

Press conference  
Financial results for 2009

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## CORPORATE PARTICIPANTS

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## SPEECH

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Peter Straarup - CEO

### Press conference

Welcome to our presentation of Danske Bank's financial results for 2009. Thank you for your interest in the Bank.

This presentation is also being transmitted from our Web site. We will end the webcast when we come to the question and answer session.

I will begin with an overview of the key developments in 2009. Afterwards, Tonny will go into greater detail about the accounting figures.

### Financial results for 2009

A glance at our results shows that we posted a net profit of 1.7 billion kroner, against 1 billion in 2008. Neither of these results was satisfactory, but it is encouraging that we achieved a profit in a year marked by a drastic economic downturn.

In this turbulent year, the Group was able to increase its income by 38 per cent to 59 billion kroner. This was a record for Danske Bank, and it was driven particularly by high trading income at Danske Markets.

Danica also contributed to the advance. Income from banking activities proved quite robust by remaining at the same level as in 2008.

Total expenses rose 1 per cent, while operating costs fell 2 per cent, and this was a satisfactory trend.

Loan impairment charges were the most significant negative factor in the accounts. They were double the level in 2008. We ended with total loan impairment charges of almost 26 billion kroner, which corresponds to 1.35 per cent of our total loans, advances and guarantees. After these charges, our pre-tax profit was 4.8 billion kroner.

As I mentioned, Tonny will go more deeply into the accounts. Before that, I would like to touch on some topics that affected Danske Bank in 2009.

### **In 2009, GDP hit...**

Two thousand and nine was a turbulent year for the global economy and for the banking sector. We were in the midst of the worst economic crisis in 80 years. In the beginning of the year, the financial markets were at risk of a complete breakdown, with unforeseeable consequences.

Across the Western world, banks needed to rely on the creditworthiness of their national governments or liquidity from their central banks in order to avoid financial collapse.

In the autumn of 2008 in Denmark, we got Bank Package I, under which the banks purchased creditworthiness from the Danish state. For this scheme, we paid to the state in 2009 a total of 4.1 billion kroner, including fees and charges for the losses of distressed banks.

In order to strengthen the banks' lending capacity, the Danish Parliament adopted the Credit Package in March 2009. This scheme gave Danish banks the opportunity to obtain a subordinated loan from the state at a market interest rate. Danske Bank raised a subordinated loan under this scheme. Even though 42 other banks in Denmark took advantage of the same opportunity, our participation occasioned criticism. For example, some thought that the package was made especially for us, and others objected that it was more expensive to raise subordinated debt, which is interest-bearing, than to issue new equity. My view is that the package was created so that the sector could fulfil its social purpose and that the price for participation was satisfactory for both parties.

Danske Bank will pay about 6 billion kroner in interest for the hybrid loan over a five-year period, but as is well known, a share issue also entails costs for shareholders. It is called share dilution. When Danske Bank raised the loan, however, it was not in order to optimise our finances. We did it simply because in March we could not see into the future. We did not know whether the meltdown would continue. There was a general need for a relatively quick capital buffer in order to restore confidence in banks and to enable banking activities, particularly lending, to continue without a sharp decrease. Many other banks around the world also underwent the same process.

I can add that, because of the way the world has developed since, we do not expect that we will have either a need or an opportunity to convert any of the state loan to equity.

Since the macroeconomic trend turned positive afterwards, we could discuss whether the loan was necessary – the Bank's capital buffer today is very substantial. We are not speculating about that at Danske Bank. We are satisfied with the decision. And we think it would have been imprudent to wait longer and watch the trend, evaluating whether or not we wanted to raise the loan.

A broad coalition of parties in Parliament was able to gather and find responsible solutions in the serious crisis that the financial sector found itself in a year ago. Aside from the payment for the packages, I would like to take this occasion to thank them. We can see that the packages work.

### **Improvements in H2 2009**

The second half of 2009 brought improvements. The global economy avoided the feared meltdown. Interest rates fell, stock markets rose, credit spreads narrowed, and key indicators shined a light at the end of the tunnel.

But we must remember that the recovery was created by an ocean of liquidity from central banks and national governments. The rescue of the economy entails risks. Channelling so much liquidity back out of the economy again is not uncomplicated. Many countries have large budget deficits and heavy debts. The future challenges should not be underestimated. But right now the state of the economy is on the mend.

The bright spots came especially towards the end of the year. So it appears that 2010 will be a better year than 2009, but in our opinion it will be another difficult year. We expect that conditions for many businesses will remain difficult. Fortunately, many of them have already made the necessary adjustment to their costs. We hope that the current low interest rates will help both business and personal customers. Altogether the drop in interest rates and the tax relief will give Danes more than 25 billion extra kroner to dispose of.

I think there are reasons to be pleased that the worst economic crisis in decades has so far had only a limited effect on the finances of the large majority of personal customers. But people who have lost their jobs are often in a difficult situation. Fortunately, because of the low interest rates, many of them can still make mortgage payments. We hope that the economic recovery will support employment so that the jobless rate does not rise sharply.

### **Stronger focus on customer satisfaction**

In 2009, Danske Bank carried out a number of initiatives because of the crisis.

Some of them relate to our efforts to evaluate our contact with customers.

We must learn from the crisis and use it to improve our advisory services further. Our activities include the internal certification of employees for credit granting.

In Denmark, we have also appointed a customer satisfaction manager, and we will soon begin recruiting members of our new customer panel. We will use input from the panel in our ongoing business development.

### **Very low share of complaints in 2009**

On the subject of complaints, I am pleased that our share of cases at the Danish Complaint Board of Banking Services is very low relative to our overall market share. In 2009, it was 15 per cent of the total complaints heard by the Board. Our general market share, in comparison, is about 30 per cent. Only in one case against us was the complaint upheld. That represents 2 per cent of the complaints about the Bank.

I can also inform you that we adhered to the Complaint Board's decision in the one case we lost.

### **One of Denmark's least expensive banks**

In 2010 we are intensifying our proactive contact with customers in a number of areas when we can see that we can offer them tangible advantages.

In order to free up resources for this, we continue to invest in our Digital Banking project. For many years, we have placed great emphasis on developing our IT platform. We continue to do this, and the platform is the foundation that enables us to deliver the best products at competitive prices.

We have maintained our position as one of Denmark's least expensive banks in independent surveys, and we will continue to do so.

### **International expansion**

The development of a single IT platform was also the foundation for the acquisitions that Danske Bank has made.

We are pleased that our IT platform has actually delivered what we had expected. We have achieved our objectives for cost savings in the acquisitions that we have made. And all the units that operate on the IT platform are well functioning today.

We can deliver products and services of high quality at a low unit cost across the organisation.

But unfortunately, the profitability of the acquisitions is not determined solely by the IT platform. The business climate has been quite brutal on their profitability in some cases.

Looking in the rear-view mirror, we can acknowledge that some of the banks we have acquired outside of Denmark we bought at the right time and at a reasonable price. Others, in historical perspective, now appear too expensive.

Norway and Sweden were acquisitions that today function as strong units in the Group.

Regarding Northern Ireland and especially Ireland, I must acknowledge that we bought two banks at the peak of the business cycle in a geographical region that has since experienced an enormous economic downturn. The two banks together proved to be too expensive. That is especially clear in the Republic of Ireland. The banks in both countries are fully integrated on our IT platform. They are well-functioning units of the Group administratively, and we are working hard to turn their earnings around.

Sampo Bank suits the Group very well strategically. We had some IT problems during the integration, but today the bank is a very efficient part of the Danske Bank Group. We delivered the promised synergies, but knowing what we know today, we must concede that the price of the acquisition was high. The trend at Sampo Bank will turn around, however, and the bank will produce better results when the crisis subsides.

So, when we look at our acquisitions in the rear-view mirror, we see cases of both good and bad timing. We cannot do anything about that at this time. But I can assure you that we are confident that the Group has a vital, robust foundation for future competition.

### **The Group's capital base**

In today's financial statements, we have released the result of our internal capital adequacy assessment process. The

ICAAP result came to 84 billion kroner, and the ICAAP ratio to 10.1 per cent. The Bank's capital base amounted to 148 billion, giving a solvency ratio of 17.8 per cent. This means that we have a capital buffer of a full 64 billion kroner.

When evaluating the size of the ICAAP result, you should be aware of the rules on the transition from Base I to Basel II, which currently raise the solvency ratio. These rules stipulate that in 2010 we can obtain capital relief of only up to 20 per cent in comparison with the level in the old Basel I rules. If the rules had not been extended this year, our ICAAP result would have been about 3 billion kroner lower and the capital buffer 3 billion larger.

The core capital ratio (based on shareholders' equity) amounted to 9.5 per cent, which means that we can almost cover our capital needs with shareholders' equity alone. That is quite satisfying.

Now I will hand the baton over to you, Tonny, for a closer look at our accounts.

#### **Financial results for 2009**

Thank you. I will now return to our accounts for 2009 and give the figures a little more colour.

You saw the figures on this slide a little while ago. The general conclusion is of course that the Danske Bank Group had a net profit of 1.7 billion kroner in a year that will be remembered as having the sharpest economic downturn in the global economy in recent times.

There are two reasons in particular why we succeeded in achieving an acceptable result, given the circumstances.

#### **Income from banking activities**

First, we were able to maintain our income from Banking Activities in our nine main markets at generally the same level as before. And we did this despite some headwinds in the form of lower activity and sharply declining money market rates. This shows that Banking Activities constitutes the core of Danske Bank, producing very robust income while our income from other sources is more fluctuating.

#### **Lending declined moderately**

In a period with great economic uncertainty and falling commercial sales, corporate customers in particular need

fewer loans for investments, new plant construction, inventories and so on.

At the same time, a number of personal customers have chosen to repay part of their debt. And finally, we have been more conservative in our lending, especially in countries such as Ireland and the three Baltic states and in industries that are especially risky in the current situation. This means that altogether our lending volume has declined a little.

The chart shows that the drop in Denmark was a modest 4 per cent, while lending at the other country units fell more than 11 per cent. The decline occurred solely in corporate lending. Lending to personal customers rose slightly.

The fact that total lending declined does not mean that we no longer lend money. On the contrary, our new lending in Denmark alone in 2009 amounted to 75 billion kroner, and we saw a rising trend in the fourth quarter.

#### **Trading income tripled**

The other reason that we were able to achieve a positive result was that our income from trading activities tripled over the level in 2008.

In the financial and economic crisis that caused high loan impairment charges, the other side of the coin was volatile capital markets and sharply falling interest rates.

These factors led to a high activity level at Danske Markets, which trades in bonds, currency, equities and so on. As the capital markets began to return to normal in 2009, trading income as expected also fell gradually.

#### **Danica**

Another effect of the good capital markets was that the result from our insurance business was positive again. The gain was in fact even larger than the loss the year before. At 2.8 billion kroner, the result was a full 4.5 billion kroner better.

The main reason for the good results was the return on investments. That was true of both the conventional schemes, with a 7.1 per cent return, and the market-based schemes, which returned an average of 24 per cent.

The good investment returns meant that Danica was able to book the risk allowance in 2009, in contrast to the year before, when it had to be postponed.

We were also pleased that our foreign pension activities showed a large advance of 29 per cent in premium income. That is important, because it supplements the development of our foreign banking business.

#### **Expenses held in check**

The Group's total expenses were generally unchanged from the level in 2008. Excluding the costs of participating in Bank Package I and goodwill impairment charges, operating costs fell 2 per cent to 24.2 billion kroner.

We are very pleased that we were able to reduce costs at the same time that our income rose 38 per cent.

The cost/income ratio improved from 67 to 49 per cent.

The most important reasons for the improvement were declining integration costs, realised synergies in Finland, and our intensified focus on cost control generally.

Salary expenses amount to 12.5 billion kroner, or half of our operating costs. Variable compensation represents 6.7 per cent of this. The item consists mainly of performance-based compensation in our capital markets units.

Payments to so-called risk-takers are based on results achieved over several years, and part of them is postponed until a future date. The postponed portion may be revoked if the Group's financial results in the intervening period are negative or if the results in the individual business unit do not meet specific targets. The Group has thus implemented the G20 salary recommendations.

The Group's cash bonus programme for employees and Executive Board members has been suspended.

Slide 16: Loan impairment charges

The fact that, despite record-high income, we posted only a modest net profit was owing to our high loan impairment charges, which totalled almost 26 billion kroner. There are also good reasons to look at them in detail.

It was mainly business customers that gave us problems. They accounted for 63 per cent of our impairment charges, although they represent only half of our lending. Personal customers, on the other hand, accounted for a smaller portion. Salary increases, the disbursement of the special savings scheme in Denmark, tax relief and low interest rates

helped to improve personal customers' finances. Also included in the figure is 1.6 billion kroner to cover Danske Bank's share of the losses on distressed banks in Bank Package 1.

#### **Impairment charges highest in Denmark, Ireland and the Baltics**

If you look at a breakdown by country, you can see a close correlation between the countries with poor economies and the ones where we had the highest loan impairment charges. Ireland, the Baltic countries, and to a lesser extent Northern Ireland are the three regions that have been hurt the most by the crisis, and these regions also registered impairment charges amounting to 3 to 10 per cent of lending. Danske Markets' impairment charges are related to foreign financial customers.

Denmark actually accounts for the largest amount, but measured in relation to lending volume, as the chart shows, the charges represented only about 1 per cent of lending. The main reason the percentage was so low is that the impairment charges on our large mortgage credit book were modest.

The positive aspect of this item is that impairment charges have fallen steadily since they peaked in the fourth quarter of 2008. They have fallen from almost 9,2 billion to just under 5 billion kroner.

#### **Results from our primary markets**

Broken down into our main Banking Activities units, the Group's results show a variation that corresponds with the economies of the individual countries, and they also illustrate the various units' current positions.

The results here are adjusted to show the operating profit, with the expenses for goodwill and payments under Bank Package I omitted. All loan impairment charges are included, however.

We had a profit in Denmark, Norway and Sweden, while Ireland and the Baltics posted large losses. The losses in Finland and Northern Ireland were somewhat lower.

#### **Core capital and solvency ratios**

In 2009, there was increasing attention on the question of the extent of the new, tighter rules that will be implemented in the financial sector. And new rules will be implemented. Most

recently, just before Christmas, the Basel committee made a proposal for the new rules that it believes should be implemented. The proposal treats a number of issues, but there are grounds for highlighting three central areas – capital, leverage and liquidity – in which we expected the rules to become stricter.

We do not know the new rules in detail, and they must go through an extensive political process before they are adopted. We think that before the implementation of new rules, thorough studies should be made showing the overall effect on the sector so that we avoid adverse consequences in the sector and in the economy. We believe it is especially important to preserve the Danish mortgage finance model in a way that ensures unhindered access to home financing at an attractive rate of interest.

We already worked actively in 2009 to improve our key figures in these three areas. Let us look at them each in turn.

We strengthened our capital base with 26 billion kroner in subordinated debt from the state and 4.2 billion from our earnings.

The core capital ratio, which is based on shareholders' equity, improved from 8.1 per cent to 9.5 per cent. The reasons for this are the capital from our earnings, as I mentioned, and that we have worked actively on our balance sheet and thus our leverage. The total solvency ratio rose from 13 to 17.8 per cent.

This made the Group's core capital and solvency ratios among the highest in Europe.

Slide 20: Leverage figures

During 2009 we reduced the Group's total assets by no less than 13 per cent, or almost 450 billion kroner. Our balance sheet management was directed mainly at the trading area, while lending declined only 6 per cent. Finally, our risk-weighted assets declined by 13 per cent.

### Liquidity

Liquidity is the third focus area in the Basel committee's proposal, and here the Group improved its position significantly in 2009. Our foundation is good, since with the Danish mortgage finance system, we probably have the longest average funding.

The effect can be seen in this chart, which shows that we have excess liquidity that would enable us to operate even without access to the capital markets for more than 12 months. That is a clear improvement since year-end 2008.

More important, we improved the curve by raising a number of loans with long maturities, even longer than previously. And we decided to raise loans without using the state guarantee, so we are already in the process of preparing to function after the expiration of Bank Package I.

The conclusion is that Danske Bank has already carried out measures that ensure that we will generally fulfil the new rules that will most likely be implemented in the coming years – to the extent that we know them.

### Outlook

Our expectations for the coming year are somewhat more positive than they were one year ago. The economies in our markets are each on their way forward, and there is much more clarity about where we stand, which is also important.

But the effects of the past two years' recession are not over yet, unfortunately. Economic growth will return, but it will not be nearly strong enough to reduce unemployment. The most we can hope for during the year is a stabilisation.

With regard to our income, we cannot expect to repeat the high income levels in Danske Markets and Danica.

We will continue to focus on costs and to intensify our efforts to make the Bank efficient while we modernise our customer contact and service. We therefore expect expenses to be lower in 2010 than in 2009.

Our corporate customers will also have many challenges in 2010, and rising unemployment will make life more difficult for some personal customers despite tax relief and lower interest rates. We therefore expect that loan impairment charges will also be high in 2010, but – and this is important – they will be lower than in 2009.

Altogether, we expect a challenging year for the sector and thus also for Danske Bank.

### Q&A session

We have just presented the Danske Bank Group's financial results for 2009 and commentary on a number of related

topics. As you have heard, we have worked actively to bring the Bank through a difficult year and also to prepare it to thrive in the future.

Now to direct dialogue - it is your turn to lead the discussion by asking questions.

We are also now ending our webcast at this time.

Please use the microphone at the side of your seat.