes back to the year 10/15 years of which we have data.

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

So when you look at the Danish one, we have loss data quite granular back to 1992 and as you have seen the last five years have been with very good macroeconomics that also will be one of the key driver for the expected loss to come down because as you put in additional history into your expected loss, then obviously you repair the averages of that.

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**Anke Reingen - Execution - Analyst**

Thank you.

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

May I just add, if you look at the table on chart, Page 20, just have to put your attention that the Baltic and Finland are not including the numbers now. They will be after the migration.

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**Anke Reingen - Execution - Analyst**

Sorry, they will be...

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

They will be there when we have put them on our platform.

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**Anke Reingen - Execution - Analyst**

Thank you.

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**Aaron Ibbotson – Goldman Sachs - Analyst**

Yes, hi there. Most of my questions have been answered, but I just have three very brief follow-ups. Number one, on Polonius, I noticed that's 25% or so is CMBS, Commercial Mortgage-backed Securities, just wanted to ask you if you could give us a percentage of that which is United States, the U.S? Secondly just a follow-up to a previous question on trading and when the guidance was done. What sort of, if that's included in your assumption, but what sort of assumption of sort of total return on say the Nordic stock exchange is factoring into your trading? If we would have flat line from here to yearend, would you still expect to reach your trading targets? Then finally just a clarification, which I might have misunderstood, and that's just on the other net interest income or the negative of the net interest income which went up quite a bit in the quarter. If sort of the markets continue to be reasonably at the same level where they are now, would you expect that to trend or would you expect that to come back down to the level we've seen previously in Q3 for instance? Many thanks.

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

If you look at the trading line to that point, when you look at stock exchange turnover, we are not really that dependent on it in a trading line. We obviously have an equity division in it, but where we make the bulk of the money is on the customer trading in terms of F/X and derivatives and money markets and that is where we make the bulk of it. Obviously when you look at the last couple of months, it's been more difficult to make money on the equity side. But the other hand, the larger volatility also means that our clients, they're opting for more structured products to hedge some of the clients that are having international businesses. So I think the diversification within the trading line is somewhat more resilient than you may think about and I think it shows when you look at the slide when you show the trading line, Slide 22, you can see our quarterly trading income line since 2005 has been with right or low earnings volatility.

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

When it comes to the NII in other areas, we have said in our assumption. We expect that the capital markets would normalise during this first half of this year till we at least in the second half will be back to more normal. This means that the extra cost is for 150 million last year will probably last for the, at least for the first quarter and probably also into the second quarter. Compared to what it was before the crisis began, I think it's fair to assume that the funding cost will be higher as we expect that the price for risk has gone up and also the price on time has gone up. So we will not be back to the very lower prices we had before last summer.

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**Aaron Ibbotson – Goldman Sachs - Analyst**

Thank you.

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

Then you asked about the commercial backed, the commercial mortgages, how much is U.S., we don't have that information here. I'm not sure when we can give it to you, but we will look into it and come back to you.

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**Haakan Boenes – Pareto - Analyst**

Yes hi. I was just wondering if you could talk about the credit default swaps on your mortgage book and any sensitivity that that risk weighting relief has to the rating on your counterparty there?

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

No, I think there is no impact, no sensitivity around that. This is the counterpart of that I think is without divulging any specific names are AAA state owned sponsors that has...

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**Peter Straarup – Danske Bank - CEO**

It's not one of the monoliners, if that's what you're concerned about.

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**Haakan Boenes – Pareto - Analyst**

Okay, and on your risk weighted assets in general, is it possible to say anything sort of sensible about sensitivity with

respect to the ratings on your counter parties on PDs for your clients?

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

You can go into our Annual Report and you can actually see there's a very deep disclosure also in the risk book we have on the website shows you the decomposition of our loan book into rating categories with the different PDs and the different sectors that those are associated with and that is in the risk management book from Page 23 and, sorry, 34 and 35 and you can see the very granulated decomposition, how much of that is collateral and also different areas. So very granular view you can see on that composition there.

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**Jesper Brydesholt - Kaupthing - Analyst**

Yes, just a couple of follow-up questions. One on the cost side, this 1 billion used in '08 and '09, just recalling from the presentation material that you had from data monitor where you're looking to change the bank cost where it seems that Danske Bank is using a greater part of their IT cost than the peer group, 45% as I recall versus 33% for the peer group. Now you're using this additional amount. Is that because you want to widen the spread versus the peer group or have you been using less change-the-bank costs really in 2007? So is it just whether you want to put off relative to the peer group here? Also, if you look at trading income, as you said, you have shown very strong resilience, what kind of scenario do you not want to see where the downturn in trading income on the activity side will be much greater than perhaps anticipated? Then the lastly in terms of net interest income, how much will you see net interest income come down if the loan lines of these 21 billion is no longer there? Thank you.

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

When you look at the IT side, I think Danske Bank has a unique point of departure by having one single platform. When you look at our IT spending and you look at some of the analysis done by Data monitor, we are on of the banks in Europe that use IT cost more or less on average with others maybe, but we have the highest change the bank level of our IT consumption, meaning that we spend IT on developing the bank rather than running the bank. We think, with the integrated platform we have, that we have a unique opportunity to take this to another level which I think other will have challenges with given they don't have the infrastructure in place. So we think we can do this by accelerating the processes and the product delivery and

that's why we have guided on the 2012 goals, the ambitions there.

You have questions on the trading line. Obviously one would be a adverse situation is if we read the market wrongly, if the clients are frozen totally, don't do anything and that would obviously also to some degree effect us if the whole sentiment is that you don't want to do nothing at all in that market. But I think that you have seen since 2005 that we have a good diversified revenue. When we decompose it into different product areas in markets, it is not the same areas that are doing well quarter-on-quarter. So when something is maybe not doing as well in one product area, another one is taking over reflecting that our customer needs are changing and that we have different areas in the group outside Denmark that also pull in great strength in the trading line. Then you had a question on the NII?

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**Jesper Brydesholt - Kaupthing - Analyst**

Yes. Just the drawn lines that you have of 21 billion must give you some kind of a net interest income and do you expect to see a reduction in your exposure to these conduits that means that 21 billion might also be reduced and then say effect net interest income.

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

Yeah, all the stuff that are drawn on this one are booked in the trading line income, not in the net interest income line so that goes into the trading line income under institutional banking.

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**Jesper Brydesholt - Kaupthing - Analyst**

Yeah okay. Yes, thanks.

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**Peter Straarup - Danske Bank - CEO**

Well if that's the case, then I think we will close off. Thank you all for your interest in Danske Bank and for your questions. I'm sure that many of you will have additional questions after you have had time dig into all the details. Please do not hesitate to call us. As usual, we'll be ready to talk to you until 9:00 p.m. tonight Central European Time and of course again tomorrow morning. A transcript of this conference call including the Q&A session will be published on our website within the next few days. Thank you.