

# Frequently asked questions

Danske Bank Group acquires National Irish Bank and Northern Bank

December 14, 2004



Investor Relations

Danske Bank

## FREQUENTLY ASKED QUESTIONS

Here you can find the answers to some important questions. We have grouped the questions in the following categories:

- The acquisition
- National Irish Bank and Northern Bank
- The Irish market and the Northern Irish market
- Capitalisation and targets for Danske Bank
- Danske Bank in 2005
- Business development
- Indemnity on compliance issues
- Acquisition process

## THE ACQUISITION

### Why has Danske Bank invested in National Irish Bank and Northern Bank?

Two of the reasons that the Danske Bank Group decided to acquire banks in Northern Ireland and the Republic of Ireland are that the profiles and structures of the two banks match that of Danske Bank and the two economies are healthy with a solid basis for growth.

The acquisition of the two banks is well in line with our ambition to expand our branch network outside our core market in Denmark. The acquisition will enable Danske Bank to utilise our competencies, in particular regarding product range, efficient and centralised working processes, and IT infrastructure.

Northern Bank and National Irish Bank have large branch networks and sound market positions in their markets. The investment enables Danske Bank to develop the same high level of technology and products as in our branches in Scandinavia.

### When will the deal close?

The completion of the deal is subject to approval of the regulatory authorities in the Republic of Ireland, the United Kingdom and the European Union. These approvals are expected by the end of the first quarter of 2005.

### How much is the Danske Bank Group paying for the two banks?

The Danske Bank Group will pay £967m, the equivalent of DKr10.4bn, for the shares of the holding company National Europe Holdings (Ireland) Ltd. Payment will be in cash.

### How is the deal being financed?

The deal will be financed in the following way:

- Issue of hybrid capital: DKr1.5bn
- Issue of supplementary capital: DKr3.0bn
- Reduction of the share repurchase in the second half of 2004: DKr1.0bn
- Cash: DKr4.9bn

The deal will therefore be financed without recourse to the equity market.

### How much is the Danske Bank Group paying in goodwill for the two banks?

The goodwill amounts to £519m after tax for the two banks. The following table presents further details:

	NIB & NB (£m)
Adjusted equity (Sept. 30, 2004)	448
Goodwill	519
<b>Price</b>	<b>967</b>
<b>Price/book value (excl. pension deficit)</b>	<b>2.2x</b>
Pension deficit	108
Goodwill (incl. pension deficit)	627

### How will the goodwill affect the accounts of the Danske Bank Group?

The goodwill will be capitalised and included in shareholders' equity. It is therefore be subject to impairment test according to IFRS.

## NATIONAL IRISH BANK AND NORTHERN BANK

### What are the characteristics of the two banks?

National Irish Bank ([www.nib.ie](http://www.nib.ie)) has a sound position on the banking market in the Republic of Ireland, with a market share of around 2%-3%. It has about 800 employees, 59 branches and 13 business banking centres. In recent years, the bank has catered to high-net-worth individuals and mid-sized corporate customers in addition to serving retail customers. National Irish Bank has 134,000 retail customers and total lending of €2.9bn.

Northern Bank ([www.nbonline.co.uk](http://www.nbonline.co.uk)) is one of the largest retail banks in Northern Ireland, with about 2,300 employees, 95 branches and 13 business banking centres. Northern Bank has 349,000 retail customers and total lending of £3.2bn. The bank's market share is about 21% of current accounts, and its shares of savings accounts and personal lending are also high.

Read more about the two banks in the presentation National Irish Bank & Northern Bank. You can also download key figures in a financial spreadsheet. ([www.danskebank.com/irirelanddownloads](http://www.danskebank.com/irirelanddownloads))

### How good is the credit quality of the two banks?

The two banks' portfolios amount to £5.2 billion (National Irish Bank accounts for £2bn and Northern Bank accounts for £3.2bn). In July 2004, 81% of the credit portfolio in National Irish Bank was supported by specific collateral exceeding 50% of the loan value. The corresponding number for Northern Bank was 74%.

Retail lending accounts for approximately 45% of the total portfolio in both National Irish Bank and Northern Bank. Of this 45%, mortgages account for more than 80% at both banks. There have been no losses on housing loans in at least three years.

## THE IRISH MARKET AND THE NORTHERN IRISH MARKET

### Why Ireland?

The markets in the Republic of Ireland and Northern Ireland are characterised by high growth.

The Republic of Ireland is fundamentally strong because of three important factors:

- positive economic outlook
- low corporation tax rates
- favourable demographic trends

The Republic of Ireland was the fastest-growing economy in the EU between 1994 and 2002 (measured in real GDP growth), and the outlook is healthy. The economy is expected to grow at a higher rate than the EU average in the next few years. Some 38% of the population (3.9 million) is under 25, and the population is expected to increase to 4.0-4.3 million by 2011.

Northern Ireland, which is a part of the UK, is the fastest-growing regional economy in the UK, and it has benefited from structural funding and substantial support from the EU over a number of years. The region has also received government support, and this has fuelled the economic growth. Northern Ireland has become increasingly successful in attracting foreign investors and foreign direct investment (FDI) has increased by 45% over the past six years. Investment from the information and communication technology, service and technology sectors accounted for 90% of all FDI into Northern Ireland in 2002/3. The Northern Irish economy has been stable in recent years, despite both adverse global conditions and outstanding political issues.

Both markets have a low unemployment rate.

### Who are the main competitors?

These are the major competitors in the Republic of Ireland:

Bank of Ireland	{ <a href="http://www.boi.ie">www.boi.ie</a> }
Allied Irish Banks (AIB)	{ <a href="http://www.aib.ie">www.aib.ie</a> }
Permanent TSB	{ <a href="http://www.permanenttsb.ie">www.permanenttsb.ie</a> }
Ulster Bank	{ <a href="http://www.ulsterbank.ie">www.ulsterbank.ie</a> }
First Active	{ <a href="http://www.firstactive.ie">www.firstactive.ie</a> }

These are the major competitors in Northern Ireland:

Ulster Bank	{ <a href="http://www.ulsterbank.co.uk">www.ulsterbank.co.uk</a> }
First Trust	{ <a href="http://www.firsttrustbank.co.uk">www.firsttrustbank.co.uk</a> }
Bank of Ireland	{ <a href="http://www.boi.com">www.boi.com</a> }

Ulster Bank is owned by the Royal Bank of Scotland ([www.rbs.co.uk](http://www.rbs.co.uk)), and First Trust is owned by Allied Irish Banks ([www.aib.ie](http://www.aib.ie)).

### What is the competitive situation like in the banking markets of the Republic of Ireland and Northern Ireland?

Two banks dominate the markets in Northern Ireland and the Republic of Ireland: Bank of Ireland ([www.boi.com](http://www.boi.com)) and Allied Irish Banks ([www.aib.ie](http://www.aib.ie)). They are both strongest in the Republic of Ireland.

In recent years, many UK players, seeking growth opportunities outside their highly competitive domestic market, have entered the Irish banking markets. This trend is more pronounced in the Republic of Ireland because of its higher economic growth, lower tax rates and participation in Emu. However, the UK-based banks have acquired a significant market share of mortgages in Northern Ireland. Halifax (HBOS), Abbey National and Alliance & Leicester have a combined market share of 52%.

In the Republic of Ireland, consumer banking is heavily dominated by Bank of Ireland and Allied Irish Banks, with a combined 75% market share of current accounts. Mortgage lending is dominated by Permanent TSB, Bank of Ireland, FirstActive and Allied Irish Banks, with a combined 59% market share of the mortgage stock. The business banking segment is heavily dominated by the two main players, Bank of Ireland and Allied Irish Banks, with a combined market share of 82% of current accounts.

There are four major banks in Northern Ireland: Northern Bank, Ulster Bank, Bank of Ireland and

First Trust. These banks have a combined 66% market share in current accounts. Mortgage lending is dominated by the UK-based banks: HBOS, Alliance & Leicester and Abbey National. Corporate banking is dominated by Northern Bank. Northern Bank, Ulster Bank, Bank of Ireland and First Trust have a combined market share of 97% in this market.

Read the presentation Market background for further information about the macroeconomics and the banking sectors. ([www.danskebank.com/irirelanddownloads](http://www.danskebank.com/irirelanddownloads))

### How high are the margins in the two markets?

Margins in the Republic of Ireland have declined since the introduction of the euro. Lower interest rates, product mix changes (shift towards mortgages) and increased competition from foreign competitors are driving this development. The margins in Northern Ireland have been somewhat higher than in the Republic of Ireland partly because the banking market in the Republic of Ireland has attracted more international competitors.

The net interest margins (net interest income/avg. net interest-earning assets) are 3%-4% in Northern Ireland and 2%-3% in the Republic of Ireland.

### What have lending volumes been like in the two markets?

There are three important factors driving strong lending growth in the Republic of Ireland:

- the underlying growth of the economy
- low interest rate environment
- increasing commercial property values

Strong mortgage volumes have been the most important driver of overall loan growth in the past three years. The strong development in mortgage lending has been driven by low interest rates, a relative shortage of housing and population growth (young population entering the housing market). The presentation "The mortgage market in the Republic of Ireland" includes further information about this development.

([www.danskebank.com/irirelanddownloads](http://www.danskebank.com/irirelanddownloads))

### What has the mortgage market been like in the Republic of Ireland?

Annual mortgage lending growth has been above 10% in each of the past ten years. Lending growth is now slowing, but it is still strong.

This mortgage lending growth is underpinned by increasing number of households. The housing stock per inhabitant is still low in comparison with other European countries, which means that there is room for further expansion. The average completion rate in Ireland is high in comparison with other European countries, and so is the average share of residential investments.

We have gathered some useful charts in the presentation "The mortgage market in the Republic of Ireland".

([www.danskebank.com/irirelanddownloads](http://www.danskebank.com/irirelanddownloads))

### CAPITALISATION AND TARGETS FOR DANSKE BANK

#### How does the acquisition affect Danske Bank's repurchase programme?

Danske Bank has reduced the repurchase programme from Dkr3bn to Dkr2bn in the second half of 2004. We have not yet made any statement regarding share buy-backs in 2005.

#### Will Danske Bank change its capital targets because of the acquisition?

No, the targets for the capital structure are unchanged:

- Core capital ratio, incl. hybrid capital, of about 7%
- Solvency ratio of about 9.5%
- Dividend payout ratio of about 50%

### DANSKE BANK IN 2005

#### How will the acquisition affect Danske Bank's earnings?

Revenues and costs will rise because of the consolidation of the two banks into the Danske Bank Group's accounts. However, restructuring and financing costs will offset this positive effect in 2005.

The acquisition is expected to be accretive to earnings per share in 2006.

### BUSINESS DEVELOPMENT

#### How large do you expect the cost synergies to be?

We expect the cost synergies to amount to Dkr350m. The synergies will derive from

- elimination of duplication in back-office operations
- implementation of Danske Bank's IT platform
- implementation of Danske Bank's processes
- organisational adjustments

We expect to achieve about 40% of the synergies in 2006, 45% in 2007 and 15% in 2008.

#### How will you grow the business?

We expect to grow the business by utilising the increased efficiency, more products and improved product and service offerings after the conversion to the central platform.

#### How do you expect loan volumes and margins to develop?

In 2005 and 2006, we expect growth rates at the level of, or slightly below, market growth. However, we expect above-market growth after the conversion to our central IT platform, as is

taking place in our Norwegian and Swedish banking operations.

**What are your targets for market shares and return on equity, and when will you reach these targets?**

Until the conversion, lending growth will track or be slightly below market growth. Beginning in 2006, however, we expect to grow faster than the market. We have not designated a specific target within a specific time frame for our market share.

The conversion to our central IT platform will provide the two banks with a full product palette and improved service offerings, and this should lead to significant growth and improved returns. However, we have not designated any specific target for the return on equity at National Irish Bank and Northern Bank.

**Tight cost control is considered an important part of the Danske Bank story. Will this be mirrored in this acquisition?**

Danske Bank has always focused on improving existing processes and systems, and we will continue to do so. We will concentrate on the elimination of duplication in back-office operations and on introducing our IT platform and processes.

**Will you change the logos of the two banks?**

The strategy of local branding, which has been a cornerstone of our operations in Sweden and Norway, will also be used in the Republic of Ireland and Northern Ireland. The names of the two banks will therefore be kept, and the two logos will be redesigned and adapted to Danske Bank's general design standard.

**INDEMNITY ON COMPLIANCE ISSUES**

**What about the compliance issues in which Northern Bank and National Irish Bank have been involved?**

Northern Bank and National Irish Bank have been the objects of inspection by the local regulatory authorities, and National Irish Bank has been involved in compliance lawsuits. The matters under investigation relate mainly to activities in the period from 1988 to 1998. The Danske Bank Group is of the opinion that these matters have been substantially dealt with and there are not likely to be any significant pending issues. The employees responsible for these matters are no longer on the staff. Nonetheless, these matters remain the seller's responsibility and Danske Bank will be fully indemnified should any claim arise.

**ACQUISITION PROCESS**

**What are the next steps in the acquisition process?**

We have prepared a page and a table with further information about the acquisition process.

Date	Event
Dec. 14, 2004	Announcement of the deal
Feb. 10, 2005	Annual Report for Danske Bank
Q1 2005	Approval of the deal - (Irish and British FSA & EU) Completion of the deal IT conversion begins
First half of 2006	IT conversion completed

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If you would like more information about Danske Bank's activities, please contact us at Investor Relations.

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