

Press conference

Financial results for the first half of 2009

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SPEECH

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Press conference

Welcome, and thank you for taking the time to attend this press conference, where we will present Danske Bank's financial results for the first six months of the year.

I will be alone at the podium today. But Tonny is here, sitting beside me, and he can answer the questions that many of you usually discuss with him.

Group financial results, H1 2009

Danske Bank's profit before tax of 2.4 billion kroner and net profit of 725 million kroner for the first half-year are acceptable considering the very difficult macroeconomic conditions we had to live with in this period. But for an enterprise of the Danske Bank's size, these are not results we can be satisfied with.

The global economy has experienced two shocks. First came the financial crisis, freezing the financial waterways and destroying liquidity in the international financial system.

Next came a broad recession throughout society that we fear will have quite long-term effects.

In the first wave, there were losses on financial assets, particularly assets related to mortgage lending, as property prices fell sharply. We hope that we have seen the peak in loan impairment charges in the fourth quarter of 2008.

Now we are in the midst of a conventional recession, in which businesses have difficulty selling their products. The world is running a bit more slowly, and historical experience tells us that recessions last longer when the banking sector is weakened at the outset.

We are therefore preparing ourselves for a sustained period of relatively high impairment charges.

When we look at the financial results, a few items in particular catch the eye. Loan impairment charges of 14.5 billion are extremely high. But total income, rising from 22

billion in the first half of 2008 to 32 billion this year, was a record for a half-year period. Earnings from our trading activities were extraordinarily good.

It is also positive that our conventional banking business showed a healthy trend in a period with headwinds. For instance, net interest income increased 10 per cent because of a good improvement in our banking activities, despite difficult conditions.

We are also pleased that we have been able to control costs. We have achieved the expected synergies from the integration of acquired banks – actually a little more than we had promised. We are lowering other costs according to plan, and in the years ahead we will also have a tight focus on costs, which we will reduce slowly but surely.

The expenses in the accounts we are publishing today were affected by goodwill impairment charges for two of our Baltic banks. The economic trend in Latvia and Lithuania has been so disastrous that we cannot maintain the capitalised goodwill. This cost us about 1.4 billion in charges. We are maintaining Estonia's goodwill for the time being, but a further worsening of the economy could lead to further impairment charges of up to 2.1 billion.

Goodwill impairment charges are a special type of accounting entry. They are not a liquidity item or an item that reduce the solvency capital. But it is discouraging to write off goodwill, and it mars the accounts. We hope that both the Baltic and the Irish economies recover so that our investments become profitable again.

Solvency improved in various ways

In the first half-year, we strengthened our capital considerably. The 26 billion in hybrid capital from the Danish state improved our solvency, but that is not the only reason our solvency ratio rose.

We also contributed ourselves, both by positive growth in our capital from operations and by reducing our total assets by 9 per cent this year. The reduction of more than 300 billion in assets took place mainly in Danske Markets' activities.

The solvency ratio rose from 13 per cent to slightly above 16 per cent, and the core capital ratio improved from 9 per cent to a little over 12 per cent. economy were quite simply too ominous.

Bank packages: Two good, but expensive packages

In January, the Danish government announced its credit package, or Bank Package II.

In this programme, as you know, we and other financial institutions gained access to hybrid core capital. In our opinion, this was a good plan.

The package helps to ensure that financial institutions have access to subordinated loan capital, which had been and still is difficult to raise through the normal channels.

Bank Package I was also a good facility that ensured liquidity in the frozen global interbank market. But it was a very expensive package for the banking sector.

An incredible amount has been said and written about the bank packages, so let me try to put to rest a couple of tenacious myths.

The two packages certainly do not come free of charge. In the first half-year alone, we paid 1.3 billion kroner for the guarantee under Bank Package I to insure our deposits, among other things.

We also have an expense of 0.8 billion that has been used in the sector's collective rescue and clean-up of distressed financial institutions. This was part of Bank Package 1 as well.

In addition, we have booked an expense of about 350 million in interest payments for the hybrid core capital that we received in May of this year under Bank Package II – an expense that will amount to 2.5 billion gross a year. On top of this, on October 1, 2010, we will begin paying an insurance premium of 0.8 per cent in order to have guaranteed bonds, the first of which we issued at the end of June.

They are good, sound packages, but they cost a very large amount of money.

The state – and thus all of us – run a risk on the guarantees in the two bank packages. But so far, all costs have been covered by the banking sector, and the state will not have to pay unless the total bill exceeds 35 billion. We do not expect things to become this bad, and the packages will therefore probably be a very good billion-kroner gain for society on the insurance that they have provided to the banking sector.

We can sum up the two packages from a financial perspective thus: We have gained a temporarily expanded insurance for our liquidity and capital strength - and for this Danske Bank will pay the Danish state 12 to 18 billion, depending on the need to clean up failed banks. This also assumes that we repay the loan to the state in five years, and that is by no means certain.

Lending to corporate and retail customers

The fact that these packages are so expensive makes it even more sad to see that many people feel a need to conclude that they do not work. I think that is a mistaken inference. The packages have given the extra cushion that is necessary during the perhaps worst crisis in 60 years. Without them, the financial sector would have difficulty financing even good projects. But regardless of the existence of the packages, the crisis means that fewer wish to borrow. And there are more projects that are not viable.

The liquidity is there. And there is also capital. Those are prerequisites for banks' ability to lend money at all. And we are lending almost as much money as we did during the better times a couple of years ago.

In the first half of 2009 alone, Danske Bank Denmark lent 42 billion - in new loans. Of this amount, 27 billion went to corporate customers and 15 billion went to retail customers.

The chart here shows lending in Denmark in the past five years. The stagnating trend is a result of the crisis and - as mentioned - because fewer wish to borrow.

Danske Bank's collaboration with the Danish private sector and private individuals continues at a very high level.

But it is also clear that in difficult times we need to ask more questions. We are careful, but nine out of 10 still have their loan applications approved.

In other words, the packages work, good banking practices are more important than ever, and we must work to achieve a mutual understanding with customers about how Danske Bank ensures that we help both customers and thereby ourselves come through the crisis as well as possible.

Interest margin, 1996-2009

Recently there has also been much attention on interest margins.

One should be aware that liquidity has become a more scarce commodity. It simply costs more for banks to borrow the money we use for lending when we raise liquidity on the international money markets. And of course we need to adjust our pricing to reflect this increase in our expenses. In addition, we must recognise that lending, unfortunately, has simply become more risky. This means that we lose more money, and unfortunately, the interest margin must help finance these losses. So the interest margin is expanding a little.

But before jumping to conclusions about this increase, one should look at the Danish central bank's statistics on the historical trend, which shows that the interest margin had fallen steadily for years.

If you look at the margin for retail customers, for example, it fell from the 1996 level of 8.6 percentage points to 4.0 points a year ago and today stands at 4.3 points. For corporate customers during this period, the margin had been very low - unsustainably low in recent years. In 1996, the margin was 4.4 percentage points. It declined to 2.3 points a year ago and has now climbed to 3.3.

From a longer perspective, it is still inexpensive to go to a bank in Denmark, even though the risk of lending is high these days. The interest rates customers pay today are actually historical low.

"Switch banks and save half a million"

We are not ashamed of our prices at Danske Bank - on the contrary. Several comparisons from the Danish Consumers' Advisory Council, PengePriser.dk (in English, "prices of money") and others show that Danske Bank is among the least expensive banks, in fact one of the very lowest priced.

It is also our assessment that the price changes in the sector in the past 18 months have made our prices even better in comparison with our competitors'. We can see, for example, that we have raised our lending margins somewhat less than our competitors.

Record earnings at Danske Markets

It is worthwhile to spend a couple of minutes on the Bank's earnings capacity, which shows our strength despite these difficult times.

The increase in income from 22 to 32 billion was driven especially by Danske Markets.

Let me first stress that this did not occur because we placed big bets in the market and got lucky. Throughout this period our risk profile was lower than usual.

Altogether, various factors simultaneously moved in a positive direction in our trading in bonds, currency and derivative products in particular, and that caused the good results. Let me mention the most important ones.

The economic crisis and financial volatility caused a much higher demand from both corporate and institutional customers for hedging currency and interest rate risks.

Just as in the lending segment, the margins on a number of securities types had earlier been pressed completely to the bottom. But in recent quarters, we have seen a return to more normal levels and thus better opportunities for earnings. Take for example government bond trading, which for several years had not contributed significantly to earnings but is once again more attractive.

Several of the large foreign investment banks have pulled out of the Nordic markets because they have enough to manage in their home markets and have reduced their activities elsewhere in the world.

These developments helped to produce wider margins and also gave larger market shares to Danske Markets and others.

Last and not least, falling interest rates and narrowing credit spreads made a substantial contribution to total income because our daily position taking produced positive results in by far the majority of cases.

Outlook for the second half of the year

We are beginning to see some bright spots in the macroeconomic picture. For example, we expect economic growth to return in the second half of the year in Denmark, Norway and other regions, but the trend has not yet stabilised.

As I mentioned, we expect the need for loan impairment charges to remain high, and remember that banks often have

relatively large losses even when the economy is on the way out of economic recession.

We expect that our income will remain strong, but trading income in particular is of course much dependent on the trend in the capital markets.

Better advisory services for corporate customers

Today we have announced some organisational changes at Realkredit Danmark and Danske Bank.

We are gathering the Group's property market specialists at Realkredit Danmark, while Danske Bank will continue to have the home mortgage advisers and will be responsible for product distribution. At the same time, a number of commercial mortgage advisers who today are part of Realkredit Danmark will be integrated in the Bank's finance centres. This will strengthen the advisory services at the finance centres, since all of our customers' financing needs – regardless of whether they involve loans, credit, leasing, mortgages and so on – can now be serviced at the same location.

The change will bring only advantages for customers, who will generally have the same adviser, the same prices and the same products and will contact the same location. We therefore believe that the new organisation will strengthen our competencies and will lead to a better customer experience.

Because of these organisational changes, we will need fewer employees.

We have also ascertained a decline in the activity level in several areas. This is the case at the cashiers' counter, in investing, in mortgage refinancing and in a number of back-office functions. We do not expect to return to the situation we knew in 2007 in the near future.

Unfortunately, we must therefore reduce the number of employees – and today we have said goodbye to around 220 of our colleagues.

We want to make Danske Bank more "lean" – that is, make the processes behind the scenes more efficient while we gain more time for customers.

At a time when value-creating advisory services are at a premium and simple services of a more administrative nature take place on the Internet, we must expect that in the coming years the Group will see a steady decline in the number of employees.

Management changes

Today, we have announced other changes to our organisation.

Thomas Borgen will join the Executive Board. Thomas is chief executive of Fokus Bank, which is the Group's Norwegian banking unit. On the Board, he will be responsible for the Group's international banking units and for Danske Markets.

Danske Bank has pursued a strategy of expansion and has acquired a number of banks outside Denmark. We have created an international bank with international management responsibilities, and it will be Thomas's job to carry these responsibilities. Since Danske Markets is predominantly international, the two areas fit well together.

In Norway, Trond Mellingsæter will succeed Thomas Borgen and will join the Executive Committee. Trond currently heads Fokus Bank's Mid-North region.

Also our Swedish banking unit will see a change in management. The current chief executive Leif Norburg wants to retire on 1 January 2010. He will be replaced by Lars Mørch, who is now head of Group HR & Communications. Lars' successor has not been found yet.

Dialogue with customers

Much has happened in 2008 and 2009. The Bank has incurred some losses, including some annoying losses. The financial world has changed completely. We have moved from an optimistic outlook to an awareness of a deep recession. This has caused changes, changes that we want to engage in a dialogue about with our customers. For this reason we launched our new Danish Web site, danskebank.dk/mening (opinion).

In the first weeks, we received 3,000 statements, comments, questions and the like. I want to acknowledge them and say that there were many constructive suggestions for how the Bank can be better.

In September we will return with the first initiatives based on the dialogue we have held. At this point I cannot say where

this will lead. But one thing is certain: The dialogue in itself was valuable, because customers were able to have their say without any filter and we can use that to develop the Bank. This dialogue form has therefore become a permanent feature.

Q&A session

And now to direct dialogue: It is your turn to take the floor and ask questions.

Please begin.