

# Press conference

Annual Report 2010

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## CORPORATE PARTICIPANTS

Peter Straarup  
CEO

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## SPEECH

Peter Straarup - CEO

### Press conference

Welcome to our presentation of Danske Bank's financial results for 2010, and thank you for your interest in the Bank.

This presentation is also being transmitted from our website. As usual, we will end the webcast when we come to the question and answer session.

### Disclaimer

In the wake of the financial crisis, 2010 was a mixed year for Europe. Some countries had a difficult ride. Others actually produced sound economic growth rates very quickly.

The Nordic countries, for example, already appear to be over the crisis in most areas. Economic developments in Sweden and Norway were surprisingly good. Finland is back on track after a sharp downturn, and Denmark is also recovering, although it lags the rest of the Nordic region. Unfortunately, in the beginning of 2011, several European countries have serious economic problems, Ireland for instance.

### Net profit doubles; repayment of hybrid capital and right issue

Danske Bank's financial results for 2010 reflect the after-effects of the crisis, and from the current situation, it appears that the conditions for the banking business will remain challenging.

We achieved a net profit of 3.7 billion kroner, against 1.7 billion kroner in 2009. The improvement is certainly positive, but I must also stress that it is not a satisfactory level of earnings for Danske Bank.

Upon our earnings announcement, there are also several events and milestones that we can be pleased with:

- In October 2010, the Danish Bank Package I expired. This will save the Bank more than 1 billion kroner per quarter, partly because we will no longer pay for losses at other banks. I can inform you that our participation in Bank Package I, in the two years of its existence, has cost

Danske Bank 8.3 billion kroner. That's a lot of money, and partly because of that, we are actually rather proud that we have delivered a profit every year during the crisis.

- In 2010, we also provided billions in new loans to Danish personal and corporate customers.
- We have invested heavily in continuing development in IT and other areas. The launch of our new mobile banking services for smartphones was a large, prominent success but far from the only one.

In short, we have continued to develop our business for some time.

We hope that the Bank's situation will continue to return to normal in 2011. We have sought the approval of the Danish government to prepay 24 billion kroner of our hybrid capital in 2012.

To finance part of the repayment, we are planning a rights issue for about 20 billion kroner in the first half of 2011. This will also strengthen our core tier 1 capital ratio by more than 2 percentage points.

We are ready to say thank you for the loan and repay the state. We look forward to returning to the normal situation without state capital.

The Bank will not pay a dividend to its shareholders for 2010. For one thing, the prohibition against dividends in Bank Package I applies to three-quarters of 2010. Also, it would be somewhat of a contradiction to pay a dividend at the same time that the Bank initiates a capital increase. The Board of Directors has set a target payout ratio of up to one third of the net profit.

Fortunately, the outlook for our earnings for 2011 is better than our 2010 results, and we expect to come a step closer to Danske Bank's normal earnings level.

But let us begin by looking more closely at the accounts, which of course is the main reason we are gathered here today.

#### **Result for 2010 of 3,7bn after declining income as expected**

As I mentioned, our net profit was 3.7 billion kroner. Our results show the effects of the financial crisis. There was a

sharp drop in trading income. That is, to put it bluntly, because the volatile market conditions in 2009 offered extraordinarily good conditions for earning money. The improvement in our results thus did not come from rising income but rather from a reduction of loan impairment charges of about 50% and a reduction of expenses of almost 10%.

Let us look at some of the details.

#### **Net trading income back at more normal level; uncertain markets at end of year**

Trading income is back to a more normal level, which is around 6 to 8 billion kroner a year.

The income includes a one-off gain of almost 650 million from the merger of PBS and the Norwegian firm Nordito, which today is known as Nets.

In the fourth quarter the capital markets were somewhat volatile and unpredictable. This caused difficult earnings conditions at Danske Markets and a slightly lower result than otherwise would have been the case.

#### **Net interest income declines because of lower interest rates and rising funding costs**

The other key reason for the lower income was that net interest income declined 13%. This was because the short-term rates in Europe and particularly in Denmark fell. Also, our raising of long-dated funding entailed increased costs. Funding costs for the year included payments of 2.5 billion kroner for the hybrid capital from the Danish state. Long-term funding gives greater security of liquidity, but it costs more.

During most of 2010, the lower short rates put downward pressure on deposit margins, and it was not until the fourth quarter that we saw a turnaround, first of all in Sweden. Economists are now saying that, because of inflation fears, a rise in European rates and therefore also in Danish rates may come a little more quickly than had been expected earlier. But we think that is still something we must wait a little while to find out about.

#### **Insurance: Strong premium growth; results remain sound**

The Group's insurance company delivered good earnings of 2.1 billion kroner. That was a decline from the level in 2009, but still a very sound result.

Sales of pension products showed a good trend, with premiums rising 18% to more than 24 billion kroner. Sales of market products grew the most. For the first time, total premiums for market products in Denmark exceeded premiums for conventional products with an interest guarantee. In Sweden and Norway, premium income from market products more than doubled.

The rise in premium income also fed through to earnings. Earnings from market products more than doubled to 327 million kroner.

Customers' investment return from Danica Traditional was 5.8%, while the returns from Danica Link and Danica Balance averaged 13%, which was good considering the rise in interest rates in the latter months of the year.

Although the market products are growing, the conventional products, with linked guarantees, are still the most important part of customers' savings. Danica has no plans to change or remove the guarantees that we have given to our customers.

#### **Large decline in expenses that more than offsets wage and price inflation**

Let us look at operating expenses in detail. Since the spring of 2009 we have paid extra attention to the Group's costs. In 2010, we reduced expenses by 10% to 26 billion kroner.

Adjusted for goodwill impairment charges the year before and payments for Bank Package I, our underlying expenses declined 3%. This means that it was possible not only to neutralise wage and price increases but also to reduce our costs further. We are quite pleased with that.

The decline in expenses will continue in 2011, but in some areas there will be a need to invest in new initiatives. The discontinuation of payments for Bank Package I is an important element in the declining costs in 2011.

#### **Loan impairment charges: Dominated by business customers, while personal customers manage better**

Loan impairment charges for the year came to 13.8 billion kroner. That is a terribly large amount of money, but even so, it was a reduction of the amount in 2009 by almost half.

Small and medium-sized enterprises still account for the majority of the impairment charges, while personal customers represent about 25 per cent. Included in these

charges are 1.4 billion kroner that we provided for distressed banks under the Financial Stability programme in the first three quarters of the year. In the past two years, we have paid a total of 3.3 billion to cover losses at other Danish banks.

#### **Impairment charges highest in Ireland, but fall steadily every quarter**

There were great variations in loan impairment charges by geographical region.

In Sweden, Norway and Finland, the level was down to normal or even below normal. There was a sharp decline in Denmark and the Baltics during the year, but there are still losses on a significant number of business customers in Denmark.

Northern Ireland is undergoing a marked downturn because of the British government's planned cutbacks in the public budget. This has caused falling commercial property prices and therefore increased impairment charges for Northern Bank.

Finally, there is Ireland. As most people know, the country is in a serious economic crisis. It is positive that, now with help from the EU and the IMF, steps are being taken to solve both the economic problems and the crisis in the Irish banking sector. But the crisis of course led to a need for substantial impairment charges at National Irish Bank just as at the other Irish banks in 2010, particularly for loans to the commercial property segment. One small bright spot for us is that some customers have transferred rather large deposits to National Irish Bank during the crisis.

#### **Results in our main markets show a profit at five out of seven units**

The breakdown of the pre-tax results at our Banking Activities shows that five units had a profit. The results in Sweden and Norway were satisfactory. Denmark is on the right track, while Finland's profit suffered somewhat from low interest rates. The profit in the Baltics was modest, but fortunately the trend in losses was very positive.

Large loan impairment charges led to losses in Ireland and Northern Ireland.

#### **Lending stable, while deposits continue positive trend**

The trend in lending stabilised in 2010, and total lending rose a modest 1 per cent.

At the group level, lending to personal customers rose 3 per cent, while corporate lending fell 2 per cent. This shows that businesses are still reluctant to borrow and that larger companies use other financing sources than bank loans to an increasing degree.

There were large variations geographically.

In Ireland and the Baltics, lending declined about 10 per cent. There were increases of the same size in Norway and Sweden.

In Denmark, we provided 28 billion kroner in new loans to personal customers and 26 billion kroner to corporate customers. With principal payments and redemptions of existing loans, total lending declined 1 per cent.

Deposits were stable during the year. Throughout the year Danske Bank's liquidity was strong, and this meant that Danske Markets' appetite for expensive term deposits was low. So these deposits declined by about 50 billion kroner.

On the other hand, the most stable deposits at Banking Activities units rose 48 billion kroner.

There was much attention on liquidity and deposits around the expiry of Bank Package I on 1 October, but it turned out that there was only a modest redistribution of deposits. It was especially pleasing that at our banks with large deposit deficits – such as those in Sweden, Norway, Northern Ireland and Ireland – there was substantial deposit growth of 15 to 30 per cent. We thus reduced the deposit deficit at Banking Activities during the year.

#### **New era for the Danske Bank Group**

In recent years, Danske Bank has pursued a forward-looking strategy focused on everyday life after the financial crisis.

We have reduced our expenses, launched new products and made our processes more efficient. Our IT platform is a valuable asset in our efforts. Today we are looking forward to a new era for the Danske Bank Group in which we can focus on being

- the bank that gives personal customers the easiest, quickest and best-qualified solutions in the Nordic region at a competitive price

- the bank where small and medium-sized enterprises have quick, direct access to specialists' knowledge by telephone
- the best choice for medium-sized Nordic companies and private banking clients
- we want to be the leading bank in the Nordic region in asset management and capital market services for large corporates.

Large ambitions. But we are well-prepared to achieve them.

Let me review some of the activities related to our long-term aspirations that we have already carried out in 2010.

#### **Denmark's first mobile banking for smartphones**

In 2010, the Danske Bank Group delivered a number of new solutions for customers that put us at the forefront of the efforts to make it quick and easy to do your banking.

In September we were the first bank in Denmark to launch mobile banking for smartphones.

The timing proved to be right on target. So far, across the Group, the application has been downloaded more than 160,000 times. That exceeds our expectations by far.

#### **Danske mobile banking**

With just a few clicks on their mobile phones, Danske Bank customers can now see their account balances, transfer funds, see pending payments, find the closest branch or ATM, and convert currency.

The newest feature makes it possible to make giro payments by simply taking a picture of the giro card with the camera in the phone and clicking Pay. In the first month, customers used it to make 10,000 payments.

We are continuing to develop our mobile banking facilities in 2011, and we want to hear good suggestions.

We have just begun an initiative in which users can propose mobile banking features that they would like us to develop.

### **More and more customers choose digital delivery of documents**

Despite the financial crisis, we have spent much energy and money to ensure that the Bank is ready for the future. Our ambition is to make the Bank so efficient that we can always be more effective than our competitors.

The way forward is to give customers competitive service at a reasonable price. So in this period Danske Bank is investing heavily in customer-friendly technology. This year our corporate customers will be able to administer several functions in Business Online themselves.

Personal customers can now apply for and establish loans directly in the eBanking system, and customers can sign agreements with the Bank digitally either online or in a branch office.

In December 2010 alone, customers signed 18,000 agreements digitally in the eBanking system and received much quicker service as a result.

Other new online self-service solutions, such as features for setting up an account, custody account or power of attorney, have been well received by customers. We saw a 20% drop in the number of cashier transactions at branches last year alone. This is a trend that will continue.

### **No cases lost at Danish Complaints Board in 2010**

I am pleased to be able to tell you that in 2010 Danske Bank's percentage of the financial sector cases at the Danish Complaints Board of Banking Services fell to 10 per cent. In 2009, the share was 15 per cent, and in 2008, 17 per cent. That is much lower than our market share.

We did not lose any of the cases that were settled by a judgement by the Complaint Board, and we are actually rather proud of that.

It doesn't mean that we never make mistakes in our work with customers. But it is a sign that we do not make many mistakes and that we make sure to correct them when we discover them.

### **Strong product range achieves recognition**

It is nice not having many complaint cases, and it is just as pleasant that many of the Danske Bank Group's products and services rank at the top of market ratings.

Danske Bank Denmark was once again recognised by the Danish Consumer Council's Think Money magazine as one of the country's least expensive banks over a lifetime. We commemorated this with a "yellow" campaign that received much attention in the autumn in order to make people aware that Danske Bank is a good choice as a financial partner on the basis of price as well as service.

Studies once again named our private banking offering as one of the best in the Nordic region.

For the third year in a row, Danske Invest was named the best unit trust group in Denmark for equities.

Danske Markets was named the best stockbroker in Denmark, among other things.

And I could list many other awards as well.

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

Our ambition is to make Danske Bank one of the most customer-centric banks anywhere and to make customer service one of the areas where we differentiate ourselves from competitors. The quality of the solutions we offer supports these efforts.

The prerequisite for achieving this ambition is that our employees make an extra effort and provide service that exceeds customers' expectations. We have already made much progress, and I therefore thank the staff across the entire Group for making a dedicated effort to improve customer service in 2010.

Danske Bank Denmark has worked very deliberately to strengthen customer service in important areas. We are pleased to see that customer service scores continue to rise quarter by quarter.

### **Capital ratios improve significantly; right issue planned and possibility of prepayment of hybrid capital**

We improved the Group's capital ratios in 2010. Although the total capital ratio declined slightly, the core tier 1 capital ratio (based on shareholder's equity and excluding hybrid capital) rose from 9.5 per cent to 10.1 per cent. The tier 1 capital ratio also rose similarly.

As I mentioned, we are planning a right issue. The proceeds from the rights issue are expected to be about 20 billion

kroner. We expect the issue to take place in the first half of 2011, and it will include pre-emption rights for current shareholders.

The Group's two largest shareholders - AP Møller-Mærsk and Realdania - have expressed their support for the rights issue.

The issue will raise Danske Bank's core tier 1 capital ratio by 2.4 percentage points. If the issue had been made before the 31st of December, the core tier 1 capital ratio would be 12.5 per cent. At that level, Danske Bank would be one of the most solid banks within the EU.

One reason for the right issue is to strengthen our capital base as we repay the 24 billion in hybrid capital from the Danish state. The loan can be repaid in 2014, but Danske Bank has begun negotiations with the state on a prepayment of the loan in 2012.

The issue will ensure that the Bank has a very strong capital base that will fulfil the stricter financial sector requirements expected in the coming Basel III rules.

A stronger capital base will also make Danske Bank better able to develop its banking services further and pursue attractive business opportunities.

#### **Improving macroeconomic situation, but growth is still modest and uncertain**

We expect the economic recovery to continue in 2011, with modest growth in most of our markets. In Denmark, we expect a growth rate of 1.9 per cent.

We also expect interest rates to remain low in the euro zone and Denmark, with the first rate hikes towards the end of the year.

#### **Outlook: Recovery of Danske Bank's earnings capacity to continue in 2011**

We expect that Danske Bank's financial results will reflect the continuing recovery and economic growth. We are somewhat concerned about the debt situation in Europe and its possible consequences for the financial markets generally.

At the same time, we expect a general improvement in the finances of both personal and corporate customers and therefore a further decline in loan impairment charges in

2011. That is despite the outlook for high impairment charges in Ireland throughout the year.

Expenses are also likely to be lower than in 2010, partly because of the end of the Bank Package I fees. We will continue our focus on cost control.

We expect that our banking activities will produce robust income, while Danske Markets' and Danske Capitals' results will depend on the trend in the capital markets.

Danica's results in the past two years have been very high, partly because we were able to book the shadow account. We therefore expect a lower result in 2011.

Altogether, we expect that the Bank's solid foundation will support a gradual increase in earnings in 2011.

#### **Q&A**

That concludes my presentation of the Danske Bank Group's financial results for 2010 and related topics.

Now to direct dialogue. It is your turn to direct the discussion with your questions.

We will now end our webcast.

Please use the microphones beside your seats.