

Press conference

# Financial results for the first half of 2010

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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 the first half of 2010. Thank you for your interest in the Bank.

This presentation is also being transmitted from our Web site. As usual, 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 the first half of the year. Afterwards, Tonny will go into greater detail about the accounting figures.

### Financial results for H1 2010: Earnings growth continues

The Danske Bank Group's net profit for the first six months of 2010 was 1.7 billion kroner. That is 1 billion above the level in the first half of 2009 and on level with our net profit for all of 2009. But we must acknowledge that the result is still lower than what one should expect from Danske Bank.

There are several reasons for this. The economies and business activity in our markets are still sluggish. And our accounts for the first half of the year are also burdened by about 2 billion for the Danish Bank Package I.

But things are generally going better for the Danske Bank Group, although we still face challenges.

One of the bright spots in our accounts is that our total loan impairment charges continue to decline from quarter to quarter, and in the current period they were at half the level in the first half of 2009.

Several of our banking units delivered a profit again - particularly because impairment charges in these countries are now back at more normal levels. That is the case in Finland, Sweden, Norway and actually the Baltic countries as well.

Total lending rose both in Denmark and overall in the Group in the latest quarter. In the first half of the year, we had new

lending of 26.7 billion in Denmark. Of this amount, 13.6 billion was to personal customers and 13.1 billion was to business customers.

We are pleased that our expenses fell by more than 2 billion from the level last year. Adjusted for goodwill impairment charges last year, that represents a decline of 5 per cent, and it is the result of our systematic focus on costs.

On the negative side, Ireland and Denmark are still burdened by high impairment charges – at generally the same level as in the first half of 2009.

In Ireland, the property sector continues to bleed red ink. In Denmark, many small and medium-sized businesses are having difficulties even though they are making a great effort. This group accounts for around half of the impairment charges in Denmark.

I would like to speak a little about the economic climate that is affecting our business.

#### **Macroeconomic indicators improve ...**

Economic developments are moving in the right direction if we compare them with what happened during the disastrous year of 2009.

But the economic indicators are still mixed. In the past half-year the macroeconomic trend has shown that we must adjust to a world with large fluctuations and a risk of relapse.

From a global perspective, Asia appears to be continuing its strong growth, and the US economy is on the way out of the crisis with the stimulus of a very aggressive fiscal policy. In Europe, Germany is leading the way, with strong consumer confidence and export growth. A number of other European countries have problems getting their economies to grow and are struggling with high debt and large budget deficits.

In this regard the Nordic economies are doing fairly well. We are seeing real growth again in Danske Bank's Nordic markets. In the Baltic countries, the pressure is easing slightly after a historically hard crisis, and Estonia shows prospects of economic growth. The Irish economy is improving slowly but is still under pressure after the meltdown of the past few years.

Altogether we must expect a somewhat long period of modest economic growth, and that is what we are preparing for at Danske Bank.

#### **Danske Bank did well on EU stress test..**

The greatest unrest in the financial markets in the first half of the year was the crisis in Greece. In the wake of the Greek debt crisis, Danske Bank took part in the EU stress test along with 90 other European banks.

The Bank did well on the test, ending in the top quartile, in line with the other Danish and Nordic banks.

Even in the test's worst scenario, Danske Bank's capital is 40 billion above the minimum requirement. This confirms that, even under a seriously exacerbated economic crisis, we will be able to support our customers and lend money for good projects.

At the end of first half of 2010, Danske Bank had high solvency ratio and tier 1 capital ratio of 17.2 per cent and 13.7 per cent, respectively. They are among the highest ratios in Europe.

We believe it is sensible to ensure transparency about the European financial system, and we support the implementation of a public test. We can see already that it has generally fostered greater confidence in European banks.

In any case, Danske Bank already conducts very comprehensive stress tests, whose results we present in our annual report and our annual risk management report.

#### **Revised Basel III proposal is a step in the right direction...**

A logical consequence of the financial crisis is new and tighter regulation of the financial sector.

Danske Bank supports an increase in the capital base requirements for financial services companies. We also support the increase in liquidity requirements and the strengthening of supervisory authorities.

The revised proposals for the Basel III rules that have recently been announced are generally reasonable and have accommodated a number of criticisms of the original proposals.

But there are important areas that have not yet been addressed. The proposal does not meet the requirements we have in Denmark that will enable the mortgage finance system to function. It is particularly problematic if banks' own mortgage bond holdings are not given full value in the banks' liquidity. This will result in fewer buyers of the bonds, and that in turn will result in higher interest rates for Danish homeowners and businesses. Since the volume of mortgage bonds is four times greater than the volume of government bonds, mortgage bonds should remain a central part of liquidity for Danish banks.

Danish mortgage finance has functioned very well for 200 years. It is very liquid and came through the financial crisis without problems. In our opinion, mortgage bonds should have the same qualitative weighting as government bonds.

#### **Danske Bank's payments for Bank Package I**

The financial crisis has been expensive. And in many countries, they are discussing whether banks should pay a special tax to clean up after the crisis. Denmark is a special case because the banks here have already paid a very large bill.

Under Bank Package I, the Danish financial sector is paying many billion for the state guarantee and to cover losses at banks that are taken over by Financial Stability.

At Danske Bank we have paid about 1 billion per quarter to take part in Bank Package I. That amounts to a total of 7.2 billion since 2008. For the state loan under Bank Package II, we pay another 2.5 billion annually.

We still believe that the bank packages represent good political workmanship. But they are expensive. And in comparison with banks in other countries, Danish banks have paid a high price to the state for assistance. Of course that weakness the Danish financial sector in relation to others.

There is therefore no economic justification for introducing an additional special tax over and above the newly increase financial services employer tax already paid by Danish banks – the only banks in the Nordic region to pay such a tax.

An extra tax would weaken Danish banks' international competitiveness and hurt their ability to service personal and business customers with competitive prices and products.

#### **Stronger customer focus and a more efficient bank**

The outlook for weak macroeconomic growth and more difficult business conditions places large demands on banking operations.

At Danske Bank we have set two overall objectives: We will strengthen our customer service further, and we will be an even more efficient bank.

We have large ambitions.

We want to be the Nordic bank where personal customers get the easiest, quickest and most appropriate solution at a competitive price.

We want to be the bank where small businesses have quick access to specialists' knowledge by telephone when they need it and can easily manage their finances with our online systems.

We want to be the most sophisticated Nordic bank for medium-sized business customers and private banking customers. That is, a bank where customers with complex personal or business finances can get advice, products and systems that cover all of their needs.

And we want to be one of the leading banks in the Nordic region in our services for corporate customers, in asset management, and in our capital markets activities.

We believe we have a good foundation for reaching these goals.

We have talented employees, and we have substantial capacity for IT development that we have used for many years to integrate the systems of banks we have acquired into our own. This project is finished, and we are now using our IT muscles to develop new ways for Danske Bank to meet its customers. In IT jargon, we are going from focusing on our platform to focusing on our customer interface.

We are investing in the development of online banking and services and the development of new technological platforms. Today customers expect that they can find the Bank wherever, whenever and however it suits them – online, by telephone or physically.

The objectives of these investments are improved service, higher customer satisfaction, simpler work processes and lower operating costs. The improvements make it possible to maintain low prices and continue to invest in new development.

Two specific examples of our work are the implementation of the digital signature in eBanking and the introduction of a new advisory service for smaller enterprises.

#### **Customers like the digital signature ...**

The digital signature makes it possible for customers to get an overdraft facility, for example, much more easily and quickly than before.

Today customers can call our contact centre, get approval for a credit, get access to the documents in the eBanking system, sign them online, and have the money available immediately. Previously it would have taken several days and required visits to the branch office and post office. Today it can be done on the same day by phone and eBanking.

If you look at the average processing time, customers save several days in comparison with the previous practice. We avoid having to process papers manually, send them and archive them, and we can use our resources on customer service instead of paperwork.

We introduced the digital signature in Denmark in May 2009. Customers took to it quickly and appreciate the new option. As far as I know, we are the only bank in Denmark that offers digital agreements on a variety of documents.

#### **Business Direct – a new advisory programme ...**

Another new initiative that we are in the process of introducing in Denmark is Business Direct. This is a programme in which small business customers are served over the phone by specialists at four advisory service centres that are open most days from 7.30am to 6.00pm and one day until 9.00pm.

These customers are typically self-employed individuals – hairdressers, independent contractors, shopkeepers, accountants, attorneys and the like – who often need to conduct their banking business outside normal nine-to-four business hours.

The purpose is to give these customers direct access to advice from specialists that they cannot get at every branch and to deliver quicker, more efficient advice at the time of day that fits into the customers' working day. The service has been well received by customers, with 67 per cent of them taking a positive view and only 8 per cent taking a negative view. Business Direct is already available in Norway and Sweden, and it is also being rolled out in Finland.

#### **Customer satisfaction on the rise...**

We expect that these initiatives, as well as others introduced in recent years, will improve customer satisfaction further. Altogether, we are focusing strongly on customer satisfaction and have made it one of the key measurements in performance agreements for our top managers throughout our banking activities.

We are pleased to see, for example, that Danske Bank Denmark's very strong focus on customer satisfaction appears to be making a difference.

The latest satisfaction survey indicated that this intensive effort has had a clear positive effect. In the period from Q4 2009 to Q2 2010, satisfaction among personal customers who have been to meetings at the Bank has risen sharply – by two and a half index points.

We still need to make a great effort at customer satisfaction, but we believe we are heading in the right direction.

And now I will turn the microphone over to Tonny, who will review the accounting figures in greater detail.

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**Tonny Thierry Andersen - CFO**

#### **Income declines 25 per cent, as expected**

Thank you. I will turn back to the accounts and flesh out the dry numbers.

If we begin with income, we see a decline of 25 per cent, or around 8 billion. That sounds high, but it is actually exactly what we had expected.

#### **Trading income on a more normal level ...**

Trading income has now fallen back to its more natural level. Last year, as you know, it was extraordinarily high. This year it

was 5.2 billion, which is not bad when you remember that in May and June the capital markets were very volatile because of the uncertainty in southern Europe.

This year's income includes proceeds of almost 700 million from the merger of PBS and the Norwegian company Nordito.

#### **Net interest income declines because of lower ...**

In addition, net interest income fell about 2.2 billion, or 16 per cent. There were several reasons for this. The two most important were the decline in short-term interest rates in Europe and particularly in Denmark and the costs of raising long-dated funding.

When short interest rates fall, the rates on both loans and deposits fall also. All our customers have noticed that their interest rates have become lower in the past year and a half. Since November 2008, Danske Bank has lowered lending rates a full eight times by a total of up to 3.75 percentage points. We have also done this on some deposits, but it was not possible on others because the rate was lower than the total reduction. This means that our earnings on deposits have fallen sharply, and that hurts net interest income.

The crisis has made it more expensive for all banks to borrow on the international markets. Although Danske Bank's total need for loans has declined, the costs have nevertheless risen. In addition, we pay interest on the 26 billion state loans that we raised in May 2009. Both factors have increased our interest costs.

The longer-dated loans that we chose to raise are a little more expensive than shorter-term funding, but they strengthen the Bank's liquidity over the long term.

#### **Insurance: High premium growth and rising earnings....**

Income from insurance activities at Danica rose 200 million to 756 million. That is a sound result because our investment returns were adversely affected by the unrest on the bond markets and we therefore had to postpone a small part of our normal risk allowance until a later date.

It is also very positive that premiums rose by a full 25 per cent. Our market products in Denmark, Sweden and Norway made the largest contributions to the growth. Total pension premiums now exceed 12 billion for the half-year, and the value of customers' savings amounts to about 250 billion.

Danica is also in the process of a comprehensive digitalisation of its work processes. This means that customers will have the opportunity to get better and faster services at the same time as they will pay less for administrative costs.

#### **Large reduction in expenses more than offsets...**

Let us look at our operating expenses in detail. On earlier occasions we have mentioned that, since spring 2009, we have put a special focus on the Group's cost base. That is also evident in this half-year report, in which expenses have fallen by more than 2 billion, or 14 per cent.

If you exclude goodwill impairment charges from last year, expenses declined 5 per cent. That means that it has been possible for us not only to neutralise salary and price increases but also to reduce costs further. We are very pleased with this, but we are not yet finished. The plan is to continue these cost savings until the end of 2011.

As early as the fourth quarter of this year we will get substantial additional relief in our costs when Bank Package I expires. That will reduce costs by almost 10 per cent in a stroke.

#### **Loan impairment charges: Dominated by business customers ...**

Our loan impairment charges amounted to 7.8 billion, or about half the amount in the first half of 2009. On a quarterly basis, the charges have now fallen for six consecutive quarters.

Small and medium-sized business customers still account for most of the charges, while personal customers account for about 25 per cent. In the first half of the year we also made provisions of about 900 million for distressed banks under the Financial Stability programme, and we are now up at a total of almost 3 billion in provisions for other banks.

#### **Impairment charges are highest in Ireland ...**

Despite the decline in impairment charges, the level of the charges remains high, higher than the average level we can expect, but we are pleased that most of our banking units have reduced them to something close to normal. That is true not only for the other Nordic countries - Norway, Sweden and Finland - but also to some degree for Northern Ireland and the Baltics.

The rest of the Nordic region appears to be emerging from the economic crisis in sound condition, and the Baltics seem to be over the worst stage. In that region we made substantial collective impairment charges that can cover losses if the situation becomes worse.

Things are thus going well enough at five of our seven main banking units. That leaves, as I mentioned, Denmark and Ireland, where there are still high loan impairment charges, at about the same level as in the first half of 2009.

In Ireland more than 80 per cent of the charges relate to the commercial property market, which is the source of most of the problems for all the Irish banks. When we compare ourselves with the large Irish banks, we can see that we stand at about the same level. So the losses are not peculiar to us but are a problem for the sector.

The entire Irish banking sector is undergoing reconstruction by transferring bad loans to the state-owned "bad bank", and many banks are being recapitalised. We have chosen to change the focus of National Irish Bank so that it is well prepared to service selected customer segments in the coming years. This includes closing 25 branches and introducing cash-free branches throughout Ireland.

In Denmark, several sectors have been hurt during the crisis, and the first half of the year was especially difficult for the agricultural, commercial property and co-operative housing sectors as well as for small businesses.

We believe that a number of macroeconomic trends are pointing in the right direction – such as economic growth, rising exports, rising house prices and slowly falling unemployment – and that soon one can begin to be a little optimistic again. We can see, in any case, that credit quality is improving gradually. But it rests on a fragile foundation, so it is uncertain how quickly this will take place.

Finally, it is also worth mentioning that at Danske Markets we have reversed some impairment charges, particularly because of an increase in the value of collateral on the US housing market and thus a reduced risk of losses.

Since impairment charges are still high, there is a substantial opportunity for an increase in the Group's bottom line as the charges decline.

#### **Results for our primary markets show a profit...**

If you look at the breakdown of our half-year result by banking unit, you can see that only the banks in Ireland and Northern Ireland posted losses, while the rest had gains. The result in Denmark is adjusted for expenses for Bank Package I. Of these five countries, the results in Norway and Sweden were satisfactory, while there is still room for improvement in the others.

In comparison with the results in 2009, when only three countries delivered a profit, we are very pleased with the current trend.

#### **Lending is increasing again, mainly in the Nordic region ...**

After lending declined in 2009 as a result of economic contraction, we saw a small rise again in the second quarter. That is the result of both an increase in business activity and rising exchange rates.

Deposits have been rising in the past year, apart from a deliberate reduction of term deposits from business customers. Deliberate, because the Group has raised a significant amount from another funding sources that has eased the need for such deposits, which are extremely interest-rate sensitive.

#### **Liquidity has improved further in 2010...**

Danske Bank has never had a stronger liquidity than it does right now. We distinguish between short-term liquidity on the one hand and medium- to long-term liquidity on the other.

We have completed all our long-term funding for the whole of 2010, and we have raised all of these loans without an individual state guarantee. If you look at the CDS spreads, you will see that Danske Bank can borrow at prices that are among the absolute lowest in the EU.

Our funding need for 2011 is very modest, and the Bank can draw upon its unutilised covered bond capacity for this.

We have also strengthened our short-term liquidity this year. In fact, even if we did not have access to the capital markets, we could maintain positive liquidity for 36 months.

#### **Capital and solvency ratios are markedly improved**

Finally, a few words on our capital. The Group's solvency ratios were at a historically high level throughout the first half

of the year, with total solvency at 17.2 per cent and the tier 1 ratio at 13.7 per cent.

This shows that the Group is in good shape to withstand a serious economic recession, although that is not the scenario we expect.

This very robust capital position also means that in a difficult economic situation we can support our customers' lending needs and thus also support economic growth generally.

#### **Outlook: Moderate economic growth**

On the basis of the continuation of moderate economic growth in most of Europe, we are cautiously optimistic about the remainder of 2010. We expect that the positive trend apparent in the results for the first half of the year will continue and become stronger. But we must stress that this is a fragile trend that makes for much uncertainty in our outlook. The abandonment of public stimulus measures and expansive monetary policy come at a price: potentially lower economic growth.

One thing is rather certain, however. The Danish state guarantee and thus Bank Package I expire at the end of September. We have had expenses of about 1 billion per quarter that we no longer need to pay after October 1, and that will have a very positive effect on our results after that date.

We expect that the earnings from our banking activities will continue to grow, partly because of our robust and stable income.

On the other hand, we still expect that income from both Danske Markets and Danica will be lower in 2010, although we cannot conclude that they will have poor results.

Besides the declining expenses for Bank Package I, we will continue to focus on costs, which will be lower in 2010 than in 2009, just as we will continue to focus on customer service.

Loan impairment charges fell in the first half of the year, and we expect that this will also be the case for full-year 2010, but altogether they will be high again this year.

#### **Q&A session**

We have presented the Danske Bank Group's financial results for the first half of 2010 and commentary on a number of related topics.

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.