

Press conference

Annual Report 2011

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Press conference: Annual Report 2011

Welcome to our presentation of Danske Bank's financial results for 2011. Thank you for attending.

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

As usual, we are dividing up the presentation. First, I will review some of the main trends and important events of the year, then Henrik Ramlau will go into greater detail about the results.

Slide 2: Financial results for 2011

In 2011, the Danske Bank Group's net profit was 1.7 billion kroner, or about half of the net profit for 2010.

The result is unsatisfactory and lower than we had expected at the beginning of the year but a little better than we expected in our Q3 report. The fact that our earnings are lower than we had expected when we met here a year ago is related to the change in the economic climate that we saw during the summer.

The financial crisis is lingering on for a long time. Indebtedness is high in many places. And many countries are struggling with debt problems. The requirements placed on banks do not promote economic growth in the short term either. Altogether, a situation that puts pressure on the economic climate and thus on banking customers and the banking sector.

Despite the unsatisfactory bottom line, we are not dissatisfied with all the elements of the Bank's financial report. The general trend in the accounts includes quite robust income, except for income from insurance. Expenses were unchanged, and this was better than expected.

In the fourth quarter, we had to acknowledge a sharp rise in the need for loan impairment charges. The total charges for the year fell slightly from the level last year, but the decline

was smaller than expected. The main reason was the economic downturn. Another reason was that it is still very difficult to operate a bank in Ireland.

Henrik will elaborate on the figures later.

Slide 3: Positive trend in customer satisfaction in most markets

While the financial results reflect the continuing economic crisis, we can be pleased that the Bank strengthened its position in relation to customers during the year. We launched new “best-in-class” solutions in many areas, our iPad app, for example. In business banking, a number of new solutions helped the Bank maintain its position as the leading cash management bank.

In addition, there is a good trend in customer satisfaction. There was improvement at most business units. And there were especially good developments in the categories of customers who do the most business with us.

The chart behind me shows the trend in the number of our large corporate customers that would recommend that others become customers at our Banking Activities units. Especially in Denmark and Sweden, we saw a sharp increase from 2010 to 2011, and customer satisfaction is now well above the market average in these two countries.

The Danske Bank Group has a goal of being the most customer-centric bank in the Nordic region. Customer satisfaction has generally improved since 2009. But we can do better, and we are therefore still somewhat beneath our ambitions.

Slide 4: Macroeconomic trend

Back to the trend in the economy. We must admit that we were cautiously optimistic when the year began. At that time, it appeared that the economic recovery would continue and that the world was on the way back on track with low, but positive growth.

Gradually, as the euro crisis developed over the summer, the optimism was deflated and replaced by worries about a prolonged recession. Expectations about the economies in many countries changed from growth to contraction. That type of economic climate always causes problems for the banking sector.

This trend meant very uncertain financial markets and an outlook for increasing losses for the banking sector. Because of the European debt crisis, international investors viewed the entire European banking sector with great scepticism. This resulted in significantly higher costs for the banks' funding.

The Nordic countries, where Danske Bank has 90% of its business, have low national debt and relatively strong public finances. The Nordic banks are among the strongest in Europe. So both the Nordic countries' and Nordic banks' foundations for managing the crisis are relatively good. But when we get a broad setback as we experienced in 2011, it hurts everyone. And it may take time before we get the recovery we need.

At Danske Bank we expect a long period of fiscal tightening, low growth and volatile markets. We have therefore sharpened our focus on how the Group can strengthen its earnings by raising income and reducing costs.

Slide 5: We continue to reduce costs

Let us first look at costs. In our third-quarter report, we announced a three-year cost-saving programme that will reduce expenses by about 2 billion kroner in the period 2012 to 2014. That means that within three years Danske Bank will have about 2,000 fewer employees. We expect that a significant number of this reduction will occur by voluntary departures.

In the period 2007 to 2011, Danske Bank actually had a smaller increase in expenses than the banks we normally compare ourselves with.

In the coming year, the Bank will emphasise efficiency, simplification and thus cost savings.

Fortunately, we can see that customers are quickly adopting the new possibilities. An increasing number uses online banking. Mobile banking continues to grow strongly one and a half years after its launch. And the latest initiative, our iPad app, is off to a good start. We make it simple and quick for customers to do their banking. At the same time that we reduce costs.

Slide 6: Focus on raising earnings and value-creating customer relationships

In the summer of 2011, Danske Bank began to expand the interest margin, and that helped to increase net interest income in the second half of 2011. Other things begin equal, the overall effect will be a rise in net interest income of about 2.5 billion kroner over the level in 2011.

Much of this increase will be offset by falling central bank rates. Danmarks Nationalbank's deposit rate is historically low, and that puts pressure on our deposit margins. We expect that net interest income will rise in 2012, however.

Behind me, you can see a chart from Deutsche Bank showing European banks' net interest margins. It shows that the Nordic banks' margins are low in comparison with those in the rest of Europe. Danske Bank's is one of the lowest. From a European perspective, Nordic banks' pricing is low. A number of large banks in the UK, Spain and France have net interest margins of about 4 per cent, while Danske Bank's is about 1.5 per cent. So, to speak plainly: Fortunately, we have something to work with.

At the same time, we will continue to make an effort to develop and expand our business with good customers. We will also go deliberately after strong new customers. We will continue to be competitive, and we will place importance on developing customer relationships that create value for both the customer and the Bank.

Slide 7: EBA's capital test from December 2011

One of the most important events for Danske Bank in 2011 was that in April we carried out a fully subscribed share issue with net proceeds of almost 20 billion kroner. The Group thus strengthened its capital base significantly. In December 2011, a capital test conducted by the European Banking Authority ranked Danske Bank at the top of European banks.

One of the purposes of the share offering was to make it possible to repay as early as in 2012 the hybrid capital we raised from the Danish state in 2009. It turned out that the agreement we were able to reach with the state would have made it much more expensive for the Bank to repay the loan than to keep it. We therefore decided to keep the loan until it can be repaid in 2014 in accordance with the original agreement.

In December 2010, the Basel Committee published its proposal for new regulations for the financial sector - the so-called Basel III proposal. On the basis of the proposal, the EU system is working to define the future liquidity and capital requirements for the financial sector - specific capital requirements for systemically important financial institutions, so-called SIFIs, among other things.

Danske Bank's tier 1 capital and total capital ratios are now 16.0 per cent and 17.9 per cent, respectively. That means that our capital is 72 billion kroner higher than the Danish FSA's capital requirement for the Bank.

Denmark has established a so-called SIFI committee to make recommendations on the requirements that should be placed on Danish SIFIs. As the largest bank in Denmark, Danske Bank will undoubtedly be a Danish SIFI. We support the definition of specific requirements for capital strength in SIFIs. It is vital that capital requirements are the same across Europe, however, and that the political system takes due account of economic developments when the timetable for phasing in capital requirements is to be decided.

There is a risk in going ahead of the rest of Europe in the regulation of the banking sector, as we saw with Bank Package 3. Denmark should certainly avoid this. We therefore urge that the authorities generally await the proposal from the EU.

Slide 8: Half of the funding for 2012 has already been completed

Like the capital base, Danske Bank's funding position is also strong. It became more expensive to raise funding in the international markets in 2011, and parts of the funding markets simply froze during the year.

In spite of considerable turbulence and difficult conditions, Danske Bank was able to carry out its planned issuance of covered bonds. The Bank has now already completed about half of its funding for 2012. That is actually much more than we usually have covered at this time of year.

Currently, some improvement has occurred. We have seen Nordic banks successfully test the market for senior debt. When we consider that the market conditions are favourable, Danske Bank will also take the opportunity to issue senior debt.

For commercial reasons, Danske Bank, like many other Nordic and European banks, has taken advantage of the chance to raise liquidity with a three-year maturity at a very low interest rate from the ECB.

Danske Bank has not taken the opportunity to obtain liquidity from the Danish central bank with collateral from our lending. We believe it is a reasonable programme that can help to support credit-granting in general. As I mentioned, we are ahead in our planned funding, and do not plan to use the central bank's facility. But from a commercial perspective, we will consider on an ongoing basis which funding sources we will use.

Now Henrik Ramlau will go into the accounting figures in greater detail.

Slide 9: Key figures for Danske Bank in 2011

Thank you.

I will once again try to guide you through the many accounting figures, draw out the essential elements, and give a little background on what we can read from the figures.

I will start by returning to the slide with the key figures.

As mentioned, the net profit declined by half from 3.7 to 1.7 billion kroner. This represents a return on equity of under 2 per cent, and it goes without saying that this is far below what Danske Bank can and must deliver under normal conditions.

Let us first look a little more closely at income.

Slide 10: Income declined 6 per cent

Net interest income is the Group's most important income source, representing more than half of income. I will turn to this item in a moment.

First, a little on the other entries.

Fees fell slightly, primarily because of slightly lower activity and because we pay a fee for the state guarantee on some of our issued bonds. The bonds will be repaid later in 2012, and the expense will end.

Net trading income also shows a slight decrease, and we think that is actually a very reasonable result considering that

in the summer and autumn we saw extremely turbulent capital markets and great uncertainty.

Insurance income from Danica showed the greatest decline. That was partly because in 2010 we booked more than half a billion kroner that we had postponed from previous years and partly because our investments suffered from the poor markets.

Slide 11: Net interest income rose during the year

I will now return to net interest income, which was generally unchanged from the level the year before.

When we look at the quarterly trend, the picture is somewhat different. It is clear that net interest income rose substantially over the year, with the fourth quarter level 11 per cent above that of the first quarter.

The increase could have been even greater if interest rates had not generally declined in the second half of the year and put heavy pressure on our deposit margins.

As Peter mentioned, the main reason for the increase was that we raised lending rates several times both in and outside Denmark.

We therefore expect that net interest income will continue to rise, although not as sharply as in 2011.

Slide 12: Expenses held in check, but cost/income ratio up

Total costs ended almost the same as in 2010, at 26 billion kroner. That is a little better than expected, even though it includes restructuring costs, particularly in Denmark and Northern Ireland.

On the other hand, the cost/income ratio, which expresses expenses as a percentage of income, rose and ended at 60 per cent.

That is too high for a universal bank such as Danske Bank, and it underscores the need for both higher income and cost reductions. It is worth noting that low interest rates put pressure on our income, and a return to normal interest rates will have a positive effect on the cost/income ratio.

Slide 13: Loan impairment charges decline, but less than expected

Loan impairment charges amounted to 13.2 billion kroner, or a small decline of 5 per cent from the 2010 level.

Unfortunately, the trend towards more normal impairment charges that we saw in the first half of the year reversed in the second half.

Even though we had a large drop in charges in Denmark for the full year, from 7.6 billion to 4.3 billion, the charges still rose in the second half of the year. We saw the same trend, albeit to a much smaller extent, in the other Nordic countries.

In Denmark, it was still commercial property, agriculture and consumer-related businesses that had the most difficulty. But there was also a rise in charges for personal customers, partly because of a weak housing market, with falling prices and long selling periods.

The trend in Ireland shows that the crisis is not yet over. Impairment charges rose from 5 billion in 2010 to 6.3 billion in 2011. The Irish economy remains very weak and has large problems with high unemployment, heavy public debt and a severe government austerity programme.

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

Slide 14: Improved earnings at Banking Activities units

I will now give a brief review of the Group's individual business areas.

Banking Activities is the centre of Danske Bank's business. Its profit before loan impairment charges grew 8 per cent in 2011. The improvement came mainly from lower expenses because last year we did not contribute to the state guarantee to which all Danish banks contributed until 1 October 2010.

The pre-tax result also rose, but it was still a loss of about half a billion kroner because of the persistently high impairment charges.

Slide 15: All Banking Activities units showed a profit except Ireland and Northern Ireland

Impairment charges fell at Retail Bank Denmark in 2011. In the second half of the year, there was a positive trend in net interest income because of an increase lending margins. Despite the sluggish economy, there is a positive trend at Banking Activities Denmark.

Banking Activities Sweden's results were satisfactory, and our Sweden customers took a favourable view when we gathered our banking activities under the name Danske Bank Sweden.

In the CIB segment, despite a few problematic cases, we saw a healthy trend and good activity with large Nordic customers.

In Norway, Fokus Bank increased its volume of both deposits and lending. Its earnings declined because of falling net interest income and higher impairment charges.

Earnings at Banking Activities Finland were still under pressure from lower interest rates. Credit quality remained good, with relatively lower impairment charges.

In Ireland, market conditions remained very bad, with high impairment charges. One bright spot in the midst of the large impairment charges was that CIB Ireland is doing well, especially in the export-oriented segment.

In Northern Ireland, the problems were much smaller, but the market is still suffering from a difficult economic situation.

Slide 16: Danske Markets and Group Treasury achieved their expected earnings

Danske Markets and Group Treasury achieved the results we had expected at the beginning of the year, a total of 4.1 billion before tax. We must say that it was quite satisfactory considering the difficult markets in the second half of the year.

As the debt crisis in the eurozone grew during the summer and autumn, the bond markets in particular were subject to very great uncertainty and very unpredictable changes.

Danske Markets' servicing of customers was unchanged despite the difficult markets, and we believe that customers appreciated this.

Danske Markets maintained its leading position in Denmark in both the equity and bond markets.

The difficult markets in the second half of the year also affected Treasury, as its results show.

Slide 17: Continued growth in earnings at Danske Capital

The growth that Danske Capital has seen in recent years continued in 2011, as its earnings rose 11 per cent to 910 million.

Business volume - measured as assets under management - rose a more modest 1 per cent, but that was because of the falling equity markets. Net sales amounted to 15 billion in 2011.

Altogether, Danske Capital has delivered a strong performance in recent years. That applies to its results, customers' returns and growth in assets under management.

In the unit trust segment, Danske Capital's market share in the Nordic region was about 12 per cent, while its share of net sales was 40 per cent in 2011. That shows good momentum and a rising market share.

Slide 18: High premium growth at Danica Pension

Finally, there is Danica Pension, which posted a healthy increase in activity. Premiums rose 13 per cent to 27.3 billion kroner. Danica thereby maintained its leading position in long-term pension savings.

The result could not measure up to that increase, however, falling from 2.1 billion to just below 600 million.

The reasons for the decline were that the 2010 result was extraordinarily good, as we booked a postponed risk allowance from 2008, and that we had to postpone the risk allowance in 2011 since the investment return was poor because of the market trend, with falling equity prices and increasing credit spreads. Danica postponed a total of 1.2 billion until it achieves a better return.

Slide 19: Low economic growth in Europe in 2012

I will conclude by looking ahead a little.

The economic outlook for Europe is not very bright. On the menu is low growth subject to large cutbacks in public

budgets and more unrest in the fixed income markets especially. In the beginning of 2012, there were signs of improvement that we can hope will continue and grow stronger.

The growth outlook is also lower than last year in the countries where Danske Bank operates. There are a few exceptions, however, such as Norway.

Denmark will not be spared, and despite the disbursement of early retirement savings and a small rise in real wages, it appears now that growth will probably be modest, at about 1 per cent.

Slide 20: Outlook for 2012

At this time, we estimate that our net profit for 2012 will stay at a low level. This is of course unsatisfactory, but given the weak macroeconomic outlook, we can live with it.

We expect that the margin increases we have implemented will lead to a rise in net interest income in 2012. This assumes, however, that the central banks do not cut their rates further.

Trading income will depend on the trend in the capital markets, but Danske Markets is prepared for the possibility that volatility like we saw in 2011 could return.

At Danica, we do not expect that it will be possible to book the risk allowance for the year, and that will of course reduce earnings opportunities in 2012.

We expect that the new cost-saving and efficiency programme will begin to show results during the year, and that is one reason we expect that expenses will be unchanged in 2012.

There is also much uncertainty about the amount of loan impairment charges in 2012. It is unclear to what extent the low economic growth in Europe will cause an increase in impairment charges. It is also uncertain whether Ireland will see a recovery. But for now, we expect that total impairment charges will remain high again in 2012.

Danske Bank thus expects that 2012 will be another difficult year with modest earnings. It remains our ambition to raise earnings substantially in the years ahead.

Slide 21: Q&A session

That concludes our presentation of the Danske Bank Group's financial results for 2011 and related topics.

Now it is your turn to direct the discussion with your questions.

We will now end our webcast.

Please use the microphone beside your seat and give your name when you ask questions.