Conference call

RWA development – estimated impact of FSA orders and new regulation

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Investor Relations

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SPEECH

Operator:

Welcome to the Danske Bank Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. Please note that this conference is being recorded.

I will now turn the call over to your host, CFO Henrik Ramlau-Hansen. Sir, you may begin.

Henrik Ramlau-Hansen - Danske Bank - CFO

Thank you very much, and thank you to everybody for listening in on this conference call, which we have set up based on the fact that yesterday we got some four orders from the Danish FSA that mainly relates to our risk-weighted assets. And we have made a presentation available on our website, which will I will take through you in a second. With me here today is my colleague at the Executive Board, Robert Endersby, Chief Risk Officer; also Chief Investor Relation Officer Claus Jensen; and Simon Haldrup, who is head of our Risk Analytics Department.

But let me take you first to slide two. And just as some background information, we have got four orders from the Danish FSA. We are in a constant … over time, in a constant dialogue with the Danish FSA about a number of issues. We have also at our previous conference calls and on investor road shows and so on informed you that we are also have been in a dialogue with the Danish FSA about our risk-weighted assets. It has gone on for some time, and now, or yesterday, the Danish FSA have decided that they wanted a, so to say, a decision.

We were prepared to continue the discussion. We were also prepared to involve an external third party consultant if that should be needed in order to assess the right level of our risk weights, but that could not be achieved. So the Danish FSA decided to make a decision, and they have given us those four orders that have been available. It mainly relates to our corporate and also counterparty risk exposures, where they have asked us until … before December 31st, 2013, before the end of this year, to increase our risk weight for those corporate exposures, counterparty risk, et cetera. And it's our estimate that that would roughly towards the end of 2013 increase our risk weights by around DKK 100 billion.

We have on some Pillar II add-ons to cover some of these type of risks, and we will be able to reduce some of these Pillar II add-ons in our solvency going forward, when we increase the risk weight by roughly DKK 100 million. Then this... and these first item with the corporate exposures and counterparty risk – that's the first two orders. Then there's a third order, and that is mentioned as item two here. That they want us to do more work on banking model or financial institutions model. And before that is settled, we would be asked to take a add-on in the Pillar II system of DKK 2 billion.
And we will do that already by June 30th here in the second quarter, and we will develop a new banking model during 2013 and into 2014. And when that is finalised, probably in '14, then that could lead to a further increase in the risk-weighted assets, but that would probably be a minor increase in risk-weighted assets.

And then the fourth order, mentioned as item three here, is that we have in our Pillar II system made a reduction to the extent that we expect our losses to be less than our allowance account and so on. There's been a reduction of 2.8 billion in our Pillar II system, and we will not be allowed to do that going forward.

The net effect of all this will roughly be towards two thousand ... end of 2013 an increase in the risk-weighted asset of around DKK 100 billion, as I mentioned, and a net reduction of around 2 billion in the Pillar II add-on system. As you can understand and also from the press release, the company announcement, we sent out yesterday, we do not fully agree with the Danish FSA. And we do not especially agree on the procedure they have been using where they at a very high level have done what I would call benchmarking, compared the Bank's risk weights with other banks, and then after back and forth come up with a decision that we need to increase our corporate risk weights, et cetera, with around DKK 100 billion.

We feel that it's a very special legal procedure using benchmark for making decisions. We have put forward the argument that decisions of this size should be based on an assessment underlying detailed analysis of the underlying risks. So we have been prepared to further discuss our PD models, LGD models, and so on, all models that over a number of years has been approved by the Danish FSA. So therefore we are seriously considering whether we should appeal this decision to the Company Appeals Board (Erhvervsankenævnet in Danish) and that will be a consideration that would be done over the next week or two. There's a four-week period within which we can decide whether to appeal or not.

If you please then turn to slide three, we have tried on a pro forma basis to illustrate for you what the impact is, and the impact is, of this increase of roughly 100 billion is a drop in our total capital ratio of roughly 2.5 percentage points if it took place at end Q1 '13. But, as mentioned, it will not take place in Q1 '13. It will be finalised towards the end of '13, but the net effect will be a reduction of our total capital ratio of 2.5 percentage point and a drop in the core tier 1 ratio 15 ... from 15.1% to 13.3%.

If you then to turn to page four, that illustrates that actually our capital buffer is unchanged. It is mainly a ... Our minimum solvency need is governed by the transition rule, so it's mainly in terms of our minimum solvency requirement ... is mainly a rearrangement between Pillar I levels and, so to say, the ... what is left up to the transition rule that leads to a minimum solvency need, in Danske Bank's case of 91 billion.

So you can see on the left part on slide four that, so to say, the left [inaudible] drops from 10.2 to 3.5 before because the Pillar I goes up by roughly the 8 billion and the Pillar II add-ons, as I mentioned, drops by roughly 2 billion, all on a pro forma Q1 '13 figures. But again the net effect will first be visible, the total effect will first be visible, towards the end of '13. But again, this is not a ... as such, a capital issue for Danske Bank. Our total ratio drops, but our capital buffer is still 81.5 billion, so there's ample capital in Danske Bank going forward, also after these orders.

On page five, we have tried to, so to say, summarise the expected development in our risk-weighted assets. This 100 billion increase on the Danish FSA was unexpected. On the other hand, we have, as you know, been taking a number of initiatives to reduce our risk-weighted assets. We have also sold off some non-core items until now, so our current risk-weighted assets in Q1 - 797 and actually somewhat lower than what we anticipate when we have the investor Capital Markets Day in the fall of '12.

And at that Capital Markets Day in London, we communicated to you and others that our rough guidance towards 2015 was roughly flat risk-weighted assets, ending up at around DKK 870 billion. But given the new information, including the FSA orders of 100 billion, we have made for your benefit a revised version of this development in our risk-weighted assets towards '15. And our base case or our guidance today would be that we expect risk-weighted assets given the strategy, et cetera, et cetera, that we will have risk-weighted assets of around 930 billion in 2015, roughly an increase of 60 billion compared with what we communicated at the Capital Markets Day.

And then finally, I would like to stress that it's still our intention to repay the state hybrid capital of 24 billion that comes due or at least can be paid back in '14.

And also, as mentioned also in the press release, that we will reconfirm our profit guidance to 7.5 to 10 billion for 2013, and also our ambition for 2015 remains unchanged. Still the goal is towards 2015 to raise the earnings of the Bank considerably, and we are still working … we're still working hard on that.

So that was my … operator, that was my introductory remarks, and I think we should open up for questions.

Omar Keenan - Nomura

Hello. Good morning. Thanks very much for taking the questions. I just had two questions please. The first is you mentioned the impact on 2015 targets. Essentially if we assume increased real equity requirement in 2015, what does that do in terms of deflating your ROE target, which is 12%, with higher rates? Do you expect that you can offset with higher earnings elsewhere, for example, corporate repricing, or do you think the potential for that is not there? Thanks.

Henrik Ramlau-Hansen - Danske Bank - CFO

You're right that our ambition towards 2015 has been communicated to achieve a return on equity of above 12% assuming normalised impairments, assuming short-term rates going up to around 2 percentage points in our main markets.

And that's actually by my statement here reconfirmed, so we'll still target above 12%, assuming interest rates go up as I indicated. And it will basically be on of course on the equity we have. So we'll have to work a little bit harder, but we'll still try to achieve the 12%, given improved macro environments.

Omar Keenan - Nomura

Okay, thank you, and just a second question. I mean if you do decide to appeal the decision, I mean, how do you rate the chances of success there? What kind of timeline would it be before we head back on that? Thank you.

Henrik Ramlau-Hansen - Danske Bank - CFO

We have not… As I mentioned, we have not decided. It's also a Board matter whether to appeal. But if we appeal, things like this could take, let's say, one year.

Omar Keenan - Nomura

Okay, thank you. Thanks very much.

Robert Endersby - Danske Bank - CRO

This is Robert Endersby, Risk Officer – it's … it will not impact if we appeal the requirement to execute this at the end of the year. Highly unlikely that we would have any kind of – to use the English vernacular, stay of execution – so we will have to comply with this even if we appeal what its result.

Henrik Ramlau-Hansen - Danske Bank - CFO

And that's also why we're writing that we're now starting implementing that. Okay, next question please.

Andreas Håkansson – Exane PNP Paribas

Yes, hi. I actually have two questions. First one, you said that you had an ongoing discussion with regulator about this. Could you tell us: Do you also have a discussion about risk weights on the retail side? I, for example, have been a bit surprised at your LGDs and your PDs haven't really moved over the last five years even though we've seen big movements both on the macro and the housing side.

Then on the second question, I mean you've allocated 4 to 6 billion of your group equity into your mortgage company, which means that on a fully loaded Basel 3 basis you have a core tier 1 ratio around 7 to 8% in the Bank, excluding the mortgage company. Do you have any discussion with the regulator about that, given that the capital sits in the mortgage company can't really be easily dividend back into the Bank given that it's backed up for collateral in the carry bond pools? Thank you.

Henrik Ramlau-Hansen - Danske Bank - CFO

We have, as I mentioned, a number of discussions ongoing with the Danish regulator. We do not have any specific discussions going on on the retail side.

Simon Haldrup - Danske Bank - SVP

I can kick in and say on ... we don't have specific discussions on the retail side for sure. You can say in Danske Bank we primarily deploy long-term PDs, and therefore we see less fluctuations over cycle than seen in some other banks. And the same goes for the LGDs, and therefore that's one of the reasons. But, no, we don't have specific discussions.

Henrik Ramlau-Hansen - Danske Bank - CFO

In terms of your questions on the capital, we have capital in RD. We have capital in Northern Bank. We have capital in Danica, and so on. And the risk weights and the capital ratios you are seeing is done on a group-wide, concern, group-wide basis.

And we do not have any specific discussions with a Danish FSA that we have 45 or 46 billion in RD or also significant stakes in Danica. It is group figures you are seeing, and ... but of course we aware of the issue. And that's also why we have taken dividends, dividends out of RD.

Andreas Håkansson – Exane PNP Paribas

Okay, and then maybe last question. You said that there would be some impact next year in term of financial institutions. Could you tell us some size of the double A-impact in 2014?

Simon Haldrup - Danske Bank - SVP

In two thousand ... This is Simon Haldrup. We don't have any specific estimates, but we would consider it to be at least less than the 20 billion.

Henrik Ramlau-Hansen - Danske Bank - CFO

Less than 20 billion.

Andreas Håkansson – Exane PNP Paribas

Okay, thank you.

Robert Endersby - Danske Bank - CRO

We should also add that before we received this order, we were already working to develop this model, so this isn't a shock for us. We're just a little disappointed that the FSA chose to give us an order on the topic because we were already working on it. We'd already disclosed to the FSA that we were working on it, so this will be something that we solve in good time.

Henrik Ramlau-Hansen - Danske Bank - CFO

Okay, next question please.

Ronny Rehn – KBW

Yeah, good morning. Thanks for taking the time. It's Ronny here from Keefe Bruyette. One quick question. On the dividends, does it in any case change your thinking about returning capital to shareholders? And also a second question and probably kind of goes in the same direction. Now that the risk-weighted assets have gone up for essentially the same kind of assets, are you kind of thinking about lowering your internal hurdle rate in terms of core tier 1 level where you want to be or is it still the 13% that you have in mind? Thank you.

Henrik Ramlau-Hansen - Danske Bank - CFO

In terms of the dividends, as you asked about, it's still ... we have not paid a dividend for five years now. It's still the intention to start. If things develop as expected, it's still the intention to start paying a dividend, perhaps not, so to say, to the full amount for 2013. It is of course a decision of the general assembly and Board of Directors and so on, so basically this does not change our long-term strategy of paying dividends. And also down the road when that should arise perhaps leading to share buybacks.

But again, given that we have not paid dividends for five years, the next step is to pay a dividend, and then we'll take it from there. Also, it will still be our target to have a core tier 1 above 13%. It does not change that either. For you, as the investor community, it's quite obvious that a decision like this down the road of course ties up more capital in the Bank. That is a fact, but short-term, it's still the goal just to start paying of dividend for '13.

Ronny Rehn – KBW

Okay. But I mean when you look at a 13% target, I mean on a Basel 3 basis, at least pro forma first quarter plus the 100 billion, I mean we're well below that, we're probably around 12% or something. So in order to get to the 13% target you have, I mean, you shouldn't really pay a dividend, so that's why I'm kind of wondering.

Henrik Ramlau-Hansen - Danske Bank - CFO

And that's also why I mentioned we'll perhaps not pay a dividend to the full amount, but I think you will not be down to... What did you mention, did you mention 11%?

Ronny Rehn – KBW

No, 12, just about 12 I would think, no? I mean...

Henrik Ramlau-Hansen - Danske Bank - CFO

But we'll ... there will also be earnings for the remaining part of the year, but we'll take it down the road.

Ronny Rehn – KBW

Okay, thank you.

Nick Davy - UBS

Yes, good morning, everyone. A couple of questions please from my side. The first one, please: Could you just talk a little around the capital efficiency target that you still have outstanding for 50 to 70 billion of RWA reductions? Can you split out a little bit where you're still hopeful that those will come from? I remember at the Capital Market's Day, you talked a bit about improving your advanced IRB framework and using more internal models for counterparty risk. It just feels like the tone of what the Danish FSA is ordering here is very much contrary to that kind of work, so could you just give us a flavour of how confident you are on that 50 to 70 billion, please?

Simon Haldrup - Danske Bank - SVP

Yes, I think we're absolutely as confident as we were before we had these orders because the effect we see here is both from extending the IRB coverage in our portfolio to also include our finished frame size, which in no way seems to be affected from these ... [inaudible] from the FSA. And no matter the fact that we're changing the level of capital we should hold against these assets, it doesn't change the fact that we need to be efficient how we deploy it. And the majority of the initiatives we have within this programme are actually driven from a risk-optimisation point of view, and therefore we don't see a strong link between increasing the risk weights on the corporate exposures and then the impact we see from the capital efficiency programme.

Nick Davy - UBS

Okay, thank you. If I could have a second question please on the 100 billion number for the risk-weighted assets increase based on the orders. If I read the report from the FSA correctly, it seems like they're making minimum suggestions and leaving it up to you on interpretation and any particular other buffers you would like to add on top of that. Do you understand well that this 100 billion is basically in line with their minimum orders and there's no sort of buffers on top of that?

Simon Haldrup - Danske Bank - SVP

I'm not...

Robert Endersby - Danske Bank - CRO

No, there are no buffers on top of that. They've given us an order to adjust our risk weights or given us orders to adjust our risk weights, which is actually giving us an order to create an outcome. So we have to make some decisions internally, which we will agree with the FSA about whether or not and across which portfolios within the corporate business we adjust PDs and/or LGDs. So we have some ... we have considerable amount of latitude. In fact, one of our frustrations is they have not been very specific about any particular model that they don't like, so we will have to find ... we have a considerable amount of latitude for the way in which we deploy this.

Nick Davy - UBS

Okay, very clear. Thank you. And then final question just on rating agency discussions. Clearly very, very early days, but one of the key areas you've been targeting is improved ratings, and you've pegged your dividend payout target along the lines. Have you had any early discussions at all with rating agencies or any strategy to try and somewhat mitigate what might otherwise be perceived as negative headlines from a rating agency perspective?

Claus I. Jensen - Danske Bank - IR

You are quite right. This is Claus Jensen from Investor Relations. You're quite right that this is very early days and... but as far as we can see of the nature of this issue, this will not impact the view from the rating agencies, nor it will impact our present outlook.

Nick Davy - UBS

Have you got some confirmation of that because I suppose some of them look at stated Basel ... pro forma Basel 3 core tier 1 ratios and find you 150 bps worse off today than where you were yesterday? But have you got some confidence about the outcome or that's...?

Claus I. Jensen - Danske Bank - IR

We are quite confident that it will not affect the present status with the rating agencies. But of course, as you mentioned, this is very early days, so we have not received any formal confirmation from their side.

Nick Davy - UBS

Very clear. Thank you.

Claire Kane - RBC

Hi there. Just a few follow-ups really. You mentioned that the announcement hasn't really come as a surprise. And I think the release from the FSA said the discussions were back in September '12, and then you gave us the Capital Markets Day discussion. So where has the difference really come through that you weren't expecting in that case? Did you ... and I guess, how long in advance or was it just September '12 was the first time you knew about the corporate risk weight discussions? Because I'm just wondering in six months time, will then they start looking at retail? It hasn't started yet, but could that come in down the line? Thank you.

Simon Haldrup - Danske Bank - SVP

Two points. One is that if one actually start benchmarking... To take the latter point first, if you benchmark our risk weights to peers. Then because we have been on advanced IRB for a longer period of time, our corporate risk weights has been in some areas lower than others, and therefore that has been in actual discussion with the FSA since September.

However, without any specific impact into mind, that kind of impact has only come at a later point in time. And because we don't see the same differences on the retail side, as I said earlier, we don't have any specific discussion with the FSA at this point in time, and I wouldn't anticipate to see those kind of discussions coming up neither.

Claire Kane - RBC

Could I maybe just get...

Henrik Ramlau-Hansen - Danske Bank - CFO

But of course, there are no guarantees out there. There's no guarantees, obviously.

Claire Kane - RBC

Could I just say: Is your comparison with peers based on the new floors introduced in Sweden and potentially the floors, the higher floors in Norway, or just what the current reported Pillar I numbers are.

Simon Haldrup - Danske Bank - SVP

We have... Depends on what kind of retail we're talking about, but most predominately our retail corporate risk weight is 13% as of Q1 '13.

Claire Kane - RBC

Okay. And in terms of mortgages?

Simon Haldrup - Danske Bank - SVP

In terms of retail mortgages.

Claire Kane - RBC

Yeah, retail mortgages. Okay, thanks.

Simon Christensen - Nordea

Yes, one question. The Danish FSA, as I read it, has required a minimum increase of 10 percentage points in your corporate risk weight. The 100 billion in RWA increase – is that in the minimum 10 percentage points, or could you share what your corporate risk weight is? Thanks.

Simon Haldrup - Danske Bank - SVP

Our corporate ... they use a reference point of Q4 2012, where they require to increase the corporate risk weight with a minimum of 10 percentage points. And is that minimum of 10 percentage point plus the impact on the counterparty risk that amounts to 100 billion of RWA.

Simon Christensen - Nordea

Okay. But what is... I mean, you also guide for, I mean, that there will be some parameter updates in terms of your risk-weighted asset development through 2015. What do they relate to? And could you also comment on the rather large movements there are in the effects from new regulation and capital efficiency relative to your CMD material.

Simon Haldrup - Danske Bank - SVP

Yeah, on the model parameter update, that's the risk of our IRB framework. So we have seen a number of needed updates on everything from haircut to collateral values and different other items. So that's some of the issues that's underlying the model and parameter update.

You asked about the capital efficiency. That's a prime driver of the capital efficiency, as I also touched upon earlier, is the fact that we have applied to the foundation IRB for our Finnish franchise for which we'll foresee a significant IRB release.

Simon Christensen - Nordea

But didn't you know that you would apply for this at the Capital Markets Day? And I can also see that the effect from your new regulation is down by 60 billion in risk-weighted assets, if I take the mid-range relative to your CMD material. What is the new information that you have received?

Simon Haldrup - Danske Bank - SVP

On the new regulation, the main changes is on the corporate CVA impact, and therefore the expected impact from CVA is much lower than anticipated at that point in time.

Simon Christensen - Nordea

Okay, thank you.

Asbjørn Mørk - Carnegie

Yes, good morning. Asbjørn from Carnegie here, and most of my questions have been answered, but I have a couple of questions. First of all, on your ... you say that you still want to redeem your state hybrid 24 billion. If I look at your solvency, it drops from 21.6% to 19.1. And I remember you said something about refinancing part of this with some subordinated debt, and I think you mentioned something like 10 billion. So does this deduction in your solvency, does this have any influence on how much you would need to refinance in April?

Henrik Ramlau-Hansen - Danske Bank - CFO

We haven't made... It's our goal to repay the state hybrid. We have not made the final decision. It's something we're discussing currently internally. We have not made a final decision how much new capital we would need to issue in '13 or '14 in connection with a repayment of the state hybrid. It's still subject to internal discussion, so there's no ... there's not a final figure here yet.

Asbjørn Mørk - Carnegie

Okay. Then second of all, on your risk-weighted assets, I mean, I think it was sort of mentioned on one of the earlier questions as well. But it seemed to be an ongoing process, this, and has been going on for at least half a year. I'm just looking at your RWA development the last year. It seems to have dropped 100 billion, so is there any correlation between those 100 billion and the 100 billion that you just received yesterday?

Robert Endersby - Danske Bank - CRO

No, that 100 billion is a result of the capital efficiency programme that we all had ... already had in place and also some asset disposals. So the two things are not related. It's an unhappy coincidence that they're roughly the same.

Asbjørn Mørk - Carnegie

Okay, thank you very much.

Sofie Peterzen – JP Morgan

Yeah, hi. Here it's Sofie Peterzens from J.P. Morgan. Three very short questions. With the FSA order, you were saying that it's purely that they were benchmarking you against the other banks. You would assume that there was a little bit more rationale than that, given that you have one of the most advanced risk management methods in Denmark. It would just seem that it would be reasonable that you have lower risk weights compared to your competitors.

But could you maybe talk a little bit more about your discussion with the regulator. And what about … have you had any similar discussions with the regulators in the other Nordic countries? Do you think they could also introduce higher corporate risk weights for you, for example in Norway or Sweden? And then thirdly, could you talk a little bit about asset disposal plans that you have, which assets are you looking to sell over the next couple of years? Thank you.

Henrik Ramlau-Hansen - Danske Bank - CFO

Okay. If I should take some of your questions. First of all, our regulator is the Danish FSA, so any decisions come through the Danish FSA. And we are not aware of that there should be, so to say, additional discussions going on beyond what is included in the orders.

But of course part of the work the Danish FSA have done is that they've been in a dialogue in the other Nordic supervisors, but we are not getting,, so to say,, orders or directions from the other Nordic FSAs. That is through the Danish FSA, that is our main and is our regulator.

And in terms of our discussion with the Danish FSA, I think you're right. We have been pointing to that they should adjust for differences in the portfolio compositions in terms of size.

They should adjust for the fact that we have a larger part of our portfolio being an advanced IRB, where some of the colleagues they are comparing us with are more in foundation or standard. And then we honestly feel that that is one of the areas where if you compare rightly for the different types of portfolios, the different types and models the various banks are using, then actually the differences becomes much, much smaller.

And then you asked about asset disposal. I'm not quite sure I understood the question fully. We are not in the process as such of disposing assets. We are in the process in Ireland in our non-core unit of reducing that and reducing that considerably in size, over '13 and '14. And we have given some specific guidance relating to Ireland. But otherwise we are not in a, so to say, in a position where we are disposing assets. Does that answer your question?

Sofie Peterzen – JP Morgan

Yeah. Just to clarify, so the capital efficiency of 50 to 70 billion, that improvement you mentioned previously, that it could be of asset disposals, but those asset disposals are basically relating to Ireland?

Robert Endersby - Danske Bank - CRO

No, sorry, to be clear, the question was about our previous years' capital efficiency programme…

Henrik Ramlau-Hansen - Danske Bank - CFO

Yeah, we have…

Robert Endersby - Danske Bank - CRO

…and how we reduced the risk-weighted assets over the course of 2012, and part of that was related. Part of that was capital efficiency, and part of that was some run-down of assets in various portfolios during the course of 2012. We're not talking about specific disposals in 2013 other than as Henrik says, that we do expect, as a result of our workout programme on the Irish portfolio, that we should deleverage that portfolio by a considerable amount over the course of '13 and '14.

Henrik Ramlau-Hansen - Danske Bank - CFO

So the asset disposals are part of the reason why our risk-weight into Q1 '13 of 797 is somewhat lower than previous anticipated.

Sofie Peterzen – JP Morgan

Okay, thank you very much.

Henrik Ramlau-Hansen - Danske Bank - CFO

Okay, one more question.

Jacob Kruse - Autonomous

Hi. Thank you. Just two questions for me. First on the ROE targets. Could you talk at all about how you plan to compensate for the higher amount of capital that you're hold if you have a 13% core tier 1 target still … to still hit 12% relative to your old Capital Markets plans? And for example, is there any scope to increase the margins or the corporate lending to reflect the higher risk weights and capital charge on those loans? And secondly, would you at this point rule out the need to take in additional capital or the willingness to take in additional equity capital, or do you keep all options open at this point? Thank you.

Henrik Ramlau-Hansen - Danske Bank - CFO

In terms of reaching or ROE target, it's still our plan to improve the earnings of the Bank going forward. And to put simply, our equity today is the same as it was yesterday, also after the orders. So we have a plan of getting up and improving our earnings, start paying dividends, and then down the road we have to take into considerations whether we're going to pay out additional dividends, share buybacks, and so on. But that is very premature. The goal for '13 and '14 and '15 is simply to get the earnings up with the equity we have and start paying dividends. Of course, you should never rule out anything going forward, but it's not part of our base case of taking in additional equity.

Jacob Kruse - Autonomous

Okay. And just on pricing on corporates, do you see any room to increase…?

Henrik Ramlau-Hansen - Danske Bank - CFO

Pricing-wise, we already doing a lot, both on the private side and on the personal side and also the corporate side. And, as such, these orders should not change the short-term or intermediate-term outlook for what we are doing. We're also in a competitive environment, but we already actually doing a lot, both on pricing margins but also on pricing fees. And we have also a cost programme that we're starting showing its benefits.

Jacob Kruse - Autonomous

Okay, thank you.

Henrik Ramlau-Hansen - Danske Bank - CFO

I think we have time for a couple of more questions.

Christian Hede – Jyske Bank

Yes, this is Christian from Jyske Bank. I was just wondering. I guess this is a bit of a political question. But since you clearly do not have a very positive dialogue with the FSA, and as you say yourself, you're not fully … you do not fully agree with the FSA in this point, how do you see this connect with the SIFI discussion going on where in Denmark we have a lot of focus on whether things will support growth in Denmark or whether it will actually stall growth? I guess this is a step in the wrong direction in terms of supporting the growth, so how do you see this? Is this going to be part of the political discussions, and should we expect the SIFI outcome to be less severe than the original report? Thank you.

Robert Endersby - Danske Bank - CRO

I'll let Henrik cover the SIFI point, but just to say your original contention that we don't have a good dialogue with the FSA – actually for the most part we do have a good dialogue with the FSA. We consider this to be a one-off, very specific issue. A point of principle about whether or not they should use benchmarking to determine our risk weights. We disagree because we don't think that that's part of the regulation. We also don't agree with the outcome of their analysis either. But this is very much a one-off, specific issue, and I don't think you should read into this that we have a bad relationship with our regulator. On the contrary, most of the time we're pretty aligned with thinking.

Henrik Ramlau-Hansen - Danske Bank - CFO

Yeah, we fully agree with Robert. We actually have a very … usually a very constructive dialogue with the FSA, but here there's been a, so to say, one stumbling block. But generally speaking we have a very good dialogue with the Danish FSA.

And in terms of your SIFI questions, you're right, this is… If you take away the high level, this is one additional example of that is coming gradually more and more expensive being a bank. We have the CRD IV, now we will get some kind of SIFI regulation in the … during the summer or in the fall. And you're right that this is not long-term support growth, but it is as it is. And we'll have to work within the boundaries that the FSA and the government sets up for banks, and we take it from there.

Christian Hede – Jyske Bank

Okay, thank you.

Henrik Ramlau-Hansen - Danske Bank - CFO

Okay. One more question.

Johan Ekblom - BoAML

Thank you. I think most of my questions have been answered, but I just wanted to follow up. I mean you say that you don't agree with benchmarking. And I think in the FSA's report, they repeatedly state that, even if they adjust for the fact that you are more an IRB advanced than some of your peers, et cetera, the difference is still sufficient.

Now not so helpfully they've blanked out all of the comparisons. You say that you've done similar benchmarking. I mean is that something you can share with us? Presumably that's based on public available information. How much of the difference actually is explained by different models, I suppose, to different sort of assumptions going into that?

Henrik Ramlau-Hansen - Danske Bank - CFO

I think that if you adjust for some of the things we have mentioned, size and type of portfolios and advanced IRB, at least you've narrowed down the differences quite a bit. And then the question is: Should… can you use that as a final decision? So the point is that if you make all the adjustments, then the difference becomes … if there's a difference, it becomes very small. And there we say … and then based on that, you cannot take such a far-reaching decision as they have done. Whether we should publish our own analysis, that's something we'll think about.

Johan Ekblom - BoAML

But I guess the FSA specifically makes the point that they have taken those comments into account, and despite that they still find that there's a substantial difference in the risk weights. So clearly you don't agree with the calculation that they've done when they've adjusted your peers. Where do you think the FSA has gone wrong?

Robert Endersby - Danske Bank - CRO

We think that the FSA has gone wrong on a number of counts. One is the difference that's created by these of … through-the-cycle models versus point-in-time models. We think that there are timing differences in the data, knowing specifically that a number of banks in the benchmark, in their benchmark have made changes since 2011, when they first published the data, the data which is based.

There's a difference in the impact between whether or not you're advanced and foundation IRB and the amount of your portfolios that are in there. And there are differences in portfolio quality and composition. Just to come back to your point about whether or not we could provide this information to you, I think we have … we need to think about that question simply because this is the kind of information that we might use in an appeal. And there it's technically in a way sub judice at the moment, and I'm not sure that we want to give that out until such time, at least until we've decided on the basis of our appeal.

Johan Ekblom - BoAML

Perfect. Thank you very much.

Robert Endersby - Danske Bank - CRO

Okay, you're welcome.

Henrik Ramlau-Hansen - Danske Bank - CFO

Okay. Thank you for … everybody, for listening. If you have any additional questions, please feel free to call our Investor Relations department, and we will be available throughout the day. Thank you very much for listening, and see you in connection with our half year result. Thank you very much.