

Press conference  
Financial results for the first half of 2007

August 9, 2007



## CORPORATE PARTICIPANTS

Peter Straarup

CEO

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## SPEECH

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Peter Straarup - CEO

### Press conference

Welcome to a presentation of our financial accounts for the first half of 2007, and thank you again for taking an interest in Danske Bank.

This presentation is being webcast live. We will conclude the transmission when we begin the subsequent Q&A session.

Once again we have chosen to divide up the presentation into two parts. First I will review some of the major developments in our business, and afterwards CFO Tonny Thierry Andersen will go into greater detail about the results in the individual business units.

It was a busy spring at Danske Bank. We carried out a merger of Danske Bank Denmark and BG Bank. We introduced a series of new products in the various countries where we operate. Another important activity was the completion of the acquisition of Sampo Bank. This set in motion the considerable task of integrating our new Finnish and Baltic operations.

So the first half of 2007 was an extraordinarily busy time for Danske Bank Group. We are pleased that most of our efforts have yielded sound results.

First let us look at the Group's general performance in the first half of the year.

### The first half of 2007 in brief

From a financial perspective, it was a good six months.

The financial results of our efforts exceeded our expectations. At 7.6 billion kroner, our profit after tax rose 11 per cent over the level in the first half of 2006.

The comparison is based on pro forma figures including Sampo Bank for 2006.

## Financial accounts, H1 2007

In addition to Sampo, we should make special note of developments at Danske Markets and Danica Pension. These two units performed especially well during the period. That is the main reason our earnings are better than the estimates we announced when we released our Annual Report for 2006.

Danske Markets delivered one of its best results ever for a half-year: 2 billion kroner before tax. This was especially satisfying because this year - in contrast to previous years - it was not the return on our own portfolios that boosted the result. The increase was owing to higher income from our customer-driven activities. Net trading income thus rose from 3.8 billion kroner in the first half of 2006 to 4.2 billion in the first half of 2007.

Danica's result showed a large improvement over the level in the same period last year. Although its return on investment was moderate, 669 million kroner is still a substantial contribution to Danske Bank's earnings.

Our credit loss expenses are on the way back towards a more normal level. After several years of favourable economic conditions, many of our customers have been able to repay old and sometimes written-off debts to us. In the first half of last year, this resulted in a net gain in our credit loss account of almost half a billion kroner, while this year the result was close to zero, actually a small loss of 5 million kroner.

Losses and provisions are simply part of the lending business. The trend is predictable, and it does not worry us.

Regarding our key figures, I will also point out that net interest income rose again despite continuing pressure on interest rate margins. This is because lending volume continues to grow - albeit at a slightly slower pace than it did last year.

Altogether, these developments lead us to raise our earnings estimate for the year as a whole. We now expect to match our record result in 2006, for which the pro forma profit after tax, including Sampo Bank, amounted to 15.4 billion kroner.

As I mentioned, Tonny will go into detail about the individual business areas.

## Net interest income on the rise

But I cannot resist the opportunity to emphasise the growth at our foreign units. As you can see on the map behind me, in Northern Ireland we saw net interest income rise 10 per cent. That is good in a market where we hold a leading position.

A little farther south, in the Republic, net interest income increased 31 per cent. Ireland is an attractive market, but the best part of it is that by introducing new products and favourable prices, we are gaining market shares. Our two banks in the region are technologically strong in comparison with the competition. We therefore think their future looks very promising.

After an enormous investment in the integration of the two banks, we are beginning to see money reach the bottom line, and we landed at around 100 million kroner for the first half of the year. Things are going in the right direction, and they will only get better.

In Norway and Sweden, we have largely concluded the expansion of the branch network and our most important investments. As you may recall, the growth we have seen over the eight to ten years we have had these banks has been impressive.

Here we can also see increasingly clearly the results on the bottom line. In the first two quarters of the year alone, these two countries contributed no less than 1.1 billion kroner to pre-tax profit.

In Finland and the Baltic states, the earnings and growth were also satisfactory, but in those regions we are focused on other matters - the integration of the banks.

## Sampo Bank Group

We have now decided that the Baltic banks will also be converted to Danske Bank's IT platform. We plan to transfer the Finnish unit to the platform at Easter next year and three Baltic banks at Easter of 2009.

We are doing this because we can see that the Baltic banks are growing so quickly that the business and earnings justify the investment required to integrate these relatively small banks. We thus also obtain the advantages of the Group's shared platform in the region.

In Finland we can see already that Sampo Bank is gaining new customers on the strength of Danske Bank's ownership. This is true particularly in corporate banking, where our cash management solutions attract major companies that previously had not considered Sampo Bank a potential partner.

Sampo Bank has now adjusted its organisation so that it mirrors the rest of the Group's. Resources for both daily operations and development can therefore be utilised optimally.

We are now entering a phase in which all the IT projects must be executed and in which 3,500 Finnish colleagues must be trained to work with the Group's systems.

Our Baltic banks are also showing positive developments. Both lending growth and earnings growth are the highest of any business units in the Group.

#### **Danske Bank and BG Bank merged**

We have also been occupied a great deal with the merger of our two banking divisions in Denmark - Danske Bank Denmark and BG Bank.

In the first few weeks after the merger, we saw some customers depart, but they were so few that we can hardly measure them now.

The first part of the process is largely completed. We merged 31 branch offices, and a few additional ones got a new, shared management. Our staff has done a fine job of implementing the merger, and it is impressive to see today how the two banks' staffs have joined forces so smoothly that everyone can pull in the same direction.

There is no doubt that the introduction of new products has eased the transition to a single banking brand. To put it bluntly, customers are wild about the new products - both existing customers and the many new ones we have gained. This promotes pride and enthusiasm among the staff.

Almost 180,000 customers placed nearly 25 billion kroner in the high-interest deposit account we launched in February. Since we launched our new personal banking packages in May, some 100,000 customers have bought into the idea. And we expect that thousands of our Danske Prioritet

customers will say yes to the new, cheaper version of this open-plan mortgage loan we launched in July.

#### **Number of new customers exceeds expectations**

It is a pleasure for me to report that today - despite the merger of Danske Bank Denmark and BG Bank - our Danish banking business is growing.

And there are good reasons for this. In the past couple of years, the Group has introduced a number of attractive offers. And with the initiatives we have taken this year, we are actually even more competitive. We place great importance on being the best choice overall. And we are.

#### **Fee reductions in Denmark**

As I hope you remember, we have undertaken several measures with our fees and charges. In the past 18 months we have improved our prices for customers nine times - and on six occasions this involved a reduction of fees.

This costs us something, of course. My estimate is that customers are saving over a hundred million kroner on commissions and hundreds of millions more on routine personal banking fees.

On top of that, there are lower interest margins on our open-plan mortgage loans as well as other popular lending products, and there are higher deposit rates on child savings accounts, salary accounts and high-interest deposit accounts.

Altogether, we have delivered what we promised when we released the Annual Report for 2006 - a better deal for customers. I do not think I am exaggerating in saying that today we can invite most Danes into the Bank with an offer of banking business that, taken as a whole, is better than what they currently have.

#### **Self-test of fees in Netbank**

Most of our Danske Netbank customers have looked at their individual fee summaries and the savings tips we offer. At last check, 450,000 had visited their personal fee report pages.

Customers have been quite pleased with this initiative – not only that we are open about fees, but also that we are proactive in advising them on how they can save on fees.

We are currently in the middle of a large study of customers' views about our fee site so that we can improve it continually.

We have examples of customers who can use the fee summaries to save more than 1,000 kroner annually on routine personal banking fees simply by using the Bank's channels a little differently. Most customers can save a couple hundred kroner by modifying their habits.

Our advisers are trained to take a proactive role in helping customers when they do visit our branch offices or call our telephone service, and our advisory services include looking at customers' fees to make sure that they are not paying unnecessary amounts.

#### **Many irons in the fire**

A few concluding words about all these initiatives. We have many irons in the fire these days, if I may put it so.

We have made acquisitions in Ireland and Northern Ireland, and now we must prove that we can earn money in those markets.

In November we decided to make a very sizeable investment in Sampo Bank, and it will be a while before it will give a return on par with the rest of the Group.

In our home market we have lowered a number of prices, and we must demonstrate that these various measures can win customers for us.

In other words, when we have so many irons in the fire, we must prove to the world that we can make good on our commitments. We are certain we can, and that is what we are working towards.

And now Tonny Thierry will guide us deeper into the results for the first half of the year.

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**Tonny T. Andersen - CFO**

#### **Financial results for the first half of 2007**

Thank you.

Overall, our accounts show that net profit grew 11 per cent over the result for the first half of 2006, and that is better than expected. We also achieved this growth despite integration costs of more than 1 billion kroner.

Our activity level was high in the period, as evident in lending growth of 12 per cent. The Republic of Ireland and the Baltic states showed the highest growth rates, but Sweden, Norway and corporate lending in Denmark also delivered double-digit growth. Deposits rose even more – 16 per cent – as a direct result of our launch of attractive high-interest accounts in Denmark and Sweden. Altogether, net interest income grew 11 per cent.

Another accounting item that rose substantially was expenses. A growth rate of 13 per cent for this entry could make anyone start hyperventilating. But in 2007 our accounts are heavily affected by one-off costs, and some other costs were related to increased income, for example bonuses at Danske Markets and increased leasing activity at Nordania. When we adjust expenses for these factors, we see that the real underlying cost base grew by 3 per cent. That puts us back in more familiar territory.

This slide also shows to the right that today Danske Bank's earnings are much more diversified than previously. In 2004, our income from activities outside Denmark represented 17 per cent of total income from banking activities. In the first half of 2007, it represented 42 per cent. Although we all want the best for the Danish economy, in periods like this, when we expect the pace to decline somewhat, Danske Bank is an advantageous position of having additional revenue sources to draw upon.

After these introductory remarks, I will now briefly review the performance of each of the individual business areas, beginning with Denmark.

### **Banking activities Denmark**

Danske Bank Denmark posted profit before tax of 3.9 billion kroner, or slightly less than in the first half of 2006. However, profit before credit loss expenses was unchanged.

Income rose because of higher net interest income, which in turn derived mainly from greater demand for corporate loans and rising interest rates. These factors more than compensated for continuing pressure on interest margins and lower activity in the housing market.

Against this background, a 3 per cent rise in income was actually satisfactory.

And with the launch of new products and the merger of Danske Bank Denmark and BG Bank, the division holds its strongest competitive position in the market in a long time.

Our second-largest banking operation is now in Finland, so let us begin there in our review of banking activities outside Denmark.

### **Banking activities Finland**

The financial trend at Sampo Bank of course reflects our recently completed acquisition of the bank and our preparations for its integration with the rest of the Group in March 2008. Sampo's profit before tax was 500 million kroner, which represents a decline of 300 million from the same period last year. But this year we booked integration costs of 359 million, so the underlying trend was healthy growth driven by a 4 per cent rise in income.

The result is actually slightly better than we had expected. And it was achieved without Sampo's having yet received new products or the new IT system. We do not expect that Sampo Bank can begin to accelerate its growth until after Easter 2008, when its new engine, the Danske Bank platform, is installed.

Until then we can still enjoy the benefits of Finland's economic growth, which is expected to exceed the EU average somewhat in both 2007 and 2008. This will lay a solid foundation for future business expansion. But at this juncture, the integration is naturally the focus of attention for our Finnish colleagues.

Let us now turn to two key growth regions in Scandinavia, beginning with Sweden.

### **Banking activities Sweden**

Our Swedish banking business continues to deliver healthy growth. A rise in income of 19 per cent is impressive, especially when expenses increased only 7 per cent. This drove profit before tax up 27 per cent to more than half a billion kroner.

The results for the first half of the year give a good indication of what our Swedish banking operation has been through. After a period of investments in the branch network, the bank is now in the process of filling its new branch offices with new customers, and this means higher income while expense growth has fallen to a more normal level.

And with the introduction of new online products that resulted in 7,000 new customers and more than 2.5 billion kroner in deposits in their first three months, there is a good foundation for profitable growth to continue.

On this slide and the three subsequent ones, you can see - in addition to the key figures - charts showing the sharply positive trend in return on equity in the four countries where we have invested heavily in the past few years.

Now let us turn to our Norwegian unit, Fokus Bank, which also delivered solid results.

### **Banking activities Norway**

Profit before tax at Fokus Bank was 527 million kroner, which represents an increase of 15 per cent. This year we expect to surpass the milestone of 1 billion kroner in profit before credit loss expenses.

Income rose 18 per cent, primarily on the strength of increased loans and deposits and thus higher net interest income, but also from good sales of investment products.

The trends in both Sweden and Norway have pushed their return on equity above 20 per cent, whereas it was less than 15 per cent only a couple of years ago.

Actually we have even larger ambitions than that.

And now to our banks in Northern Ireland and the Republic of Ireland, where the integration process is nearing completion.

#### **Banking activities Northern Ireland**

The result before tax in Northern Ireland was a small loss of 18 million kroner, but the figure does not at all reflect the trend in Northern Bank's business, as we have spend 450 million in integration costs.

Income rose 9 per cent, and lending grew at a double-digit rate. The economic and political situation in the region is better than it has been in a long time, and Northern Ireland is currently the fastest-growing part of the UK.

Expenses also fell, but not quite as much as one might expect. That is because we took the opportunity to accelerate staff severance agreements, and the associated costs were booked during the period.

To put it another way, since our acquisition of Northern Bank, the number of employees has fallen by 24 per cent, lending has grown by some 57 per cent, and income has risen 13 per cent. So we have succeeded in both developing the banking business and meeting our expectations for cost synergies.

After we have absorbed these integration costs, the path will be clear for a sharp advance in earnings in the coming periods.

One of the biggest growth areas of all is the Republic of Ireland.

#### **Banking activities Ireland**

Lending continues to grow at a fast pace at National Irish Bank: 51 per cent compared to first half of 2006.

An obvious reason that NIB was able to maintain such high growth was the introduction of a new mortgage loan, LTV Tracker, which is appealing to customers because of its low margin and is advantageous for the Bank because of its low risk and because it attracts many new customers. But we are posting gains with corporate customers as well, partly because of our strong cash management solutions.

The strong business volume is evident in income growth of 33 per cent, while expenses fell 10 per cent. These factors

turned the result before tax around from a loss of 129 million to a profit of 95 million. And we attained these earnings even though such a marked increase in activity naturally makes greater demands on resources.

Since our acquisition of National Irish Bank, the staff has been reduced by 11 per cent, lending has grown by 158 per cent and total income increased by 41 per cent.

So in this case as well, we have been able to grow the banking business at the same time that we reap cost synergies.

Another growth region is the Baltic states.

#### **Banking activities Baltics**

Profit before tax for the Baltic region as a whole was 100 million kroner. The three Baltic banks thus amount to a relatively small business area, but with growth rates in the neighbourhood of 50 per cent, they present a more interesting prospect over a horizon of only a few years.

The Estonian bank, the largest of the three, delivered earnings growth of almost 50 per cent.

In the first few months of the year, Latvia in particular was the focus of attention because of increasing worries regarding the country's economy. We share that concern, but since the bank there is our smallest in the region, with only four branches and income of some 15 million kroner, the business risk is manageable.

After this review of our banking activities, we turn to the other business areas. Let us begin with Realkredit Danmark.

#### **Realkredit Danmark**

As we have already noted, the activity level in the mortgage finance market as expected dropped off significantly this year.

This is also reflected in Realkredit Danmark's accounts, where we saw income rise at a moderate pace of 5 per cent. On the other hand, we succeeded in holding expenses down. Altogether, RD thus showed a gain of 7 per cent in profit before credit losses. Given the market condition this result is satisfying.

Much better than expected - that describes what we saw at Danske Markets.

#### **Danske Markets**

We had thought that last year's record earnings at Danske Markets - especially during the first half of the year - could not be repeated this year. But with profit before tax of more than 2 billion kroner, the unit nevertheless succeeded in matching the level in 2006.

And the quality of the earnings even improved, since the return on the Bank's own investments declined slightly while customer-driven trading income rose 12 per cent. Volume on the fixed income and foreign exchange markets especially contributed to the advance.

At 2 billion kroner, Danske Markets' earnings represent around 20 per cent and thus a key component of the Group's total earnings. Even though the area is subject to high volatility, the results from customer-driven activities are steady increasing.

An important customer in the capital markets is Danske Capital, which also delivered a sound performance.

#### **Danske Capital**

Danske Capital's profit before tax came to 536 million kroner, or 12 per cent more than in the first half of 2006.

The unit is undergoing a transitional period in Denmark as it steadily reallocates investments from bonds to equities at the same time that it is building up its operations outside of Denmark. That is the reason for the 20 per cent rise in expenses.

But fortunately, income is also growing at a fast pace. The Finnish portfolio especially contributed substantial to this growth, giving Danske Capital a total of 640 billion kroner under management.

Finally, a few words about Danica Pension.

#### **Danica Pension**

In terms of earnings, Danica Pension is the big recovery story of this period, as its pre-tax profit rose from 33 million last year to 669 million.

The gain was owing to an improved return on its equity portfolio, which is usually the biggest swing factor in Danica's result.

The business trend was also sound. A steadily increasing percentage of premium income comes from unit-link products, which allow customers to manage their own investment portfolios. With Danica Balance, the unit has a unique competitive position in this market.

In conclusion, I will outline our earnings expectations for 2007 as a whole after the promising first half of the year.

#### **Outlook for 2007 as a whole**

Because of the strong results from the first half of the year as well as the reduction of corporation tax in Denmark, we are raising our earnings guidance for the full year of 2007. We now expect net profit in line with the 2006 result, with Sampo Bank consolidated on a pro forma basis.

The most important assumptions behind this estimate appear on the slide. The key factors are that the economic climate remains favourable and that higher growth at our units outside Denmark compensates for slightly lower growth in Denmark.

In addition, the result will show the effects of Sampo Bank's consolidation in our accounts as well as our organisation. When we say we expect profit after tax to be unchanged, this means that the increasing expenses for financing the acquisition of Sampo Bank and integrating our new banks will be offset by increased earnings at several other business areas.

Expenses will rise because of the integration of Sampo Bank, but we expect a modest increase of only 0 to 1 per cent in the underlying cost base.

Although a flat trend in the bottom line from 2006 to 2007 may seem a little unambitious, it would actually indicate substantial progress. As we have mentioned several times in

this presentation, we are booking many one-off charges in 2007.

Taking this into account, you don't need to punch the calculator much to reach the conclusion that our accounts for 2008 should show a strong advance.

#### **Q&A**

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

Please begin.