

# Conference call speech and Q&A transcript

Financial results 2006

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Investor Relations

Danske Bank

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## SPEECH

**Peter Straarup - Danske Bank - CEO**

### Financial results 2006

Thank you, operator.

Welcome, and thank you for taking the time to attend this presentation of our financial results for 2006.

At my side today is CFO Tonny Thierry Andersen and Head of Investor Relations Martin Gottlob.

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### Agenda

I will start by giving a brief summary of Danske Bank Group's financial performance and comment on selected accounting items. Then I will give an update on our latest acquisition and on the planned merger of BG Bank and Danske in Denmark. Finally I will present our outlook for the future.

Afterwards you will of course be able to ask us questions.

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### 2006 in brief: earnings at an all-time high

Let me begin by pointing out three decisive developments in 2006: the strong organic growth in all of our markets throughout the year; the successful conversion of Northern Bank and National Irish Bank to our central IT platform in April; and our acquisition of Sampo Bank in November.

These three issues were chosen because of their crucial influence on the Danske Bank Group's value creation. Last year's organic growth was the main reason we were able to post our highest net profit ever. The conversion of the banks in Ireland and Northern Ireland was a necessary condition for the turnaround that the banks are now demonstrating and that will make them important contributors to our earnings growth in the next few years. Finally, with the purchase of Sampo Bank the Group has now attained coverage of the entire Nordic region and also gained access to the growth markets in the three Baltic states.

We achieved the strong result even though there was declining activity in a few areas. In Denmark, mortgage refinancing activity remained below the record level of 2005 throughout the year, and investment activity also dropped after the stock market correction in the middle of the year.

The Sampo acquisition of course dominated the final quarter for us, with the subsequent issue of 60.5 million new shares for almost 15 billion kroner. It was one of the year's largest share issues in Europe and the second-largest ever in Denmark.

I should also mention the continuing growth of our net interest income. Benefiting from a combination of strong lending growth and rising short interest rates, this item more than compensated for more modest growth in fee income.

The outlook for 2007 is favourable. On all our primary markets we expect healthy macroeconomic growth above the eurozone average. This will support lending growth, and the effect of rising interest rates will be apparent again this year.

Altogether we expect profit before credit loss expenses in 2007 to be at the same level as in 2006 despite the integration costs at Sampo.

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#### **Performance highlights**

Danske Bank Group's net profit for 2006 was 13.5 billion kroner, against 12.7 billion in 2005, or an increase of 7 per cent.

Overall, this result is better than we expected at the beginning of the year and also slightly better than the upgraded guidance in our third-quarter report. The main reasons for the positive surprise in the fourth quarter were higher net interests, trading income and insurance results, income from the sale of processing business for American Express in Denmark and from value adjustments of properties. On the other hand, we also saw higher expenses, owing partly to higher bonuses reflecting higher income, and higher integration costs in the final quarter.

As in 2005, the credit loss expenses item was a net positive entry, although a more modest one.

The key figures illustrate the Group's strong performance:

- Earnings per share rose 6 per cent despite high integration costs at Northern Bank and National Irish Bank
- Return on equity was 17.5 per cent, slightly below 2005 level
- The cost/income ratio improved to 52 per cent despite integration costs
- Risk-weighted assets rose 19 per cent, and lending rose 15 per cent
- Deposits increased 11 per cent

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#### **Net interest income**

The Group's net interest income increased by 14 per cent and was slightly better than expected. This growth must be measured in relation to the growth of risk-weighted assets and thus in relation to the rise in capital utilisation occasioned by lending growth. After a declining phase in 2005, the trend in 2006 shows that there was higher underlying growth in net interest income than in average risk-weighted assets.

The table at the bottom shows a breakdown of net interest income. In lending, margin pressure continued to offset around 70 per cent of the effect of increased volume at the Scandinavian banks, while deposit margins widened because of increasing interest rates.

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#### **Net fee income**

The Bank's fee income was generally the same as in 2006. In the fourth quarter, total fees rose 14 per cent over the level in the third quarter, but were somewhat below the unusually good fourth quarter of 2005.

The unchanged level actually includes a sound advance of 9 per cent in portfolio-based fees and a decline of 9 per cent in activity-based fees. The following factors should be noted:

- Activity-based fees from financing fell 19 per cent because of lower refinancing volume in Danish mortgage finance.

- Investing activity-based fees were very high in the first quarter, dropped sharply in the second and third quarters, and rebounded towards the end of the year as investment activity picked up again.

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#### **Net trading income**

Net trading income rose 4 per cent over the level in 2005. That is somewhat better than we had expected at the beginning of the year and also a little better than our estimate after the third quarter.

The main reason for the advance was substantial growth in customer-driven trading activities. On the other hand, the return on our investment portfolio declined, mainly because the figure for 2005 contained a large gain on the sale of HandelsFinans. The prop trading result fluctuated somewhat over the year, but ended roughly at the same level as in 2005.

The figure at the bottom right shows the combined total for fee income and the customer-driven segment of trading income, broken down by quarter. This chart does not include our investment portfolio or prop trading earnings and thus gives a better picture of total customer-related fee and trading income.

The chart shows that the first quarter was extremely good. Although the next two were lower, the total for that period was also higher than during the same period in 2005. For the full year, income from these segments rose 6 per cent.

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#### **Other income and insurance**

Other income grew 20 per cent over the level in 2005, driven by rising income from operating leasing and from the acquired real estate agencies in Norway and Sweden.

Net income from insurance activities fell 18 per cent to 1.4 billion. The decline was owing to a single dominant factor: in 2005 we booked 441 million in income from our shadow account. Excluding this addition, net income grew 12 per cent. The main reason was an improved technical result in health and accident insurance, although the segment's performance was still unsatisfactory.

After posting a weak return for the first six months, investments improved significantly in the second half of the year so that we were able to book the risk allowance. The return on customers' funds was 2.9 per cent.

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#### **Expenses**

Let's have a look at the cost development. Total expenses rose 7 per cent, a little more than expected, mainly because of effects from higher-than expected activity and thus income in the fourth quarter. Moreover we also booked 80 million of integration costs in the same period.

For purposes of comparison, the underlying cost trend was a rise of 4 per cent, which was also slightly above our estimate. One important reason for this was accelerating expense growth of more than 15 per cent in Sweden and Norway. That in turn was owing to the substantial expansion in those countries, which both delivered solid earnings gains. Norway also posted a markedly better return on equity. Several other areas also reported a sharp rise in activity, and that boosted underlying expense growth as well.

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#### **Credit loss expenses**

As expected, the credit loss expenses item was a net positive entry, however somewhat lower than it was last year. In the fourth quarter the item was slightly negative.

We should point out that during the year there was a need to book a number of new impairment charges despite the favourable economic climate for both retail and corporate customers in all of our markets. The fact that this item was nevertheless positive indicates that reversals of previous impairment charges were greater than the new charges.

We do not expect this item to remain positive in the future. This does not mean that we expect large changes in credit quality will appear. But it is not normal for a financial services company to have sustained net credit loss reversals.

The expected credit loss ratio over an economic cycle for the group excluding Sampo is unchanged at 14 basis points. We

do not expect that Sampo will make any material change in provisioning on a group level.

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### **Solvency & RWA**

At the end of 2006, the Group's solvency ratio stood at 11.4 per cent and the core capital ratio stood at 8.6 per cent including hybrid capital and 7.6 per cent excluding hybrid capital. That is somewhat above the Bank's new target of a core capital ratio of 5.5 to 6.0 per cent that we announced upon the acquisition of Sampo Bank.

The purchase of Sampo Bank had not been completed by the end of the year, but a large amount of the financing, including an increase in share capital and part of the increased hybrid capital, was in place. The official solvency figures therefore do not show that the actual solvency level after completion of the purchase will be much lower.

On the basis of a conservative estimate of growth in risk-weighted assets, we expect that, after the first quarter, when the entire financing package should be in place, the solvency figures will be within the new target range. This also takes into account the new solvency rules for insurance.

Risk-weighted assets, including 30 billion from the purchase of Sampo Bank, grew 19 per cent in 2006. Excluding the 30 billion, the organic growth was 15 percent, which shows clearly that the Bank's products, not least our lending products, are in very great demand.

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### **CRD**

On several occasions during 2006 we have mentioned the impending introduction of new capital rules under the Capital Requirements Directive, also known as the Basel II rules.

In 2007 Danske Bank will still be subject to the Basel I rules. We have applied to the Danish FSA for approval to use the advanced IRB method beginning on January 1, 2008, with full effect from 2010.

The IRB method contains new rules for calculating risk-weighted assets according to Pillar I, and Pillar II will contain new capital requirements.

In the table you can see risk-weighted assets calculated according to both Basel I and the CRD, but without the Pillar II requirements. As the chart shows, Pillar I alone will cause the minimum capital requirement to decline by as much as 49 per cent.

The reduction of the Group's target range for core capital in 2006 should be seen in light of the lower capital requirements under Pillar I.

Whether there will be further changes in the Bank's solvency targets depends on both the Pillar II requirements and our business developments. The Bank's general objective is to have a solvency level that is consistent with an efficient utilisation of capital combined with a low risk profile and with the requirements placed on a double-A-rated bank.

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### **Update on NB and NIB**

The technological aspect of the integration of Northern Bank and National Irish Bank has now been completed. Many of the challenges posed for the staff that we have mentioned earlier have also been overcome, and the results at the two banks became positive in the second half of the year following the deficits in the first half.

We can make an accounting for 2006 as follows:

- Total integration costs came to 633 million.
- Half of the total synergies of 350 million have been realised, but they will not have full effect until 2007. We estimate the effect for 2006 at around 50 million.
- The total number of staff declined according to the synergy schedule.

The relaunching of the two banks in May was also a success, bringing an increase in activity in the second half of the year.

In 2007, most of the remaining integration costs will be booked and a large part of the remaining synergies will be realised. The two items will lead to a reduction in costs in 2007 of at least 550 million compared with 2006.

In 2007 we expect to start the planned expansion in Ireland by opening a number of new branch offices.

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#### **Update on Sampo Bank**

In November we announced the acquisition of Sampo Bank. The purchase at a total price, including costs, of 30.8 billion is the Group's largest purchase ever.

The work on integrating Sampo Bank into the Group is already under way.

The financing of the acquisition is proceeding according to plan. The week after the deal was made, our announced share issue was executed. A total of 60.5 million shares were sold at a price of 242.5. The total proceeds were 14.7 billion.

The rest of the financing has been partly completed, as our hybrid capital was increased by 500 million pounds sterling in December and in January we entered into credit default swaps that reduced our risk-weighted assets by 50 billion kroner.

We are still planning to implement the integration on Danske Bank's IT platform at Easter 2008. The date for the integration of the Baltic banks and the Russian bank will be determined later.

We also expect to hold integration costs to the amount we announced, 1.6 billion, but after planning the details, we have adjusted the breakdown by year as shown in this slide. The changes do not reflect a change in the timing of the process. A portion of them will be capitalised and amortised over three years.

We also expect to realise the synergies we announced upon the purchase, without any changes in the timetable. Please go to slide number 15.

#### **BG Bank and Danske Bank to merge (1)**

When we released our annual report today we also announced our plan to merge Danske Bank Denmark and BG Bank into a single banking division and brand.

The reason is that BG Bank's position in relation to Danske Bank has changed since the merger in 2001. At that time there were three main factors that argued for continuing with both divisions:

1. There was a large difference between the customer groups at the two banks.
2. There was a significant difference between the employees and cultures at the two banks.
3. It was expected that the two banks would appeal to more customers than a merged bank would have.

BG Bank has lost market shares since the merger. Not because its customers are dissatisfied, but because it had difficulty attracting new customers. At the same time, the differences between the two banks' customer groups have become smaller and the cultures of the two banks have become more similar. This especially because of their common foundation in Danske Bank Group's core values.

The arguments for maintaining two separate banks and brands, with the extra costs that it entailed, have eroded.

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#### **BG Bank and Danske Bank to merge (2)**

- The decision to merge the two banks will have the following consequences:
- We will obtain cost synergies of around 300 million a year, with full effect in 2010.
- The savings in 2007 will come from the following measures: merging 60 branch offices into 30 and reducing staff in central and regional functions as well as IT development and head office functions.
- In subsequent years, we will evaluate the status of additional branch offices.
- There will be one-off costs of about 275 million.
- In 2007, we expect the merger to be roughly cost-neutral.
- Finally, this year we will introduce advantageous new offers to retain current customers and attract new ones.

It is possible we will lose some customers because of this change, but we expect that it will be a modest number and

that the cost advantages will outweigh the drop in income by far.

One side benefit of the merger will be an easing of the impending generational shift in the branch network. In both banks a large percentage of staff will retire in the near future. But there are geographical differences between the two banks such that in some regions one bank has a higher average staff age and the other has a lower average age. For example, BG Bank has an overweight of older staff in the South Jutland Region, while the opposite is the case in the Greater Copenhagen Region.

There is also a difference in the average ages of the branch managers in the two banks. BG Bank's branch managers are overrepresented in the younger age categories, while Danske Bank's managers are in the majority in the older categories. Please go to slide number 17.

#### **Business area highlights**

This year we are making a change in the presentation of the results at our individual business areas. I will discuss them only in summary form, but we have included the usual slides detailing their developments as a separate appendix.

The table here shows that earnings from total banking activities rose 8 per cent. Norway led all units with a superb growth resulting from increasing activities, the development of the branch network, and the acquisition of two real estate agencies. And importantly, return on equity increased from 14 to 18 per cent.

Danske Bank Denmark's earnings were unchanged, but that was owing solely to a drop in the amount of reversals of impairment charges. Its underlying growth was actually 15 per cent. BG Bank's was similar.

Earnings at Realkredit Danmark declined by only 2 per cent despite the large drop in refinancing volume that I mentioned earlier and despite increased fee payments to Danske Bank and BG Bank. The explanation is that accelerating lending growth offset these two negative factors.

Danske Bank's expansion outside Denmark is now beginning to show in the breakdown of income between the Danish and non-Danish operations. In 2004, 83 per cent of our income in Banking Activities came from Denmark. In 2006, the portion

fell to 70 per cent, and with the acquisition of Sampo, it will fall further towards 50 per cent in 2007.

Please go to slide number 18.

#### **Trends in banking activities**

In this slide we have tried to show the current situation of our various banking activities by comparing several key figures with their levels in 2005.

The income growth and cost growth charts show that the non-Danish units are growing the fastest. The cost/income ratio chart shows an improvement at all units except Northern Ireland, which was burdened by integration costs. There even was a clear improvement in Ireland, which also had large integration costs. It is also worth noting that the two Danish banks show an improvement from an already low cost/income ratio level.

Our strong growth is also evident in the increase in risk-weighted assets, which accelerated at most units in 2006.

The ratio non-net interest income as a percentage of risk-weighted assets shows something about our ability to cross-sell and to generate business with low capital requirements. There is a clear difference between the three well-established divisions with large market shares and the newer units with a large influx of new customers. The latter have somewhat lower cross-sales. This indicates a potential that we will try to realise in the coming years.

Cross sales have a clear correlation with return on equity. It is obvious that profitability is highest in the Danish banking activities, and it is worth noting that Fokus Bank in particular has shown a good improvement. This indicates that our investment in the branch network in recent years is beginning to bear fruit.

Please go to slide number 19.

#### **Outlook 2007**

Finally, I will talk a little about the future, beginning with our expectations for 2007, which looks like it will be yet another satisfactory year for the Group. Altogether we expect profit before credit losses at the same level as our pro forma figure for 2006 including Sampo based on consensus estimates.

After credit loss expenses and before tax, we expect a somewhat lower result.

These are our key assumptions:

- Slightly lower economic growth in our primary markets than in 2006, although still higher than the average for the eurozone
- Higher average short-term interest rates
- Relatively stable financial markets

We believe these conditions will lead to double-digit lending growth and thus to net interest income growth of 8 to 10 per cent.

Fee income will rise because of increasing activity, but expenses for credit default swaps will reduce this growth to only a few percentage points.

We expect trading income and other income to fall, mainly because of lower income from sales of activities and properties as well as from gains on unlisted shares. Customer-related income, on the other hand, could rise.

We also expect earnings from our insurance business to decline because we assume there will be a normal return on investments and because allocated capital is lower after the change in the capital structure.

Expenses will be affected by the acquisition of Sampo Bank and the consequent integration costs. On the other hand, there will be a drop in expenses at Northern Bank and National Irish Bank.

Altogether we expect a rise in expenses of 4 to 6 per cent. Excluding integration costs and amortisation of intangible assets related to Sampo Bank, the increase will be 1 to 3 per cent. This estimate includes wage growth at the high end of collective wage agreement rates because of a current labour shortage in several of our primary markets.

Although the general economic trend is positive, we expect that the net positive entries for credit loss expenses in the past two years will be replaced by an actual expense in 2007. But it is likely to be a modest amount, below our expected average of 14 basis points over a business cycle.

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#### **Earnings drivers, short- and medium-term**

If we look a little further ahead than 2007, we believe our investments in recent years – in both acquisitions and organic growth – will have a positive effect on our earnings capacity and value creation.

After the successful conversions in Ireland and Northern Ireland, we expect that the two banks, with their expenses reduced, will deliver solid earnings gains in 2007 and 2008. They will also see income rise as a result of higher activity.

The purchase of Sampo Bank will have the opposite effect in 2007, but beginning in the second half of 2008, its earnings will also have a distinctly positive effect.

Our organic growth from the expansion in Sweden and Norway has already begun to give results, and we expect a further advance in both 2007 and 2008. We are planning a similar expansion in Ireland, with at least 15 new branch openings in the coming years, and they will make a substantial contribution to our earnings growth in two or three years.

We thus have reason to believe that we will be able to raise earnings in Norway, Sweden, Ireland and Finland more than what the general economic conditions and the specific industry trends would indicate. To this should be added the effect of the merger of the two Danish banking divisions.

Finally, we will continue to focus attention on capital management. We think the transition to the CRD over the next three years will bring new opportunities for Danske Bank in the form of an efficient and optimised capital structure.

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#### **Q&A**

That concludes our presentation. Thank you for your attention. I will turn the discussion over to you and the many good questions I am sure you have collected during my talk.

If you are listening to the conference call via our Web site, you are also welcome to ask questions by e-mail.

Please operator, we are ready for the Q&A session.

## Q & A TRANSCRIPT

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### Operator

Thank you. [OPERATOR INSTRUCTIONS] Our first question comes from the line of Andreas Håkansson. Please go ahead with your question, announcing your company name and location.

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### Andreas Håkansson - UBS - Analyst

Yes, hi. It's Andreas Håkansson from UBS in Stockholm. Two questions: the first one is on the mortgage business. I just saw that net interest income in the fourth quarter was up some 7.5 per cent from the third quarter, while lending was just up a bit more than 1.5 per cent - if you can just tell us what was going on there. And second question: I am looking at the Danske Bank in Denmark and BG Bank in Denmark, looking at deposit margins, and I see for example in Danske Bank that the deposit margin goes up 3 basis points in a quarter compared to 7 basis points up between the third quarter and the second quarter. And if I look at the increase in interest rates, it seems to have been fairly similar between these two quarters. We have a very similar situation in BG Bank, so could you just tell us: are you starting to see some competition on the deposit side? Is that why the deposit margin is expanding a little bit slower, or is it something else going on? Thanks.

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### Tonny Thierry Andersen - Danske Bank - CFO

When you look at the mortgage business in the fourth quarter versus the third quarter, I think there are two factors. One - it is time for paying mortgages and this is every month for the annual payment on your mortgages, and that sort of leads to higher deposits in our mortgage division that are accelerating through the end of the year, and that helps the net interest income in our loans division. I think, if you go back and look at the same Q3/Q4 last year, you will see somewhat the same pattern. In addition, the higher short-term rate obviously helps this business in our mortgage division. So these are the two primary reasons.

On the BG Bank, on their deposit margin, I think there may be some timing issues here. We don't sense there is an increase in competition that has changed different to what

we have seen before on the deposit side, and so that is not really the reason. You could argue that the banking system would be less in 2007; that would abate some of the margin pressure for the deposit side, including also we did launch the covered bonds in the Danish banking system. That could also level off some of the demand from the deposit side.

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### Andreas Håkansson - UBS - Analyst

Sorry, I couldn't quite hear you there, but just to clarify: so you are saying that none of the slowdown in the increase on deposit margins is coming from increased competition or what?

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### Tonny Thierry Andersen - Danske Bank - CFO

There is competition, but we don't see any intensified competition.

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### Fiona Swaffield - Execution - Analyst

Good afternoon, it's Fiona Swaffield from Execution in London. Just could we talk a bit more about your guidance on net interest income for '07 on pro forma '06? You mentioned double-digit loan growth, but could you talk about whether you have assumed higher interest rates through '07; what you have assumed in Finland, for example, because I think that is quite rate-sensitive? And also, particularly, the funding costs of the - obviously you are upping the hybrid amount, so is the number including that, so underlying growth rates even higher; and kind of what is your expectation for spread pressure? And then the second issue is kind of risk-weighted assets growth. You have mentioned using CDS and things like that. Could you talk a bit more about the impacts and whether this is something you are going to be doing in '07 as well? Thanks.

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### Tonny Thierry Andersen - Danske Bank - CFO

If I start with the last question on the CDS levels, part of the global finance package that we announced as part of the Sampo transaction, and we have done some of that on the accretions on hybrid issues in Q4 last year. We have done something in Q1 this year, and we will complete that Q1/Q2 and then the financing payments will be in place for the

Sampo transaction. That is also what we announced as part of the transaction of Sampo.

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**Fiona Swaffield - Execution - Analyst**

Just you mentioned different numbers on the conference call. At one point you mentioned 30 billion; at another point there was 50 billion. I mean, has it all happened already or...?

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**Tonny Thierry Andersen - Danske Bank - CFO**

The total acquisition price was 30 billion, and part of that was that we have issued equity for around 15 billion. That is only part of the financing, the 15 billion, and then we have got to supplement with hybrid and CDS'.

Now on the net interest income, we have assumed, based on the macroeconomics, that on average we will have roughly 100 basis points higher short-term rates in '07 versus '06, so that the average rate, in fact on incremental rate changes we are guiding for two times 25 basis points in '07. Now, if you assume that roughly 100 basis points higher on average, that corresponds to around 1 billion in advance on net interest income, if you then assume that we will have growth on lending of around 12 per cent range, then 50 per cent of that will transform into net interest income. The rest would go out in margin pressure, and that leaves you (excluding Sampo) up at the banks at around 12 per cent net interest income. Then you have Sampo coming in, in 2007 with a number, and then you have the funding costs and the net interest income, which is probably around 700 million because we focus around 400 million on fee income related to the CDS. So, when you look at the consensus number right now on net interest income for '07, that is around 23.4; I think that some analysts have taken the entire funding cost for Sampo to CDS in the that line. I think some of that should be changed to the fee line. So we do believe that we have good traction on the lending side. Half of that would transform into net interest income, and then you get the tailwind from the higher short-term rate with full impact in '07.

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**Matti Ahokas - Handelsbanken - Analyst**

Yes, good afternoon. It's Matti Ahokas from Handelsbanken in Helsinki. Also a question on the guidance for net interest income 8-10 per cent. As it is now, do you feel which is more

risky, is it the volume component or the margin component going into 2007. And then a question on the credit losses, especially regarding Norway. After a significant period of write-backs they had not a huge but a significant loan loss there. Was it more of a broad-based issue or was it more of a one single event that caused it? And the third question, if I may, is that will the acquisition of Sampo Bank change the sensitivity into interest rates? You previously had talked about DKr300 million per 25 bps. That's all, thanks.

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**Peter Straarup - Danske Bank - CEO**

To start with the last one, Sampo Bank has the same interest rate sensitivity as Danske Bank has - so that will not change the interest rate sensitivity noticeably. On the other issue with margins, I think there is good traction in the lending growth, and I expect that to continue and the franchise is well embedded, so I think that is the strongest part. You can say the other part of the net interest income, which is by rising rates, this belongs to somebody else than us to take into consideration. If you look at the provisions in Norway, there are no single specific items that will come to your attention and developments are still if you look at them proportionally through the cycle.

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**Fredrik Gutenbrant - Cheuvreux - Analyst**

Yes, hi. This is Fredrik Gutenbrant at Cheuvreux in Stockholm. There have been a lot of questions on the net interest income and the guidance, but I am going to have try to put the question differently here. When I look at the Q4 number and I include Sampo as well, if I annualise that I will end up at around 24 billion annualised. But then deduct the funding cost for Sampo next year of, as you said, some 700, I end up at 23.3. Looking at your guidance, that implies a growth from Q4 of about 3-4 per cent. Your growth in the second half of this year compared to the first half was 10 per cent, so I mean - and you talk about double-digit volume growth. You know, what caused you to be in that perspective so cautious on the net interest income? That's the first one. And then, on the trading line I also have a question because you talk about the vast majority of trading revenue used to come from customer-driven trading. If you look at your prop trading, that has not been excessive at all, you know, in 2006. So in this business climate, what makes you think that trading volumes from your customers is going to be down almost 10 per cent? And then the final question is on the insurance line.

If I remember correctly, you said at the telephone conference on the topic of insurance, you said that normalised profits should be around 1.4 billion. Now you are guiding for 1.2, so just wondering if something has happened since then. Thanks.

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**Tonny Thierry Andersen - Danske Bank - CFO**

Well, when you look at the net interest income, I do believe that there are still margin pressure out there in the market, and we do feel that we have good traction. We have as a base case assumed that around half of the lending that would be there would be wiped out due to margin pressure, and it may abate or not, we are not sure; you cannot take one quarter as a sign of something changing, but I think that is one reasons why we are a little bit cautious on that line. We have good traction on the net interest income and I do believe that if you look at the ratio between the risk-weighted assets deployed and the change of net interest income, it is among the best in the Nordics, if you do the math in the simple way I am doing it. So that is an area that we are monitoring quite closely, and I do believe that the guidance we are giving is sufficient.

Back on the trading line, 10 per cent down, I think you should keep in mind that the trading is a more volatile business even though we have a high composition of customer-driven activities. In our trading line, we also include when we divest unlisted shares and that you cannot count on doing all the time when you look at that. I think we have shown on one of the charts, on slide 30, the quarterly developments on the trading line. I believe the base case is something that we feel comfortable with. This is the beginning of the year, and when I look at the consensus right now, it's around 7 billion on the trading line and we may be a little bit shy of that because, again, we want to see more of 2007 panning out before we get bullish on this line.

Then on the insurance line, you say that we have said, early on 1.4, I think what you should keep in mind is the change in capital structure within Danica with the increase in external funding and taking down our allocated capital, we are in fact moving 100 million in net interest income from Danica into the Group's net interest income, and that is probably one of the reasons why we see the decline from the 1.4 to 1.2, otherwise I am not sure how I otherwise can describe that.

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**Martin Gottlob - Danske Bank - Head of Investor Relations**

Just to add one thing – when you look at the Q4 net interest income, this includes, again, as we mentioned in the presentation, a 50 million from the equity issue we did in the middle of November. And that, of course, that gain will not be repeated, as we are just about to pay the 30 billion to Sampo Bank for the acquisition of Sampo Bank

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**Fredrik Gutenbrant – Cheuvreux - Analyst**

Ok, but would you say that 50 million, that is the one-off in the Q4 net interest income?

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**Tonny Thierry Andersen - Danske Bank - CFO**

Yes, you can see there on slide 5, where we show the 50 million on the table on the bottom right.

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**Anders Hornbak – Carnegie - Analyst**

Yes, hello. It's Anders Hornbak from Carnegie in Copenhagen. Moving to the trading income line, if we look at the breakdown in Danske Markets, we have seen a gradual decrease quarter on quarter in the trading activities. Could you shed some light on how dependent are your trading income on the interest or the yield curve, as we have seen a flattening of the yield curve over the year? How dependent are you on this? And then, secondly, could you just put some more flavour on the Danske Bank/BG Bank? It's my impression that the customer segments are still quite different, that the Danske Bank clients are more trading active, the BG Bank franchise is more retail-focused, so in my view, they still seem quite different, and isn't this a change of your strategy? Thank you.

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**Peter Straarup - Danske Bank - CEO**

Let me start with the last question, which is the difference between Danske Bank and BG Bank. Danske Bank, the franchise Danske Bank in Denmark has more commercial customers; it also has a larger proportion of upscale private clients, and those of course have a larger trading propensity when markets go up. If you go below that segment and you look at the customer profile, there is very little difference. There are some high net worth individuals also with BG Bank, and one of the advantages in this transaction is that they will be serviced by our private banking and our finance centres.

But if you disregard the top component of the customer base in Danske Bank, they are pretty equal. So I think the change, the merge, is not really a change of strategic direction.

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**Tonny Thierry Andersen - Danske Bank - CFO**

One the Danske Markets' dependence on yield curve, we look at the customer turnover in general and our volatility in the market; I think that is probably more what we write on that type of the business. I do believe that when you look at the writings of Danske Markets in many instances, whether it is in equity or trading and currency, they have a very strong position in the Nordics. There is no doubt that Q1'06 was a quite good quarter on equity trading and in May/June we saw some slowdown in the capital markets, but I don't think this is saying that it should come down, I don't think that the planning outlook say any significant impact on earnings. It is really the volatility in the market and also key drivers and the position we have in the different business lines.

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**Anders Hornbak - Carnegie - Analyst**

Could I add one more question? Now you are starting to book loan losses in various divisions. Are these statistical or macro-based provisions or are they single individual provisions that you are seeing in Norway and that you are seeing in Danske Bank and in the Swedish operations? Thank you.

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**Peter Straarup - Danske Bank - CEO**

They are both. But the largest component of the Bank's provisioning activities are write-downs on individual exposures. Then there are also provisions made if there are certain industries that we feel would be under pressure, for example because of increasing oil prices and other macroeconomics - so it's a bit of both.

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**Sasu Jarvinen - Credit Suisse - Analyst**

Sasu Jarvinen from Credit Suisse, London. Just a few questions on your international banking operations. Looking at the Irish operations, at the way core synergies have been materialising so far, do you feel that the 350 million is still a reasonable target for you? And secondly, if you remind us how much of this you are roughly planning to reinvest in the

operations, both in the Republic and in Northern Ireland, that would be helpful. Then turning to Sweden and Norway, you have mentioned earlier that pre-tax ROE could reach 17-19 per cent over the course of 2007. Is this still a level that you consider a reasonable target, and if you could also elaborate a bit more how you are planning to reach these levels? And then also, if you could give us a rough feeling what will be the implications on income and cost from selling some of branches in Norway, that would be helpful. Then finally, a quick one on the Danish operations - if you could just discuss what you are roughly expecting in terms of underlying cost inflation going forward, bearing in mind the forthcoming wage negotiations in the spring. Thanks.

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**Tonny Thierry Andersen - Danske Bank - CFO**

Right, a couple of questions there, I can start out with Sweden and Norway. When we look at our Swedish operations, and if I take the return on equity, pre-commissioning, the expectation for '07 is that it will increase, even before taxes, I think it should be durable to approach around the 17 per cent mark in 2007. The same goes for the Norwegian. I do believe that when you go in and look at Sweden and Norway, what you see now is the J curve coming into play where we missed the branches in '04 and '05 in both countries, and we will see, incrementally, '07 versus '06, showing good development in the return on equity because the established branches are now coming into positive territory in these two operations. And we do believe that the 350 million mark in the Irish operations are still valid and achievable on the synergy side. If you look at the number of full-time employees coming now during '06 in Q4, so I think we are on the right track to achieve that mark. When you look at the Danish operations on the wage inflation, it is probably around the 3.5 per cent, and may be approaching 4 per cent in some instances on the wage going forward one should assume. Then you had a question on Norway, on the disposal of the branches. When that deal is completed, it will give us a net profit north of DKKr100 million.

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**Martin Gottlob - Danske Bank - Head of Investor Relations**

I maybe just could add that the wage negotiation in Denmark this spring will not include the banking sector. It will only include the industrial sector. We have agreements until, I think it's 1<sup>st</sup> May 2008.

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**Martin Gottlob - Danske Bank - Head of Investor Relations**

If I can just continue, we have got a question from the website: Joakim Skoglund from H. Lundén Kapitalförvaltning AB asks the following: two questions:

Could you expand a bit on the wage increases for 2007 for the different markets? Do you see risks of bottlenecks?

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**Tonny Thierry Andersen - Danske Bank - CFO**

Operating costs were high in Q4 in Sweden, Norway and the Irish operations. Could you expand on this? from ( ) has asked two questions. One is: *Could you expand a bit on the rate increases for 2007 for the different markets? Do you see risk of bottlenecks?* And the second one is that: *Operating costs were high in Q4 in Sweden, Norway and the Irish operation. Could you expand on this?*

When you look at the wage inflation, taking the different countries: Denmark, as I said, around 3.5-4 per cent; Norway probably around 5 per cent; and Sweden maybe a little bit less; the Irish market is also in that range. There is no doubt in certain countries that we do see bottlenecks, and we are in a position in the Danish market where we don't see that as a key concern for us as we move forward, and also the merger of BG Bank/Danske I think helps us in terms of some of the demographics that we otherwise would be fighting against to achieve people in certain regions. I think that is very helpful for us. Otherwise, if you look at the Irish market, as you can see, coming down in staffing, so I think that is not the key concern for us there. So yes, there are bottlenecks in certain areas where we are active but it is nothing that is in any way deterring us in the growth that we see. The last question?

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**Martin Gottlob - Danske Bank - Head of Investor Relations**

That was: The operating costs in Sweden were high in Q4, and in Norway and Irish as well, could you expand on this?

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**Tonny Thierry Andersen - Danske Bank - CFO**

Q4 in general has, I would say, pretty high activity in some of the marketing in the countries you mentioned. It's also in Norway that we are preparing ourselves for less staff

attrition than would take place in '07, so there are some provisions in for that. So I think that are some of the key reasons why you see the deviations.

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**Jesper Brydesholt - Enskilda - Analyst**

This is Jesper Brydesholt from SEB Enskilda. I have a question on the strategy. I noticed that you were out there, Peter Staarup, saying today that there would go several years before you would do new acquisitions in Danske Bank. I am just a little curious what the reason for this statement is, as I thought you would be able to do new acquisitions after the integration of Sampo Bank, in easter 2008, is it due to management or staff resources or time or capital flexibility or anything else? That's one. Secondly, when you do see the Sampo Bank full year results, and if it differs significantly from the consensus that you have taken outset in when you do the guidance, will that have any kind of influence on Danske Bank guidance for '07? And lastly, also a little bit on the trading income side - if you look at the trading activity (and I know that was mentioned earlier) in Q4 it does seem a little weak, considering that the equity turnover for Danske Bank in the Nordic areas is almost up double and is almost in the same area as in first quarter 2006, but still on a very lower level on trading activity. So again, a little bit for the reasons behind this, or are you satisfied with that activity level you had in that quarter? Thank you.

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**Peter Straarup - Danske Bank - CEO**

The first question, of strategy, I think DKr30 billion is an awful lot of money, and we concentrate on Sampo now. And it's obviously true that this should be taken into account. So my statement today to the media that of course is always hungry for news about potential acquisitions, you have seen the model as one indicates that the fact Danske Bank, is, at this point in time, focusing on Sampo Bank and I don't think that there are other activities for us to pursue for the next couple of years. That doesn't mean that our strategy has changed; I also think that we have a very nice portfolio of retail banks at this point in time. You enquire about whether we will change consensus...the guidance for '07 if we come in and discover items in Sampo Bank that warrant it. Obviously, during the first quarter we would look at Sampo Bank as we look at ourselves to see the developments, and then after the first quarter, we will come out with updated guidance.

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**Tonny Thierry Andersen - Danske Bank - CFO**

On the trading line, you sort of alluded to Q4 being weaker, I think it's important when you look quarter on quarter that in Q3 we had 100 million more in gains from selling unlisted shares compared to Q4 in our Markets division, and that is part of the reason. The second part is that obviously in December, the second half of December there's not that many people in Markets that are working, and I think the activity is getting less in that, so that has an impact on Q4. So I don't see any signs of not having a good enough Q4 demand position.

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**Jesper Brydesholt - Enskilda - Analyst**

Then just a small follow-up on the net interest income side, in the Danish bank activity, I believe in Danske Bank it seems that the growth quarter on quarter was close to 6 per cent. That seems quite high, considering that the overall margins were slightly down and the lending growth was - well, still also looking at Sydbank and also the lending growth and the risk-weighted asset growth in that quarter. Is that to be seen as including some extraordinaries that we should take into account or is that just the underlying picture we saw there?

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**Tonny Thierry Andersen - Danske Bank - CFO**

No extraordinary actions in Q4 compared to Q3, otherwise I would say that we may see that the margin pressures were a little bit less in Q4 versus the previous quarters on the lending side.

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**Derek De Vries - Merrill Lynch - Analyst**

Yes, this is Derek Devries from Merrill Lynch in London. Just to come back to a couple of a numbers questions here, I was wondering if you could sort of walk us through the CDS protection, and you have said it has a negative 400 million impact on the fee and commission line. Can you just kind of walk us through the accounting of it? I assume it counts as a sort of perfect hedge, allowing you to reduce your risk-weighted assets. Is it going to be marked to market through the balance sheet; you know is this something that should CDS spreads widen and your equity position improve, you could then sell the CDS protection? If you could just walk us through that a little bit. And then a second question on the

tax rate: I guess there has been some local press about the potential for a change in legislation there which would lower the tax rate and change some of the deductions. Could you tell us if you think that will have an impact on your Danish operations, and you know some of that impact will be felt more strongly in the bank versus the insurance business? If you give us a little colour there.

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**Tonny Thierry Andersen - Danske Bank - CFO**

On the tax side this is a tax proposal has not been put forward yet to the Parliament, so I think it is still very uncertain as to the specific content of the tax changes. It is obvious that on the amount of tax we are paying in Denmark, that if the tax rate comes down we will have less tax to pay, but it is still too uncertain to give any guidance on the impact of that. But when we know the details on that I think we can give a more specific guidance on that.

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**Derek De Vries - Merrill Lynch - Analyst**

So your 27 per cent tax guidance at a group level does not incorporate any benefit from that?

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**Tonny Thierry Andersen - Danske Bank - CFO**

No.

Now on the CDS, we have done that because the thing is that we are building the bridge between the Basel I and Basel II. Today, mortgages are having a weight of 50 per cent in terms of risk-weighted assets. Now with the CDS, where we sell off some of the risk, we can get a much lower on average risk-weighted on the balance sheet that we have. The 400 million in fees are the fee we are paying to get that credit protection from a third party so that we reduce our risk-weighted assets, and thereby improving our capital structure. Those 400 million: we pay that as long as we have the CDS. We have an option on the CDS that means that as we are approaching 2009/2010 then we can call these back as Basel II are moving into full force at that time. So there are flexibility around that. There will be no mark-to-market, so you will not see bumpy changes in the P&L on that, it's a straight fee expense that we have.

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**Derek De Vries - Merrill Lynch - Analyst**

And there's no mark-to-market impact on the balance sheet either?

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**Tonny Thierry Andersen - Danske Bank - CFO**

No, not on this one; that doesn't change anything from what you see today, what we had in the balance sheet.

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**Kim Bergøe - Fox-Pitt, Kelton - Analyst**

Good afternoon, Kim Bergøe, Fox-Pitt, Kelton in London. A couple of questions on BG Bank, just if you can confirm that there are no pricing difference between similar products in the two banks, as I understand there isn't. And also, you mentioned new product launches: if you could just touch upon what type of products these are. And maybe also just a little bit of why you think that BG Bank has lost customers and failed to attract new? And then the second, the new pension ruling that has come out of the European Union, if you expect that to have any impact on the pension business in Denmark; and also whether the covered bonds, whether that could change dynamics in Danish mortgages? Thanks.

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**Peter Straarup - Danske Bank - CEO**

Ok, I can try to take that. There are no pricing differences between the two banks. So that means they can remerge without repricing required. We have talked about new products, we have told the markets that these would be products we would launch later and I think we will have to wait for that. I can tell you though they are directed at the retail segment and they are in continuation of product launches we have had in Danske Bank over the last couple of years which has placed us better in the market, and I think these will too.

Why do we think it's a good idea to merge Danske Bank and BG Bank? Well, there are various reasons. One is that they have the same technological base. They also have the same pricing and the same products. Also because in Denmark the requirements are that when they are a part of the same

financial company in the same incorporated entity, then pricing should be the same, so we are not allowed to differentiate. So the whole component of BG Bank is the same as the component in Danske Bank. So with us rests an obligation to try to create differentiation through marketing. That, long term, is difficult when the banks are so much alike. That is the reason that we are merging them, and I think one profile will be creating a stronger platform.

You asked about the new pensions. This is a verdict that has been handed down against Denmark which basically says that foreign financial companies should also be allowed to take pension savings from the Danes. In Denmark you can pay into a pension and subtract that from your tax bill. I would think that would continue to be the case, otherwise there will be a very material change in the pension structure in Denmark. I don't think Danish pension companies, or banks for that matter, have received quite a number of pension savings, that they are uncompetitive compared to the internationals. So I don't think that is going to create any changes for Danske Bank. It is going to quite a bit of work for the tax authorities changing the law for international companies to come in, but I think it will be a very, very modest influence they will have on the markets.

The covered bond discussion in Denmark has been very intense, because the mortgage lending companies are postulating that covered bonds will change the mortgage market and possibly destroy the Danish mortgage market as it has worked for hundreds of years, which is actually not very sensible. I think the Danish mortgage market will continue to work. The covered bond, if we get a sensible legislation around it, will improve our ability to refinance mortgages we have on the banking book already. And the proposal that is placed at this point in time in front of the politicians indicates that that will be the case for us, which would actually make it possible for Danske Bank to obtain a somewhat better funding for its mortgage book on the bank book. So there will be a moderate positive part and then of course it will improve liquidity management because we could sell covered bonds with longer durations.

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**Aaron Ibbotson - Goldman Sachs - Analyst**

Yes, hi there. This is Aaron Ibbotson from Goldman Sachs in London. I have got two short questions, actually both on Finland. I am not sure if you answered them yet, but I assume since that deal has closed that you will be a bit more open

about it. First of all, I would like to ask about – I think the question was touched upon earlier – the funding mismatch between, particularly on your mortgages, because as far as I have understood it, a lot of the lending is done on one year and a lot of the funding has been done short, on three months. Is that correct and does that mean that you have a substantial exposure to the sort of flattening of the yield curve or possibly a steepening of the same? And secondly actually, I just want to know, maybe this was touched earlier upon as well, I didn't quite catch it: if you have any forecast for forward lending growth on your Finnish operations or if that's incorporated in the whole group forecast. Thank you.

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**Tonny Thierry Andersen - Danske Bank - CFO**

If you look at the lending assumptions on – I will start with the last question on the Finnish operations, the total and I include the Baltics here – we are assuming in '07 in that case, a growth of around 13-14 per cent for the entire operations and obviously you have got a higher growth in the Baltics, much higher in the Baltics and less in the Finnish, but I think it's a pretty realistic/conservative growth assumptions we have put into play for 2007 in the Finnish operations. I hope that answers your questions on that side.

On the mismatch, on that I am not sure as to whether we at this time are able to give the further details on that. I do believe that we...in 2007 there will be no sort of negative impact on that. I agree that they have had probably before some mismatch, but I am not in a position to tell what the impact will be in '07 on that at this time.

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**Aaron Ibbotson - Goldman Sachs - Analyst**

But you mentioned just – sorry, but just as a follow-up, you mentioned that they had the same sort of exposure as Danske Bank, so if you have short terms continuing to moving up with no movement of the, say, twelve months rates, would that in general still be positive for Sampo Bank or for the Finnish operations, or is that too – can't you say that much.

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**Tonny Thierry Andersen - Danske Bank - CFO**

It will be positive, just like in Denmark we say that 100 basis points is Dkr1 billion, then of course the Finnish one it would be around...

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**Aaron Ibbotson - Goldman Sachs - Analyst**

10 per cent of that or something?

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**Tonny Thierry Andersen - Danske Bank - CFO**

Yes.

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**Per Löfgren - Morgan Stanley - Analyst**

Thank you very much. This is Per Lofgren from Morgan Stanley in London. I have one question on your cost guidance. You are saying here that expenses should be up 4-6 per cent, but if I exclude Sampo it's 1-3 per cent up year over year. Now if I go back and take this 1-3 per cent with me and look back at slide number 9, do I understand it correctly if that should be comparable to the expenses that were up 7 per cent this year? That is the first part. And the second thing is that, if so, the underlying cost base as it was defined in '06 should in that case be very, very low – is it correct understood? Thank you.

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**Tonny Thierry Andersen - Danske Bank - CFO**

You are referring to slide 9, where we say cost is up 7 per cent and if we take out the cost on the acquired entities it's up 2 per cent. Yes, obviously when we acquired real estate agents in Sweden and Norway, you can see the downside on the table on the bottom of slide 9 has a delta of roughly 180 million more in cost in 2006; that's because of acquisition there. So I think, when you look at the underlying cost ex the acquired entities, it is around 2 per cent.

And so where we now say 1-3 per cent we you are assuming that we obviously have the activities that we bought in Sweden and Norway on the real estate pieces (?), and you could say that, I think that is probably a more reliable – more comparable – looking at the 2-4 per cent rates that we had in

'06 compared to the 1-3 per cent that we have now stated in expectations for in 2007.

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**Martin Gottlob - Danske Bank - Head of Investor Relations**

Maybe if I just add one thing, it is that we are saying in our report is the 1-3 per cent is including the ordinary cost of Sampo Bank, both in '06 on a pro forma basis and '07. What it excludes is the integration cost and amortisation of intangibles regarding Sampo Bank only. So that is the only thing we take out comparing 2006 to 2007.

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**Per Löfgren - Morgan Stanley - Analyst**

All right, so 2 per cent underlying. Thank you very much.

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**Peter Straarup - Danske Bank - CEO**

Ok. Thank you very much, operator, and thank you very much for all the participants with good questions and also staying with Danske Bank today. If you develop any further questions, we are obviously very happy to help you. Thank you very much.