

Press conference

Interim Report – First half 2011

9 August 2011



CORPORATE PARTICIPANTS

Peter Straarup
CEO

Henrik Ramlau-Hansen
CFO

SPEECH

Peter Straarup - *CEO*

Press conference: Interim Report – First Half 2011

Welcome to our presentation of Danske Bank's financial results for the first half of 2011, and thank you for coming.

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.

We are dividing the presentation up into two parts today. First, I will review some of the main trends and important events of the first half of the year, then Henrik Ramlau will go into greater detail about the results.

H1 2011 net profit up 12%

In the first half of 2011, the Danske Bank Group posted a net profit of 1.9 billion kroner, an increase of 12 per cent over the level in the first half of 2010.

The results were as expected, and the improvement was satisfactory. But the profit level is still somewhat below the Group's earnings capacity.

There are several reasons for this. Loan impairment charges are still somewhat higher than normal, and we had expenses of 1.1 billion to cover two banks that were taken over by the Danish Financial Stability Company. Low interest rates also put pressure on our net interest income.

It is worth noting some important positive elements of the accounts. Impairment charges fell more than 25 per cent, and several of our units delivered sound results. That was the case with banking activities in Denmark, Sweden, Norway and the Baltics. Danske Markets and Danske Capital also posted very strong earnings.

As I mentioned, Henrik will discuss the details later.

Danske Bank's capital ratios ...

Since the capital increase in April, Danske Bank has been one of Europe's best-capitalised banks. At the end of June 2011, the Group's total capital ratio was 18.8 per cent and its tier 1

capital ratio was 16.6 per cent. That is high, even from an international perspective.

Besides improving the quality of the Group's capital base, the capital increase was also intended to enable us to prepay the 24 billion in hybrid capital that we raised from the Danish state in May 2009. The negotiations on an early repayment are still in progress, so you must be patient a little while longer before hearing the outcome.

Our good capital position was confirmed in the latest EU stress test, in which Danske Bank ranked sixth out of 90 banks in the adverse scenario. Our capital base is thus far above the level required by the authorities.

The test also showed that Danske Bank's exposure to government bonds with bad credit ratings was extremely limited. We have virtually no Greek government bonds, and the Group's exposure to government bonds in the PIIGS countries amounts to only about 2 per cent of the Group's total bond holdings. All of our bonds are booked at fair value.

If you look more closely at the results of the European stress test, you see that the other large Nordic banks, including those in Denmark, also performed well.

This is the second time that the European authorities conducted a stress test of the financial system. This time the participating banks were subject to tighter conditions and more severe scenarios. That is only healthy. At Danske Bank, we support these checkups for the financial sector. They help to foster transparency and confidence at a time when we are still struggling with the after-effects of the financial crisis. And they make clear that the international markets do not need to worry about the large banks in the Nordic region.

Liquidity remains strong...

Another area where Danske Bank is strong is liquidity. And that is despite the unrest in the capital markets in the past few months.

One way of looking at the Bank's liquidity is Moody's liquidity curve, which shows that our 12-month liquidity is very strong, and at the end of June it was a little better than at the beginning of the year.

Since the liquidity curve is calculated under extremely harsh conditions, such as frozen capital markets, the trend this year

confirms that Danske Bank's access to funding is still excellent.

Another angle is to look at funding from the international markets. At the end of June, Danske Bank had raised about 63 billion of its total funding need for 2011 of about 73 billion. Our need for further funding in the second half of the year is thus very modest, although we will probably begin next year's funding in the autumn.

Implementation of Bank Package III...

A solid capital base and strong liquidity are important parameters for a financial enterprise such as Danske Bank during a period with recurring financial unrest. Nevertheless, large Danish banks were downgraded two notches by Moody's in the first half of 2011 because of the Danish Bank Package III.

Bank Package III and the bankruptcies of Amagerbanken and Fjordbank Mors have made Denmark the object of attention of the international financial sector and an occasion for worry. We can see that the price lenders must pay in order to insure themselves against a bankruptcy among Danish banks has increased. This is illustrated by the trend in Danske Bank's CDS spread in comparison with that of two Swedish banks. This trend must be seen in relation to the Bank's good liquidity and high capital ratios

Danske Bank's CDS spread is low from a European perspective

On the other hand, in comparison with other European banks, Danske Bank's CDS spread is reasonable, and we can therefore obtain funding less expensively than many banks in the large European countries.

We can also see that access to the international funding markets has narrowed so that only the largest banks in Denmark can raise funding from this source. For example, in the spring Danske Bank issued senior debt at reasonable interest rates with a maturity of five years.

But regardless of our access to the capital markets, we must acknowledge that funding has become more expensive. And more expensive than it would have been without Bank Package III. That makes borrowing more expensive for both personal and business customers in Denmark.

In comparison with other European countries, Denmark's position is in fact generally strong. It is therefore worrying that uncertainty about some small banks and scepticism abroad about Bank Package III have such adverse consequences for a generally strong financial sector that sound banks are hurt by higher funding costs.

The Danish Guarantee Fund for Depositors and Investors requires that healthy banks must help clean up after credit losses at poorly run banks, of which, unfortunately, we have seen some instances.

The rating agencies and the players in international financial markets view this situation with worry and ask themselves: How large can the losses for lenders and the sound banks become?

Bank Package III is generally reasonable, but the singular Danish approach has had significant consequences.

In a troubling scenario - which we do not expect but cannot completely rule out either - in which several small banks go bankrupt and suffer losses, the sector would be at risk of additional downgrades. That would mean that access to the capital markets would become even more problematic and that it would be necessary to reduce the sector's lending significantly and for the sector to be cautious with new lending. This could cause a negative spiral that I believe should be cautioned against because it would be damaging for the economy and thus for society.

Regulations

This year many new regulations are coming from both the EU and the national authorities. Most of them are sensible. There was an obvious need to tighten requirements for capital and liquidity, for example, after the financial crisis.

What was probably the most important announcement came at the end of July. The EU Commission released its proposal for how Basel III should be formulated in a new Capital Requirements Directive. We think that generally there are many good features in the Commission's proposal.

On the issue of the future of the unique Danish mortgage finance model in particular, we have come a long way. The EU Commission has listened to the Danish arguments and opened up to the possibility that mortgage bonds can be included to a much greater extent than we had feared. I will

take this occasion to thank the Danish politicians and government officials for showing great cooperativeness and persistence on this issue.

We have not reached our objective yet, however. The political negotiations will begin in earnest in the autumn, and it is still necessary to fight for the Danish mortgage finance system before the European Parliament and the Council of Ministers decide upon the last details of the Directive, presumably in 2012.

There are new international rules in other areas as well. For example, the discussion of standard European rules for winding up distressed banks and the definitions of so-called SIFIs - systemically important financial institutions.

It is crucial that there are uniform laws throughout Europe in these areas to ensure equal competitive conditions for banks.

Price adjustments at Realkredit Danmark

To the ordinary bank customer, the new regulations and higher requirements for capital buffers at banks may seem rather remote. What does it mean for me? The unrest in the financial markets during the summer, together with rising interest rates, has already given part of the answer: It has become more expensive to borrow. As a result of increased capital costs and rising interest rates, on 1 August Danske Bank raised lending rates by up to 0.5 of a percentage point for both personal and business customers.

Today Realkredit Danmark announced changes in its pricing structure to take effect at year-end 2011. This is a result of increased capital requirements and funding costs. The adjustments in pricing that we and our competitors are making will ensure that Danish mortgage bonds continue to trade at advantageous prices and thereby that homeowners continue to have access to inexpensive mortgage loans.

For a customer with a mortgage loan of one million kroner, the price adjustment will mean an increase in the total monthly payment of 50 to 110 kroner after tax, depending on the type of loan. On Realkredit Danmark's website, you can calculate the exact change in the payment according to the type of loan in question.

Carsten Nøddebo, Realkredit Danmark's CEO, who is here today, will be available to answer questions later.

Although we probably must get used to slightly higher prices in the future, I wish to stress that Danske Bank has a clear objective to remain competitive on prices.

Financial unrest returns

We have seen a recurrence of financial volatility in the summer. The European debt crisis, together with the drawn-out negotiations on the US debt ceiling, has increased uncertainty.

What we have experienced during the summer is just an aftershock of the financial crisis that has been ravaging the Western world for some time. We had hoped for somewhat stronger economic growth at this stage.

We believe that the road out of the financial crisis and debt crisis contains bumps and that it will take time before we return to normal growth rates. But there are also grounds for some optimism. We are on the way out of the crisis in many of the Group's markets. Activity is rising in large parts of the private sector, and unemployment is falling. But there are still many challenges.

But with our fine ranking in the latest stress test – and our successful capital increase – Danske Bank is well prepared to meet the challenges of the future.

Danske Bank's guiding principles

The Bank needs to increase its earnings. This means that in the coming period we will focus on three important factors:

- We must increase our top line through competitive pricing that reflects the current market conditions and must use our strong capital base to finance good, sound projects for our current and new customers.
- We must use technology and changed behaviour patterns among customers to run a more cost-efficient bank.
- And we must continue to increase satisfaction among our customers by being the bank that offers the best advisory services to both business and personal customers.

And now I will turn the microphone over to Henrik, who will go through the accounting figures in greater detail.

Key figures for Danske Bank, first half of 2011

Thank you. I would also like to say hello to you all. This is the first time I am presenting our results in my new position as chief financial officer.

I will try to guide you through our many accounting figures, draw out the most important elements, and give some background on the trends that we observe.

I will start by going back to the slide with our key figures.

As mentioned, our net profit rose from 1.7 to 1.9 billion kroner.

The increase was the result of a small decline in income, slightly higher expenses and a large drop in loan impairment charges.

Let us first look more closely at income.

Income declines slightly ...

Net interest income is the Group's most important source of income, accounting for about half of the total. In the first half of the year, it declined 5 per cent from the level last year to a historically low level. The main reason was the currently very low interest rates in the euro zone and Denmark.

In addition, the risk premiums in the international markets are rising, there is tough competition on lending, and lending is stagnant.

Fee income is rather stable. Danske Bank has changed its rates only slightly in the past year.

Trading income, on the other hand, rose 6 per cent because of strong activity and favourable market conditions, especially in the first months of the year.

Expenses rise ...

Expenses came to 14 billion. That is a little higher than last year and also higher than we had expected at the beginning of the year.

Last year's expenses included 1.3 billion in charges for the government guarantee we had at that time. Since the guarantee has now expired, we had expected that our expenses would decline. But that didn't happen. One important reason is that Danske Bank made payments

totalling 1.1 billion to the Danish Guarantee Fund because of the takeover of Amagerbanken and Fjordbank Mors by Financial Stability, as Straarup mentioned earlier.

In addition, there were increased expenses for wages, marketing and IT development, among other things, leading to a rise in total expenses of 6 per cent.

Danske Bank has had tight cost control as one of our focus areas for the past three years, with a decline in real operating costs in both 2009 and 2010. A small rise this year should not be seen as a sign that we have changed this strategy. I can promise you that we will focus just as intensely on costs in the future.

Loan impairment charges decline ...

Loan impairment charges declined almost 30 per cent to 5.6 billion. On a quarterly basis, we have now been able to reduce losses every quarter since the end of 2008.

At the large majority of our business units, impairment charges have fallen to the normal level or lower.

Even in Denmark, they have fallen significantly and are now approaching the normal level. But our business customers still face challenges, with a large number of bankruptcies and problems in the agricultural sector. We still have few losses on personal customers, but rising interest rates and an uncertain housing market lead us to monitor the market closely, and we have increased our collective impairment charges.

The trend in Northern Ireland and especially Ireland, unfortunately, is quite the opposite of positive, and we booked a total of 4.1 billion in impairment charges there in the first half of the year. That represents almost three-quarters of total impairment charges.

The Irish economy is still very weak and subject to large problems of high unemployment, large public debt and a serious fiscal austerity programme.

In Northern Ireland, the problems are fewer and smaller, but the property market there has also become stagnant because of uncertainty about the near future.

I will now make a brief survey of the Group's individual business units.

Banking Activities posts a large rise in earnings

First Banking Activities, which is the backbone of Danske Bank. Profit before tax showed a substantial increase of more than 3 billion, from a loss of 2.5 billion to a gain of almost 600 million.

The advance was owing mainly to lower total impairment charges despite the persistence of high charges in Ireland.

All Banking Activities units except Ireland and...

The results for the individual Banking Activities units show that, except for Ireland and Northern Ireland, they all made a profit.

It is particularly pleasing that the Danish unit made a profit of 2.1 billion before tax, against a loss of 1.8 billion last year. That is an improvement of almost 4 billion.

Of the other units, Sweden delivered good earnings and perhaps most satisfying were the Baltic units, which until recently had large losses in relation to their size.

Danske Markets and Group Treasury maintain sound earnings

Danske Markets and Treasury posted a total profit before impairment charges of 3.2 billion, in line with the level last year. After impairment charges, the result was even higher, 3.4 billion, because some charges from earlier periods could be reversed.

Danske Markets benefited from good market conditions and strong customer activity, especially in the first part of the year, while the unrest in Europe gradually dampened the market towards the end of the period. Altogether, the result was better than one could normally expect.

Danske Capital shows solid gain in volume ...

Danske Capital achieved yet another good result, 400 million, which was 33 per cent better than last year.

The unit has generally performed well in recent years. That applies to its earnings, returns and relative performance, and growth of assets under management.

High premium growth at Danica Pension ...

Finally there is Danica Pension, whose earnings fell by a little more than 50 per cent to just over 300 million.

The decline was owing mainly to a poorer investment return because of the trend in the markets and to our postponement of 353 million of the result until we achieve a better return.

Business volume remained high. The premiums for market-based products grew significantly, especially in Denmark and Sweden.

Danica has very high financial strength of 13.8 billion.

Recovery of the European economies continues ...

Finally, let us look ahead.

We expect that the economic recovery will generally continue. In Denmark the growth forecast is slightly lower than it was six months ago, but the economy is moving in the right direction. The other Nordic economies are somewhat stronger, but on the other hand, the outlook for Ireland remains rather gloomy. We can hope that it improves in 2012.

And generally we must concede that overall growth in Europe rests on a rather fragile foundation and will not be very strong.

Outlook for 2011: Focus on increasing income and cost control

Interest rates in Europe have been rising - both money market rates and long yields. In addition, on 1 August we raised our lending rates by up to half a percentage point, and we announced that administration fees for Realkredit Danmark's personal customers will rise in 2012.

All of these factors will support the positive trend in net interest income from the second quarter.

We expect expenses to rise by about 3 per cent because of payments to the Danish Guarantee Fund, with the proviso that additional banks may encounter problems. But as I mentioned, we will continue to focus on cost control.

We still expect that loan impairment charges in 2011 will be lower than in 2010, even though Ireland continues to give us problems.

The trend at Danske Markets and Danica will depend on the capital markets, while we expect the sound earnings at Danske Capital to continue.

Q&A session

That concludes our presentation of the Danske Bank Group's financial results for the first half of 2011 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 and state your name when asking questions.