

Press conference
Financial results of 2008

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SPEECH

Peter Straarup - CEO

Press conference

Welcome to the presentation of our financial results for 2008, and thank you for your interest in Danske Bank.

The press conference is also being transmitted from our Web site. When we conclude the presentation and open the floor to your questions, we will close the transmission.

We have once again chosen to divide the presentation up into two parts. First I will discuss some general developments in our business and some of the financial highlights, then CFO Tonny Thierry Andersen will go into greater detail about some points.

Let me start with a summary of 2008.

2008: Economic downturn

It has been a horrendous year for the entire financial sector, for the global economy and also for Danske Bank. We were hurt badly by the financial crisis. We were hurt by the global recession. And on top of that, we were hurt by some internal problems. Problems that, to put it mildly, reflected badly on us and that we regret.

So we were not sorry to leave 2008, but we are very concerned about what 2009 will bring.

2008 was a year with strong headwinds. Our financial results reflect this. They were not satisfactory. In 2008, there was a meltdown in some areas of the economy and the financial markets. This even caused us to post a loss for the fourth quarter.

Financial highlights for 2008

But for the year as a whole, we had a positive bottom line. Our net profit for the full year was one billion kroner, against 15 billion in 2007 and 7 billion for the first nine months of 2008. So we can see that the effects of the downturn really hit us in the fourth quarter.

We decided that we had to make a number of impairment charges. This decision was the right decision because, as January progressed, it became clear that the meltdown in the fourth quarter of 2008 was extraordinary.

The economic fundamentals in Ireland in January were disturbing: the figures showed a budget deficit and recessionary GDP figures. This is worrying and points to hard times ahead.

We therefore made impairment charges for the entire goodwill on our acquisition of National Irish Bank. The prospects for the Irish economy were quite simply too ominous.

We also decided to make collective loan impairment charges at the group level. These charges will cover losses on various facilities with customers.

So the fourth quarter was truly extraordinary.

It was also the quarter when the recession really set in. In December alone, there were more than 500 bankruptcies in Denmark.

Danske Bank felt the bite. Our losses soared, and we had to raise our charges for impaired loans. Unfortunately, we expect losses and impairment charges to remain very high in 2009. The new year is still young, but it is already clear that the number of bankruptcies will remain high. Even so, we do not expect a repetition of the extraordinary fourth quarter of 2008.

Overall, our financial results were depressing, but there are bright areas: our banking activities, for instance, are actually doing quite well. And the cost savings we expected to make from our acquisitions have materialised.

We have been busy with our administrative procedures throughout the year. We have improved our administrative platform, and our efforts to enhance efficiency and our digitalisation programmes are on track.

But let us not forget that we did stumble in 2008.

Finland – Stable IT systems

In 2008, we launched one of the largest IT projects ever undertaken in Europe. The migration of Sampo Bank to Danske Bank's platform was a task of colossal dimensions.

I will be the first to admit that the operation was not as seamless as we wanted it to be. We did not give our customers the service they had a right to expect.

We were not exactly rewarded for this. Today, I am happy to say that operations have been back to normal at Sampo Bank for several months now, and Sampo Bank now functions as an integral part of the Danske Bank Group's IT system. The financial markets and the Finnish economy are not unaffected by the crisis, but we are very happy that Sampo Bank is part of the Group.

I would like to spend a few minutes on the crisis that began to accelerate in September last year.

Slowdown and failing banks

The financial markets in America were in trouble throughout 2008, and losses on subprime bonds were enormous. For quite some time, it seemed to be the general opinion that this was a crisis that affected the financial sector in America only. But it proved contagious, and what was half good turned half bad. The financial sector all over the world announced losses in droves. Mistrust grew steadily over the year, and funding options started disappearing.

I believe that the US authorities took an irresponsible decision when they let Lehman Brothers file for bankruptcy. Because that was when things went from fear to panic. The liquidity stream was clotting up, and the entire financial sector was close to heart failure – a worst-case scenario beyond anyone's imagination.

If the governments had laid back and failed to take action, the result would have been catastrophic. In my opinion, the Danish politicians acted very responsibly when they offered a guarantee to help the Danish financial sector.

I want to make it quite clear that Danske Bank was able to meet its liquidity targets throughout 2008. At no time during the turbulent days in October were we turning out our pockets to find liquidity. But had the markets remained frozen, all banks – Danske Bank, too – would have been hit.

Solid capital base

Looking forward, we expect many changes in the financial sector. Lower gearing, for certain. More caution in all types of exposure. Higher capital ratios. Banks in Denmark and in other countries are therefore strengthening their capital bases. Those who do not will find it hard to find room to manoeuvre in the future when the market is not supported by a state guarantee.

The Danish government has also made an offer to the financial sector to inject capital in the form of hybrid capital. This is a good offer in a period when the international debt markets are not functioning.

At the end of 2008, Danske Bank's solvency ratio was 13 per cent. The solvency ratio includes a core (tier 1) capital ratio of 9.2. And you would think this would be fine.

But Danske Bank wants a higher solvency ratio because a high ratio will create confidence in the international financial markets. It will strengthen the Group in the coming period, which will be very hard for all banks in the world.

About a month from now, our Board of Directors will recommend to the AGM that the Group take the credit facility that the Danish government and the participating political parties have made available as part of the Credit Package.

We want to strengthen our capital base by about 26 billion kroner.

That will lift Danske Bank's core capital ratio to 12 per cent and our total solvency ratio to 16 – a comfortable level even in these times, and probably one of the highest in Europe.

Credit policy

Before the government introduced the Credit Package, we had decided to put our energy into serving our existing customers rather than new ones. That was because of the mounting economic crisis that had made life more difficult for many of our customers. And we believe that many will find 2009 even more of a challenge.

So the Credit Package does not mean that we will loosen our purse strings and grant credit galore. We will still do our best to support our customers. And the Credit Package will help us do it. But we must all take care, now that the economy is heading into recession. The number of bankruptcies is

climbing, more people are being made redundant, and forced sales and delinquency rates are rising.

But we still say "yes" to our customers many times every day. The wheels keep turning in large parts of our business, and our foundation is good.

Strong earnings power

The next slide shows the earnings power of our banking activities before loan impairment charges over the past years. That is the blue graph.

The graphs speak for themselves, I think: we have a healthy earnings muscle, and it has never been stronger in Danske Bank's history. Our earnings power is intact, and we believe in our ability to earn good money. That is what will take us through the crisis in good shape.

Impairment charges

On the slide, you can see the trend in loan impairment charges since the previous crisis in the early nineties.

You can see that the item is positive – yes, I said positive – in the four years from 2004 to 2007. That is unusual and not something we should count on. But if we look at a longer period – the last ten years – and include the figure of 12 billion for 2008, we are still looking at normal losses for that period.

The future is uncertain, however. I think we all know that we are entering uncharted territory.

Most loan impairment charges reflect "honest" losses. The Bank has taken a risk – either on a corporate or a personal customer – and the project has failed. That is part of everyday banking. But we should be careful when we grant loans, and we should not have too many losses. Then there are the losses that really annoy us. That is when we have not been thorough enough – when we did not ask enough questions and did not act sensibly on the data presented to us. It happens. And then, once in a while, there is a case that stands out.

IT Factory – a confidence game

In Denmark we tend to trust people. We ask our customers about their projects and their finances, and we expect that sometimes they will present a slightly rosier version of the facts.

But we do not expect hard-core fraud. That is not what our credit officers expect to see every day. Are we being naïve? I do not know. But in the IT Factory case, we are truly ashamed that we missed a number of warning signs.

We can explain all we want, but the fact is that we asked sensible questions about the basis for the facilities and about the financial statements. But the documents were false. The audit reports were clean. And there were many payments into the account. That is something bankers like because they believe that payments represent sales.

Usually bankers' minds are not tuned to noticing signs of pyramid structures or similar confidence games. They may have suspicious minds, but probably not suspicious enough if they missed the warning signs. No doubt, we should have seen it coming in the IT Factory case. We will learn from this. But we are left with a blemished reputation – perhaps even a damaged one. It will take a lot of hard work to change that.

And there is only one way to do it. We must make sure that each and every part of our business meets the high standards that we have set. And that is exactly what we are going to do.

We will see losses in 2009 too. But I want to make it clear again that losses are normal for a bank when the economy contracts. So we will stay calm, even if the economic barometer still points to stormy.

I will stop here and pass the microphone over to Tonny.

Tonny T. Andersen - CFO

Stable income base

Thank you

Let me begin by going back to the Group figures. I would like to show you that – although times were hard and the fourth quarter reached rock-bottom – the Bank's total income actually peaked in the same quarter at just over 12 billion kroner.

Danske Bank's income base is therefore quite sound, and that is extremely important in times like these when most areas of the economy are affected by the slowdown.

Our income is, and continues to be, our first line of defence.

Four focus areas

That was a point I especially wanted to make. Now I will tell you more about four key areas in our financial statements.

They are: loan impairment charges, the trend in costs, the earnings power of our banking activities and the outlook for 2009.

Sharp rise in loan impairment charges

As Straarup pointed out, the Group's loan impairment charges – which are our losses and loss provisions – rose sharply in 2008, in the fourth quarter in particular. Seen in perspective, though, these charges equal only half per cent of our total credit exposure.

But if you look at the figure for 2007, the difference hits you: from close to zero to just over 12 billion kroner.

I want to go into this a bit more and tell you where we are losing money or where we expect to lose money. The latter is actually what is most interesting because most of the 12.1 billion kroner charge by far does not represent actual losses. It consists of provisions to cover future losses.

When we break down our impairment charges by customer type, you will see that most of them pertain to corporate customers. That is a natural consequence of the increase in bankruptcies we have seen, which again is a direct consequence of the rapid slowdown in the real economy. Our impairment charges for personal customers are still modest, though. Historically, losses on personal customers and unemployment figures have moved in tandem. So we have every reason to expect that we will see more losses on personal customers in 2009.

Finally, there is the financial sector. We suffered some losses from this sector in 2008, one of them on Lehman Brothers and others on Danish banks. Some of the losses came because we participated in the Danish bank rescue package that was launched in October.

Impairment charges – collective and individual

But the specific charges that I have just mentioned account for only half of all our impairment charges against financials. The other half – and we are talking about 2 billion kroner – is a

collective charge that we have not designated for specific financial customers. It is a buffer we have set aside because we expect that the risk on this portfolio will rise.

If you look at the pie chart that shows our impairment charges against corporate customers, you will see that the slice for individual corporate customers is much larger. But on top of that we have made a collective impairment charge of one and a half billion.

As I told you, we made the largest impairment charges for our corporate customers. Let us look at what sectors are most at risk.

Impairment charges for corporates

I do not suppose it comes as a surprise to you that the impairment charges for real property and construction tower over the charges for the other sectors. Together these two sectors account for more than 3 billion of our total corporate impairment charges of 7 billion. Much of the charge for these two sectors was recognised in the first three quarters of the year.

But the situation changed in the fourth quarter. In the last quarter of the year, we also had to make impairment charges against a number of other sectors that were finding it harder to meet sales and profitability targets because of the general decline in the economy.

I could mention sectors such as consumer goods and transport and shipping. But the list is long and varied. It goes to show that the crisis has changed from a financial crisis and a crisis related to the property sector to a crisis that affects all and sundry: a full-blown economic crisis.

Basically, we had to make these impairment charges because the economy took a sudden, and severe, turn for the worse in the fourth quarter. You can see how bad it was if you look at the curves for the two key figures: industrial output and consumer confidence. You can also see that the trend was not specific to Denmark; the rest of Europe was hit as well.

Geographical breakdown of impairment charges

If we look at all the countries in which we operate, Denmark attracts the highest impairment charges, but then again Denmark grants the most loans. Second on the list, in absolute figures, is Ireland. This should not come as a surprise because the Irish economy was the first to turn

sour, and Ireland is the country that has been hit the hardest by the recession.

The best way to compare one country to another is to measure impairment charges as a percentage of lending. That is what we have done, and you can see that Ireland tops the list, followed by Northern Ireland and the Baltic countries.

Denmark and the other three Nordic countries have impairment ratios at roughly the same level: around 30 to 40 basis points.

I will sum up what I have said about loan impairment charges: The Danske Bank Group has increased its loan impairment charges, primarily because some of our customers are having difficulties. Banks can of course limit some of their losses through a farsighted credit policy, but when the entire economy comes tumbling down, banks will tumble as well.

Tight cost control

Another element of the financial statements I would like to comment on is the trend in costs.

Overall, expenses rose 15 per cent to some 29 billion, but the underlying trend is less steep I am glad to say. Let me explain:

Total expenses include goodwill impairment charges of 3.1 billion for our Irish activities and our real-estate agency chain in Norway, and a commission of 625 million for the guarantee provided by the Danish state as part of the bank package established in October. If we deduct these amounts from total expenses, we get 25 billion – the same as in 2007 and in fact better than forecast.

We have been able to keep costs stable in spite of wage and price inflation partly because we have achieved synergies at our operations in Ireland, Northern Ireland and Finland and partly because we have focused even more on cost control.

In the coming year, we will continue to focus on tight cost control. In 2008, we completed the migration of the banks we had acquired, but we also saw a general fall in business activity. This means that we will have to adjust our workforce to the new situation: We intend to reduce the number of staff at our head office by around 350. The 350 jobs equal less than two per cent of the number of employees.

Rising earnings power of banking business

Although our results are strongly affected by the financial crisis and the economic slowdown, there are indeed positive elements that I would like to point.

The first is the earnings power of our banking business. If we look at the profit before impairment charges for loans and goodwill and the commission for the Danish state guarantee, the results of our banking activities have improved steadily since 2005 from 11.8 billion in 2005 to 16.3 billion in 2008.

This robust source of income is invaluable, especially at times like these.

And why is that? Well, we only have two ways of making up for the substantial impairment charges: either by generating more income or by digging into shareholders' equity. If income fails, we only have our equity left. So when we are able to maintain and even improve the profitability of our banking business, we can bolster our capital base.

Improving lending margins

One of the reasons that earnings from banking activities rose again in 2008 was our focus on lending margins. When we have to pay more for liquidity and funding, it is only natural and necessary that we widen our lending margins. Please remember that the Bank's funding comes from the international wholesale markets and deposits rather than from the central bank. And the funding costs in these markets have exploded in the past year. This side of the coin is often forgotten in the public discussion of increasing lending margins in the banking sector

This slide shows that we have been able to improve lending margins in Denmark, and they are likely to widen further in all our markets. Since the mid-nineties, customers have benefited from margins that were unnaturally low owing to abundant liquidity, low funding costs, high gearing and minor losses. Lending margins actually declined by half from mid-nineties to 2008.

This situation has changed dramatically over the past year. There is no doubt that the financial sector will have to redefine itself: financial stability and ability to withstand economic crises have to improve. And better lending margins are a vital tool to establish a sound correlation between shareholders' return and higher capital and liquidity reserves.

Outlook for 2009

There is little doubt that 2009 will be a challenging year for us all. Almost no line of business will be spared.

Since the last time we were here, the outlook for the Danish and other European economies has deteriorated further. In fact, our forecasts show that the markets in which we operate can expect economic contraction. When things will start to turn around is difficult to say - it will depend greatly on the stimulus packages the government will introduce in the coming months and their effect. Content, timing and scope will be crucial.

We must also be prepared to see unemployment grow, in some regions even rather steeply.

Earnings conditions in the financial sector will therefore be difficult in 2009 as well. We expect to see substantial impairment charges, although we do not expect conditions similar to those in the fourth quarter of 2008.

The performance of our market-related activities - in Danske Markets, Danske Capital and Danica Pension - will depend greatly on trends in the financial markets.

Tight cost control and improved interest margins give our banking business a strong foundation for future earnings and will help the Danske Bank Group emerge from the current crisis even stronger.

Q&A session

That brings my part of the presentation to a close, and I will now hand the floor over to you. At the same time, we will conclude our live transmission over the Internet.

Please begin.