Author: Simon Barsøe Venshøj

Exam number: 300477

Study programme: BSc Business Administration & Sustainability

Advisor: External lecturer Palle Nierhoff

Department: Department of Economics & Business

Term: Spring semester

Year: 2012

Characters: 134.118

Normal pages: 60,96

Bachelor Thesis

The Financial Crisis & the Danish Banking Sector

An Analysis of Danske Bank

Aarhus University
Business & Social Sciences

ABSTRACT

The Danish banking sector - along with several others - was considerably affected by the 2008 financial crisis. The combined profits of the Danish banking sector dropped from 32,6 billion DKK in 2007 to -15,4 billion in 2009, a decrease of approximately 148%. Consequently, the primary purpose of this thesis is to investigate why the Danish banking sector was not resistant to the impact of the 2008 financial crisis. Additionally, the thesis intends to investigate what effect the Danish bank bailout packages have had on the Danish banking sector as well as whether there were differences in the performances of Danish banks during the financial crisis.

Following two sections with background information on the origin and development of the 2008 financial crisis as well as the Danish bank bailout packages, the thesis will use *Danske Bank* as a company case in answering the research questions. The analytical part of the thesis is divided into two sections; a strategic analysis and a financial analysis.

The purpose of the strategic analysis is to gain insights on the Danish banking sector and, in particular, Danske Bank. To more specific, the strategic analysis aims to explore specifically what corporate strategy Danske Bank chose to follow in the years preceding the financial crisis. The strategic analysis is divided into two sections; an external analysis and an internal analysis. The external analysis examines the general environment and the Danish banking industry to get an understanding of the environmental and competitive factors at play prior to the financial crisis. The internal analysis analyses Danske Bank’s vision and mission statement as well as its corporate values to realise what strategic goals it adheres to. The combination of the external and internal analysis will facilitate the elicitation of Danske Bank’s corporate strategy and consequently a vital factor in determining why it was unable to avert the financial crisis.

By examining the corporate accounts in connection with the corporate strategy, the purpose of the financial analysis is to determine why Danske Bank was considerably stronger affected than other banks of equivalent size. The financial analysis is divided into two sections; a performance analysis of Danske Bank as well as a capital analysis of Danske Bank. The performance analysis will examine the financial performance of Danske Bank in the period from 2007 to 2011 and ascertain what factors were responsible for the significant deterioration of Danske Bank’s performance. The capital analysis will analyse the development of Danske Bank’s capital base including the minimum capital requirements it has to meet. The Swedish-based Scandinavian bank *Nordea* will be used as a benchmark throughout the financial analysis.

As established by the strategic analysis, and substantiated by the company history, Danske Bank relied on an expansion strategy in the years preceding the 2008 financial crisis. This was the effect of, among others, a particularly competitive Danish banking market, a favourable economic climate and a strong business platform. The expansion strategy resulted in Danske Bank acquiring companies in Norway, Sweden and Finland as well as Ireland and Northern Ireland. Since Danske Bank can be characterised as a cost leader, with an overall lower profit margin on its products,

Danske Bank aimed to take advantage of the economics of scale that arises when expanding and thus be able to generate higher profits.

The financial analysis ascertained that the profitability of Danske Bank deteriorated considerably during the financial crisis, not only compared to the profitability of previous years but also compared to its competitor Nordea. The performance analysis established that Nordea surpassed Danske Bank in terms of profitability during the financial crisis. The main cause for the rapidly deteriorating profitability is to be found in Danske Bank's impairments incurred on bad loans. During the financial crisis, Danske Bank was unfortunately compelled to incur substantial amounts of loan impairments as so many of its customers collapsed. The average annual amount of loan impairments was from 2007 to 2011 equal to 26,6% of the annual revenue for Danske Bank while the equivalent was a mere 7,7% at Nordea.

Moreover, the performance analysis showed that the majority of loan impairments incurred in Danske Bank originated from the banking activities in Denmark, Ireland and Northern Ireland. The fact that the Danish, Irish and Northern Irish banking activities of Danske Bank incurred approximately similar amounts of loan impairments is paradoxical since the Danish banking activities are considerably larger than the opposing Irish and Northern Irish. While the Danish banking activities incurred average loan impairments equal to 0,5% of the entire national portfolio of loans the equivalent was 5,2% and 2,1% for Ireland and Northern Ireland respectively.

While Nordea surpassed Danske Bank in terms of profitability during the financial crisis, the opposite is true when considering the capital situation of the two banks. As displayed by the capital analysis, Danske Bank was considerably better capitalized during the financial crisis than was the case for Nordea. This was primarily the result of Danske Bank's participation in the Danish bank bailout package II from which it borrowed 26 billion DKK, whilst Nordea chose not to borrow any capital, and the decreasing development in Danske Bank's risk weighted assets. Both Danske Bank and Nordea turned to the issuing of new stocks as a means of obtaining further capital, both of them raising roughly 20 billion DKK from investors. The capital analysis illustrated that neither the hybrid capital from the Danish government (or the Swedish) nor the issuing of new stocks was necessary for them to fulfil the minimum capital requirement imposed on them. This is obviously an all things being equal consideration, as the obtained capital might have acted as a safety net and enabled Danske Bank and Nordea to attract more capital.

TABLE OF CONTENTS

1 INTRODUCTION **1**
1.1 PROBLEM STATEMENT 2
1.2 DELIMITATION 2
1.3 STRUCTURE & METHODOLOGY 3
1.4 ASSUMPTIONS 5
2 THE FINANCIAL CRISIS **6**
2.1 THE AMERICAN SUBPRIME CRISIS 7
2.2 THE INTERNATIONAL FINANCIAL CRISIS 8
2.3 POSSIBLE EXPLANATORY FACTORS FOR THE FINANCIAL CRISIS IN DENMARK 9
3 THE DANISH BANK BAILOUT PACKAGES **10**
3.1 BANK BAILOUT PACKAGE I 10
3.2 BANK BAILOUT PACKAGE II 11
3.3 BANK BAILOUT PACKAGE III 12
3.4 BANK BAILOUT PACKAGE IV 12
4 DANSKE BANK **14**
4.1 RECENT MERGERS & ACQUISITIONS 14
5 STRATEGIC ANALYSIS **16**
5.1 EXTERNAL ANALYSIS 16
5.1.1 PESTEL Analysis 16
5.1.2 Porter's Five Forces 22
5.2 INTERNAL ANALYSIS 26
5.2.1 Vision Statement 27
5.2.2 Mission Statement 28
5.2.3 Corporate Values 29
5.3 SWOT ANALYSIS & CORPORATE STRATEGY 31
6 FINANCIAL ANALYSIS **34**
6.1 PERFORMANCE ANALYSIS 34
6.1.1 Profitability 34
6.1.2 Loan Impairments 38
6.1.3 Danske Bank without Banking Activities in Ireland & Northern Ireland 41
6.1.4 The Supervisory Diamond for Banks 42
6.2 CAPITAL ANALYSIS 47
6.2.1 Capital Requirements 47
6.2.2 Capital Ratios 48
7 CONCLUSION **53**
8 REFERENCES **55**
9 APPENDICES **60**
APPENDIX 1: INCOME STATEMENT & BALANCE SHEET OF DANSKE BANK 60
APPENDIX 2: INCOME STATEMENT & BALANCE SHEET OF NORDEA 62

APPENDIX 3: PROFITABILITY ANALYSIS ... 64
APPENDIX 4: LOAN IMPAIRMENT CHARGES AT DANSKE BANK ... 66
APPENDIX 5: DANSKE BANK WITHOUT BANKING ACTIVITIES IN IRELAND & NORTHERN IRELAND ... 67
APPENDIX 6: THE SUPERVISORY DIAMOND ... 68
APPENDIX 7: CAPITAL ANALYSIS ... 70

LIST OF EXHIBITS

EXHIBIT 1.0: THESIS STRUCTURE ... 3

EXHIBIT 5.0: DANISH CORPORATION TAX ... 17

EXHIBIT 5.1: KEY ECONOMIC VARIABLES ... 18

EXHIBIT 5.2: ACCESSABILITY OF DANISH BANKS ... 19

EXHIBIT 5.3: PENSIONS SAVINGS ... 20

EXHIBIT 5.4: ELECTRONIC PAYMENT METHODS ... 20

EXHIBIT 5.5: ENERGY CONSUMPTION ... 21

EXHIBIT 5.6: FIXED COSTS IN THE DANISH BANKING SECTOR ... 24

EXHIBIT 5.7: LEVEL OF CHURN OF DANISH BANKING CUSTOMERS ... 25

EXHIBIT 5.8: MARKET SHARES IN THE DANISH BANKING SECTOR ... 26

EXHIBIT 5.9: THE VISION STATEMENT OF DANSKE BANK ... 27

EXHIBIT 5.10: THE MISSION STATEMENT OF DANSKE BANK ... 28

EXHIBIT 5.11: THE CORPORATE VALUES OF DANSKE BANK ... 29

EXHIBIT 5.12: SWOT ANALYSIS ... 31

EXHIBIT 5.13: THE MARKET OPTIONS MATRIX ... 32

EXHIBIT 5.14: THE GENERIC STRATEGIES ... 33

EXHIBIT 6.0: EBITDA MARGIN ... 35

EXHIBIT 6.1: PROFIT MARGIN ... 35

EXHIBIT 6.2: RETURN ON EQUITY ... 36

EXHIBIT 6.3: IMPAIRMENTS/REVENUE ... 37

EXHIBIT 6.4: PROFITABILITY RATIOS ... 38

EXHIBIT 6.5: LOAN IMPAIRMENTS ... 39

EXHIBIT 6.6: MARKET SHARES FOR LENDING ... 39

EXHIBIT 6.7: IMPAIRMENTS/LOAN PORTFOLIO……………………………………………………………………**40**

EXHIBIT 6.8: PROFIT MARGIN WHEN EXCLUDING IRELAND AND NOTHERN IRELAND…………………**41**

EXHIBIT 6.9: PROFITABILITY RATIOS WHEN EXCLUDING IRELAND AND NORTHERN IRELAND….….**.42**

EXHIBIT 6.10: THE SUPERVISORY DIAMOND……………………………………………………………………**43**

EXHIBIT 6.11: LARGE EXPOSURES………………………………………………………………...……….**44**

EXHIBIT 6.12: FUNDING-RATIO…………………………………………………………………….……...**45**

EXHIBIT 6.13: PROPERTY EXPOSURE………...……………………………………………………………**45**

EXHIBIT 6.14: LENDING GROWTH…………………………………………………………………………**46**

EXHIBIT 6.15: EXCESS LIQUIDITY COVERAGE……………………………………….……………….**46**

EXHIBIT 6.16: CAPITAL RATIOS……………………………………………………….……………...**50**

EXHIBIT 6.17: CAPITAL RATIOS EXCLUDING STOCK ISSUES…………………………………………………**51**

EXHIBIT 6.18: INDEX ANALYSIS…………………..…………………………………………………….**.52**

1 Introduction

Prosperity, consumer spending and economic growth characterized the years preceding the 2008 financial crisis, with real GDP growth rates between 1,6% and 3,4% in Denmark in the period from 2004 to 2007 (EU-Oplysningen 2011). The Danish banking sector enjoyed the favourable economic climate as well, presenting record profits of 33,4 and 32,6 billion DKK in 2006 and 2007 respectively (Finansrådet 2011c). But with 2007 drawing to a close and the coming of a new year, a whole new economic situation emerged when the 2008 financial crisis swept the nation. The entire economy went into a decline with a real GDP growth rate of -1,1% in 2008, until the crisis amplified and the real GDP growth rate dropped to -5,2% in 2009 (EU-Oplysningen 2011).

The Danish banking sector was like all other sectors, and as a consequence thereof, private citizens - seriously affected. Its combined profits dropped from 32,6 billion DKK in 2007 to -6,1 billion DKK in 2008 – a decrease of 38,7 billion DKK. However, the worst was yet to come as the sector's profits hit rock bottom and dropped to -15,4 billion DKK in 2009 – a decrease of 48 billion DKK or the equivalent of approximately 148% from 2007 to 2009 (Finansrådet 2011c). More than 4.000 people employed in the financial sector in Denmark have since 2008 lost their jobs and industry experts expect the number to increase even further (Finansforbundet 2011). Moreover, approximately one in four Danish banks has since the beginning of the financial crisis been forced to shut down, either due to the banks in question collapsing or merging with another bank. While there were 159 Danish banks in 2007 only 121 are present in the industry today – a decrease of 23% (Business.dk 2011a).

Danske Bank, the largest Danish bank, has like the rest of the industry experienced a lot of turmoil since the financial crisis erupted. In 2006 and 2007 Danske Bank, in line with the rest of the industry, presented record profits of 15,3 billion DKK and 14,8 billion DKK respectively (Danske Bank 2007). It did not, like most of the industry, manage to escape the financial crisis unharmed. Its profits dropped to 1 billion DKK in 2008 and 1,7 billion DKK in 2009 – a decrease of 13,1 billion DKK or 88% from 2007 to 2009 (Danske Bank 2009). A direct consequence of the financial crisis for Danske Bank has been to reduce the staff by 2.000 employees or roughly 10% of the entire workforce. This was deemed necessary in the hope of increasing profitability (Business.dk 2011b).

It is evident that the 2008 financial crisis has affected the Danish banking sector significantly. Profit levels have been drastically reduced, a large number of banks have disappeared from the market and massive layoffs have been initiated in the hope of increasing profits. It is, however, not all banks that performed as badly during the 2008 financial crisis as Danske Bank. *Nordea*, a Swedish-based Scandinavian bank and the second largest bank in Denmark, managed to manoeuvre considerably better through the financial crisis than Danske Bank did. While Danske Bank's profits dropped 88% from 2007 to 2009, Nordea was able to retain the reduction at 26% - from 23,4 billion DKK in 2007 to 17,3 billion DKK in 2009 (Nordea 2007) (Nordea 2009).

1.1 Problem Statement

As most of Denmark and indeed the world, the Danish banking sector was heavily affected by the 2008 financial crisis. From delivering record profits in the years preceding the financial crisis, the sector unfortunately began to suffer record deficits during the financial crisis. There were nevertheless differences in the degree to which the Danish banks were impacted by the financial crisis. Some banks collapsed, some merged with others to survive and some experienced a decreasing performance. But even among the banks that merely experienced a decreasing performance, can significant differences be uncovered.

The main purpose of this thesis will be to investigate the Danish banking sector during the financial crisis of 2008. The thesis intends to analyse and examine the reasons why the Danish banking sector failed to safeguard itself from the impacts of the 2008 financial crisis. In that connection, the thesis will investigate the degree to which company-specific factors have had an influence and possibly amplified the effects of the financial crisis causing the problems to develop even further. Furthermore, the thesis intends to investigate what effect the Danish bank bailout packages have had on the Danish banking sector and whether there were differences in the performance of Danish banks during the financial crisis.

The main research question is:

Why was the Danish banking sector not resistant to the impact of the 2008 financial crisis?

The secondary research questions are:

- Were there differences in the performance of Danish banks during the financial crisis and if so, what caused these differences?
- How did the bank bailout packages affect the Danish banking sector?

1.2 Delimitation

An analysis of the entire Danish banking sector would be too extensive and the resulting outcome would unquestionably be too cursory and generic. Instead, Danske Bank has been chosen as a company case and illustration of the Danish banking sector. This should allow a sufficiently detailed and thorough analysis. Danske Bank was chosen because it was significantly affected by the financial crisis, resulting in layoffs and decreased performance, yet it still managed to stay in business. Since Danske Bank is currently the largest bank in Denmark, its strength and survival is of great importance to the Danish society. This makes it a very interesting and attractive case to analyse.

Furthermore, the thesis will only consider the period of years from 2007 to 2011 as relevant for the subsequent financial analysis. This span of years was chosen because it will reveal how the situation was prior to the financial crisis as well as after it hit.

The information regarding Danske Bank and the Danish banking sector included in the analytical parts of the thesis is all available to external stakeholders and there has thus been no contact with Danske Bank in the making of this thesis. The analytical parts will primarily be based on information from annual reports, news releases, articles and other information from industry organisations.

1.3 Structure & Methodology

The structure of the thesis is as illustrated in Exhibit 1.0.

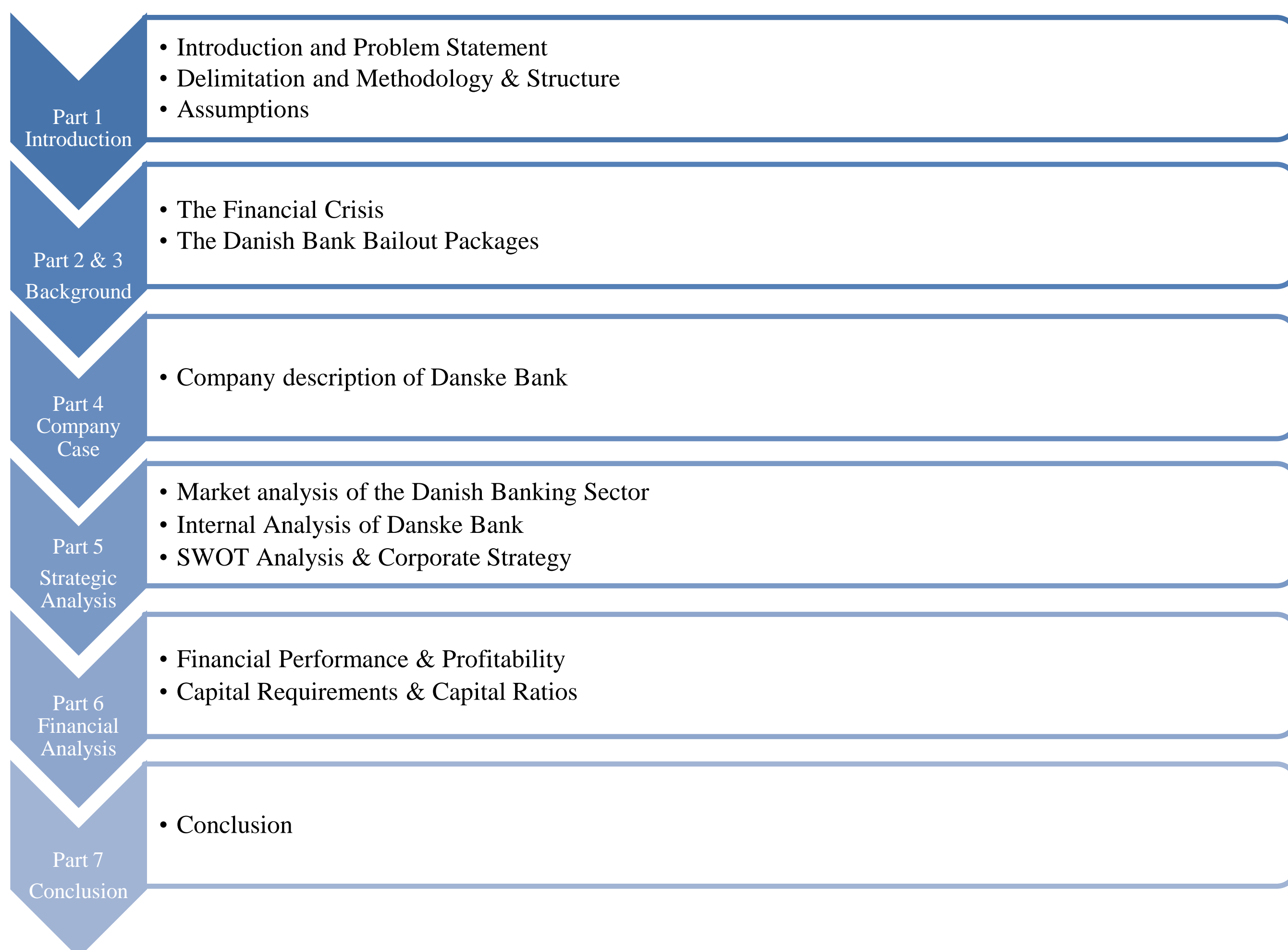

Exhibit 1.0 – Thesis structure
Own production

The thesis is in total made up of seven sections. Following the introduction, the two subsequent sections will deal with general information pertaining to the Danish banking sector – the origin and development of the 2008 financial crisis as well as the resulting Danish bank bailout packages. The second part of the thesis is an overview of the 2008 financial crisis, including where and how the crisis originated, how it spread, what effects it has had and potential reasons for why it started. The third part of the thesis is a review of the bank bailout packages the Danish government initiated in the hope of improving the conditions of the Danish banking sector as well as the Danish society. The review will include the demands that the Danish government required the participating banks to fulfil as well as the associated advantages of participating in the bank bailout packages.

Once the background information about the Danish banking sector has been treated, the thesis will shift approach and use Danske Bank as a company case in the attempt to determine why it was so significantly affected by the financial crisis. Thus, the fourth part of the thesis will be a brief company description of Danske Bank, featuring information on the history of the company as well as its activities within mergers and acquisitions – especially in the previous years.

Then follows the analytical section of this thesis, which will be divided into two parts – a strategic analysis and a financial analysis.

The strategic analysis, the fifth part of the thesis, will contain both an external and internal analysis. The external analysis will consist of an environmental analysis using the PESTEL analysis as well as an industry analysis using Porter's Five Forces. The internal analysis will examine Danske Bank in depth by analyzing its vision and mission statement and corporate values. The external and internal analysis will subsequently be summarized by a SWOT analysis and Danske Bank's corporate strategy will be deduced. Since the main purpose of this thesis is to investigate why Danske Bank and the Danish banking sector were unable to avert the impacts of the financial crisis, the entire strategic analysis will be conducted for the years preceding the financial crisis. The purpose of the strategic analysis is thus to be able to explain how the general market as well as the Danish banking sector behaved and how Danske Bank operated in this situation given its strategic goals.

The financial analysis of Danske Bank, the sixth part of the thesis, will cover the years from 2007 to 2011. The financial analysis will examine Danske Bank's performance before and during the financial crisis in terms of profitability and capital holdings, and compare it with the capital requirements of Danish banks. While Danske Bank is the main focus of this thesis, the Swedish-based Scandinavian bank Nordea will be used as a benchmark in the financial analysis to be able to compare and draw conclusions.

The seventh and final part of the thesis is the conclusion where the analysis will be summarized and the research questions answered.

1.4 Assumptions

I will throughout this thesis make several references to the 2008 financial crisis. Any references I make to the financial crisis will, unless specifically stated, be a reference to the 2008 financial crisis.

Additionally, I will all through this thesis use DKK as currency when monetary amounts appear to encourage comparisons. The approximately accurate currency exchange rate of 7,5 DKK per EUR will be used to convert all monetary amounts in EUR in this thesis.

2 The Financial Crisis

Although the current financial crisis is global in nature, the seeds were planted in the political and economical markets of the United States of America. One of the first seeds was the deregulation of the U.S. banking sector in 1999. The U.S. Congress passed the *Gramm-Leach-Bliley Financial Services Modernization Act* of 1999 which removed the last barriers between commercial and investment banks. Previously the *Glass-Steagall Act* of 1933 had distinguished commercial banks from investment banks and had prohibited commercial banks from entering into risky operations. With the passing of the *Gramm-Leach-Bliley Financial Services Modernization Act*, commercial banks were now allowed to perform riskier operations such as proprietary dealing and underwriting. This caused the competition within the lending markets to increase significantly. The banks began to compete on issuing more and more loans by offering lower rates and alternative mortgage forms (P. 114, Moffett, Stonehill & Eiteman 2011).

A second seed of the current financial crisis was laid in 2000 when the dot-com bubble burst. Technology companies had in the preceding years seen their market values skyrocket as more and more investors jumped on the bandwagon. In 2000, the technology companies had become so valuable, that neither their current nor future business foundation would be able to sustain the high market values. As the first investors began to lose confidence, they began to cash out. This created a snowball effect. Everyone began to sell their shares and the market values plummeted, causing the whole U.S. economy to enter into a recession. The Federal Reserve began to lower the interest rate to revive the economy and after 18 months it was approximately 1% - a level that was sustained until the summer of 2004 (Plesner 2007).

After the dot-com bubble burst in 2000, investors began to look for alternative sectors in which they could invest their money. Many investors decided on the U.S. real estate market and the capital soon began to flow towards both residential and commercial real estate (P. 114, Moffett, Stonehill & Eiteman 2011). The U.S. real estate market was an excellent alternative to the technological sector, as it had shown annual growth rates of 6% since the first quarter of 2000 – a growth rate that stopped after the first quarter of 2006, however (Plesner 2007).

The combination of low interest rates, large amounts of capital and the deregulation of the U.S. banking sector meant that the U.S. real estate prices began to soar. The U.S. banking sector issued more and more loans, and some people even bought a new house while others took out a second mortgage. Following the recent deregulation, U.S. banks no longer had to keep the loans on their balance sheet (Originate-to-hold[1]). Instead they had the possibility of selling the loans off, by bundling them into a CDO[2] or another credit derivative, and selling it to pension funds and other institutional investors via investment banks (Originate-to-distribute[3]) (Plesner 2007). This practise

[1] Originate-to-hold is the practice of providing a loan and maintaining it until maturity.
[2] A Collateralized Debt Obligation is a derivative based on mortgages, that is combined and re-sold by investment banks .
[3] Originate-to-distribute is the practice of providing a loan with the purpose of re-selling it immediately.

meant that banks could provide loans and resell them, earning profits on the fees they charge. With the separation of issuing loans and the associated risk of default, U.S. banks were no longer as interested in only providing loans to those people with the highest credit rating. They therefore began, to an even higher degree, to provide subprime mortgage loans, which are loans to people with low incomes or that otherwise do not qualify for a prime mortgage loan (P. 77, Østrup 2010). Even though there is an additional risk associated with a subprime mortgage loan compared to a prime mortgage loan, U.S. banks had no problems in finding investors willing to buy. This was partly because the credit derivatives were constructed in a way that made it hard for buyers to assess the underlying risk, and partly because the high growth rates in the real estate market meant that it would always be possible for a mortgage owner to sell a house if the mortgage holder were to default. While subprime mortgage loans traditionally made up 7-8% of all outstanding mortgages by 2007, they constituted more than 65% of all bankruptcy filings by homeowners in the end of 2008 (P. 115, Moffett, Stonehill & Eiteman 2011).

2.1 The American Subprime Crisis

The U.S. real estate market was stretched over means and had by 2007 made itself entirely dependent on the high price level of private and commercial property. Both the U.S. financial and real estate market was highly leveraged through extremely complex credit derivatives, that made it difficult to assess what level of risk you were exposed to. The whole system was consequently very fragile and vulnerable to changes in market conditions (P. 180, Wihlborg , Oxelheim & Østrup 2009).

Those changes came in the spring of 2007 when the U.S. housing bubble burst. The U.S. real estate market had peaked and began to drop in value. Investors that had bought credit derivatives began to worry about losses and consequently the interest rates on mortgage-related assets began to increase while the prices of them decreased. Many U.S. homeowners, both prime and subprime mortgage holders, had an adjustable-rate mortgage and several found themselves unable to pay the higher interest rate. Other homeowners, who had speculated and planned to refinance their mortgage after a year or two when the value of their house had increased, now found it very hard to do so. The decreasing property prices and increasing interest rates meant that more and more homeowners were unable to pay their mortgage and defaulted (P. 77, Østrup 2010).

As more and more began to default on their mortgages, either voluntarily or involuntarily, the U.S. real estate market decreased even more in value. This initiated a self-reinforcing cycle of decreasing property prices, causing people to default thus decreasing the property prices even further. The declining property prices and escalating number of defaults meant that the mortgage-related assets dropped significantly in value. *Bear Stearns*, the fifth largest U.S. investment bank, was by June of 2007 in such a bad state that two of its hedge funds had to be unwound (P. 181, Wihlborg , Oxelheim & Østrup 2009), after which the entire company collapsed in March of 2008 (P. 78, Østrup 2010).

The situation deteriorated in September of 2008, when *Lehman Brothers*, the fourth largest U.S. investment bank, collapsed after the U.S. government had refused to provide aid. The collapse of Lehman Brothers brought about mass panic among investors, causing a large part of the financial markets to effectively shut down. No investors were willing to buy financial securities, which meant that many financial companies had no means of financing or refinancing their debt. This capital shortage was more than some financial institutions could endure and they had to be bailed out by the U.S. government. The problems in the U.S. financial sector can accordingly be put down to two things; first, that the massive losses the financial companies had to incur on mortgage-related assets meant that their core capital dropped below the allowable limit, and second, that the following capital shortage meant that the U.S. financial companies were unable to raise additional capital (P. 78, Østrup 2010).

2.2 The International Financial Crisis

The U.S. subprime crisis did not only affect the U.S. economy but rather the global economy. Financial companies in mainly Europe and Asia had purchased considerable amounts of mortgage-related assets which too had lost most of its value. It is estimated that about one third of all U.S. mortgage-backed securities were sold to foreign companies, in particular European. Additionally, the global economy was also experiencing the capital shortage which caused problems for several financial companies. The Swiss bank *UBS* suffered significant losses, while German *IKB* and *Landesbank Sachsen* (P. 181, Wihlborg , Oxelheim & Østrup 2009) as well as British *Northern Rock* collapsed (P. 78, Østrup 2010). What started as a crisis in the U.S. real estate sector had spread to the international financial markets and thus become an international financial crisis.

Denmark was like the rest of Europe significantly affected by the international financial crisis, yet the Danish crisis was not only caused by external factors but also by domestic issues. As in the U.S., the Danish financial sector experienced a rapid growth in lending from 2003 to 2007. The level peaked in 2007 when the Danish household debt had reached a level equivalent to 132% of GDP compared to 106% in 2003 (P. 82, Østrup 2010). During the first decade of the new millennium, the type of mortgages changed significantly. In 1999, mortgages with variable interest rates constituted 3,8% of all mortgage. This figure had increased to 51,8% by the end of 2007 (P. 85, Østrup 2010). This substantial increase in lending to both households and companies meant that the deposits were no longer able to cover the loans. The Danish banks obtained the required capital through foreign banks which by 2008 had accumulated to 500 billion DKK or roughly 20 % of the balance sum of the Danish banks (P. 11, Bechmann, Raaballe 2008).

This increased level of lending caused the Danish real estate market to increase significantly in value. But like in the U.S., these high property values could not be sustained and in late 2007 they began to decrease in value. From their peak in 2007 to the end of 2009, the price for a one-family house had decreased by roughly 19 % (P. 83, Østrup 2010). The decrease in property values meant

that it became harder to obtain funding from foreign banks. When *Roskilde Bank*, the 7th largest Danish bank, collapsed in July of 2008, it became virtually impossible for Danish banks to obtain foreign funding (P. 4, Østrup 2008). Due to the international financial crisis, most credit markets had effectively dried out as no investors were willing to provide capital, fearing the money would be lost. The decreasing property values and increasing mortgage interest rates meant that more and more people began to default on their loans. In addition to the capital shortage, this pushed a number of Danish banks into difficulties, including *BankTrelleborg*, *Roskilde Bank*, *Forstædernes Bank*, *EBH Bank* and *Bonusbanken* (P. 14, Bechmann, Raaballe 2008). In October of 2008 the Danish parliament agreed upon a bank bailout package with the aim of reducing the financing restraints as well as a procedure for how a banking crisis would be resolved (P. 84, Østrup 2010). This bank bailout package was the first of five bailout packages for the Danish banking sector with the common aim of promoting financial stability and viability.

2.3 Possible Explanatory Factors for the Financial Crisis in Denmark

The financial crisis that struck Denmark in 2008 was a combination of international and domestic circumstances. The following section will emphasize three domestic issues that significantly contributed to intensify the financial crisis in Denmark.

The ownership structure in the majority of Danish banks is characterised by a large proportion of smaller shareholders and very few larger shareholders. Compared to one-tenth of all listed Danish companies, two-thirds of Danish banks are not partially owned by a large shareholder who is independent of the company management. Moreover, the board of directors is in 75% of all listed Danish banks elected indirectly by a supervisory board and not by the shareholders at the annual meeting – a practise that is exclusively used by banks. The absence of a larger shareholder in the majority of Danish banks constitutes a serious problem as smaller shareholders do not monitor and control the company management to the same extent. Numerous Danish banks thus operated without interference and control from their shareholders (Bechmann, Raaballe & Rose 2009).

Another contributing factor to the escalation of the financial crisis in Denmark is the inherent propensity of many Danish banks to expand and enlarge their operations. Banks are, unlike most companies, characterized by revenue preceding costs. Loans generate fees and interest immediately, while the risk of default and associated costs occurs later in time. Additionally, many executive managers in Danish banks have had a personal interest in expanding the company due to favourable remuneration packages (Østrup 2008).

Executive managers of Danish banks have from 2004 to 2008 experienced an annual rate of growth in their total remuneration packages of 11,43% compared to 3,63% for all wage earners. Moreover, a study of 44 Danish banks found that more than 45% of them used performance based pay, which encourages many executive managers to undertake more risk in the hope of increasing the size of their remuneration package (Bechmann, Raaballe 2009).

3 The Danish Bank Bailout Packages

In October of 2008, the Danish parliament agreed upon the first bank bailout package with the aim of creating financial stability and viability in the financial sector. The 2008 bank bailout package was to be the first of so far five bank bailout packages. This section will examine the first four Danish bank bailout packages in detail, including their requirements and benefits to the Danish financial sector. Additionally, this section will also describe to what extent Danske Bank has been a participant in these bank bailout packages and what it has had to pay to be a part of them. The fifth bailout package will not be examined in this thesis as its main focus is on aiding the agricultural sector and the Danish bank *FIH Erhvervsbank*, and not the Danish banking sector (EPN.dk 2012).

3.1 Bank Bailout Package I

Bank bailout package I, otherwise known as *the agreement on financial stability*, had the aim of kick starting the inter-bank funding market, which practically shut down when the financial crisis hit. It ensured this by creating a safety net whereby all depositors and senior unsecured debt were secured by an unlimited government guarantee. The fact that the creditors were covered by the government guarantee meant that banks could safely lend capital to other banks without the risk of losing it (P. 1, Økonomi- og Erhvervsministeriet 2008). The government guarantee was provided by a government owned liquidation company called *Finansiel Stabilitet*. In the event that a participating bank would not be able to fulfil the minimum capital requirements, the liquidation company would acquire the bank and liquidate it in a controlled manner, ensuring that no creditor would incur any losses (P. 3, Grosen 2008). Bank bailout package I was agreed upon on October 5th 2008 and was in effect until September 30th 2010.

The agreement prohibited the participating banks from paying out dividends, initiating new share buy-back programs, initiating new share option schemes as well as extending or renewing existing share option schemes (P. 3, Økonomi- og Erhvervsministeriet 2008). Besides the preceding requirements, the agreement also prohibited participating banks in using the government guarantee as a marketing tool as well as to exploit the guarantee by taking on additional risk. In exchange for the government guarantee, the Danish banking sector had to pay a bail of 10 billion DKK plus an insurance premium of 15 billion DKK over the two-year period from October 2008 to September 2010. If the government owned liquidation company incurred losses exceeding 25 billion DKK, the agreement required the participating banks to pay an additional 10 billion DKK at maximum (P. 3, Grosen 2008). Danske Bank entered the agreement, as did many others, and was thus co-responsible for the payment to the government. Danske Bank paid a quarterly fee of 625 million DKK in the two years the agreement was in effect, as well as expensed losses of 3,4 billion DKK originating at banks seized by the government's liquidation company. The participation in bank bailout package I cost Danske Bank a total of 8,4 billion DKK (P. 7, Danske Bank 2011c).

3.2 Bank Bailout Package II

Not long after the first bank bailout package was agreed upon it soon became apparent that it was insufficient. The overall state of the economy was still very bad, and the Danish banking sector had difficulties raising capital that would remain once the government guarantee from the first bailout package would expire (P. 13, Bjerre-Nielsen 2010). This prompted the Danish government to create a second bank bailout package, otherwise known as *the credit package*, which was agreed upon on January 18th 2009. The aim of the credit package was to solve the capital deficiency in the sector by injecting a maximum of 100 billion DKK in hybrid core capital – 75 billion DKK to the banking sector and 25 billion DKK to the mortgage providers. This injection of capital came in the form of a government loan, which was to be repaid with interest no less than three years later. Another part of the credit package was an extension of the government guarantee introduced in the first bank bailout package. The extension would last an additional three years and secure a smooth and gradual phase-out of the previous government guarantee that would expire on September 30th 2010 (P. 1-2, Økonomi- og Erhvervsministeriet 2009). By June 2010, the government had guaranteed capital at an amount of 368 billion DKK (P. 13, Bjerre-Nielsen 2010).

Like the first bank bailout package, the second one was also optional. Nevertheless, it did impose certain restrictions on those wishing to participate. The agreement required the participating banks to have a tier 1 capital ratio of at least 12% after the capital injection as well as to be subject to semi-annual credit checks. The restrictions also included limited use of share option schemes, a ban on selling their own shares financed by loans and required the management's remuneration to be on the agenda at the annual general meeting (P. 2-4, Økonomi- og Erhvervsministeriet 2009). In connection with the government provided guarantee, the government owned liquidation company, Finansiel Stabilitet, had additional options of establishing new conditions. Some of the additional conditions included an increased level of company information, parent company guarantee, approval of significant decisions made in the company as well as representation on the board of directors (P. 13, Bjerre-Nielsen 2010). In addition to the restrictions placed on the participating banks, the credit package also contained a financial burden. The banks would have to pay an average annual interest rate of roughly 10% on the capital injection, which could potentially amount to 30 billion DKK provided the entire 100 billion DKK would be activated and repaid after three years (P. 3, Økonomi- og Erhvervsministeriet 2009).

Danske Bank chose to participate in the credit package and took out a combined loan[4] of 26 billion DKK with an average annual interest rate of 9,6 %, which would have to be repaid in 2014. This government provided loan had a total annual cost of 1,7 billion DKK for the five-year period until maturity. In June 2009, Danske Bank took out a loan of 38 billion DKK from the capital market covered by the government guarantee. The annual cost of having this loan covered by the government guarantee was 300 million DKK. The combined cost for Danske Bank to have been a part of the credit package is roughly 9 billion DKK[5] (P. 7, Danske Bank 2011c).

[4] Danske Bank took out a loan of 24 billion DKK, while Realkredit Danmark took out a loan of 2 billion DKK.
[5] Hybrid capital loan (8,5 billion DKK) & government guarantee (525 million DKK).

3.3 Bank Bailout Package III

Seeing that the temporary government guarantee from the first bank bailout package would expire in the autumn of 2010, the Danish parliament decided upon bank bailout package III in June 2010, which would come into effect on October 1st 2010 (Økonomi- og Erhvervsministeriet 2010). The third bank bailout package would replace the previous government guarantee from the first bank bailout package with an already existing depositor guarantee scheme provided by the Danish financial sector. The depositor guarantee scheme would cover up to 750.000 DKK for all customers and is provided by the *Guarantee Fund* – a company jointly owned by all Danish banks (EPN.dk 2010). Another part of bank bailout package III is a permanent model for the handling of distressed banks and is thus also known as *the exit package*. The exit package is to a large extent built upon the first bailout package, meaning that the government's liquidation company, Finansiel Stabilitet, will acquire distressed banks and liquidate them while the banking sector will cover any losses (P. 14, Bjerre-Nielsen 2010).

Unlike the previous two bailout packages, the third one is a permanent piece of legislation meaning that the rules will apply indefinitely. Because it is a permanent solution, it does not contain any limitations on management remuneration or the similar (EPN.dk 2010). It does however require the Danish banking sector to cover any losses originating from collapsed or distressed banks through the Guarantee Fund. When a Danish bank comes into trouble and a loss occurs, the member banks each contribute an amount equal to its share of the total covered net deposits. The two banks, *Amagerbanken* and *Fjordbank Mors*, collapsed and were liquidated by Finansiel Stabilitet under bank bailout package III, with the healthy parts sold on to other banks. Because the two banks collapsed, the Danish banking sector had to cover the losses and Danske Bank's share amounted to 700 million DKK (P. 3-7, Danske Bank 2011c).

3.4 Bank Bailout Package IV

The fourth Danish bank bailout package was agreed upon on August 25th 2011. It came as a consequence of the collapse of *Amagerbanken* and *Fjordbank Mors* in the first half of 2011 under the third bank bailout package. The two banks were acquired by Finansiel Stabilitet while the Guarantee Fund covered the losses. Some creditors did, however, lose money because they were not covered by the Guarantee Fund or by the government guarantee from the credit package (P. 1-2, Økonomi- og Erhvervsministeriet 2011).

The purpose of the fourth bank bailout package was to improve the industry's options of mergers and acquisitions in order to avoid collapsing banks and potential losses under the third bank bailout package. The fourth bank bailout package, or *the agreement on a number of consolidation initiatives* as it is also known, contained several initiatives to improve the situation of the Danish banking sector. This was mainly done by making it easier for banks to obtain funding.

- First, the current compensation scheme[6] was extended so that a healthy bank would be able to acquire a distressed bank and receive compensation from Finansiel Stabilitet for doing so. Alternatively, a healthy bank would be able to acquire the healthy part of a distressed bank leaving the unhealthy part to be acquired by Finansiel Stabilitet, who would then receive compensation from the Guarantee Fund to do so (P. 2-3, Økonomi- og Erhvervsministeriet 2011).

- Second, the bank bailout package introduced a government guarantee scheme only available to banks that wished to merge or acquire another bank. If two banks wished to merge, they had the option of applying for a government guarantee if the merger forced them to repay unsecured funding or if at least one of them had an individual government guarantee from bank bailout package II. The government provided 10 billion DKK for the government guarantee scheme as well as an additional 40 billion DKK intended to replace the individual government guarantee from the credit package available to merging banks (P. 4-5, Økonomi- og Erhvervsministeriet 2011).

- Third, the fourth bank bailout package changed the funding method of the Guarantee Fund. Previously the Danish banks had covered the losses in proportion to their share of total net deposits, which could potentially ruin a bank if the subsequent losses were large enough. The government changed the funding method into an insurance scheme where the Danish banking sector would have to pay an annual insurance premium instead (P. 5-6, Økonomi- og Erhvervsministeriet 2011).

- The fourth and final part of the bank bailout package was the definition of national SIFI's[7]. National SIFI's or banks *"too big to fail"* was to be defined to determine what characteristics they will have to fulfil, what additional restrictions they will be subject to as well as what instruments can be used to help SIFI's in distress (P. 6, Økonomi- og Erhvervsministeriet 2011).

In October 2011, *Max Bank* collapsed as the first bank under the fourth bank bailout package. The healthy part of the bank was sold to another bank while Finansiel Stabilitet acquired the unhealthy part. As prescribed in bank bailout package IV, the Guarantee Fund provided compensation to Finansiel Stabilitet for acquiring the unhealthy part of the bank. Because the new funding method of the Guarantee Fund was not fully implemented, the Danish banks provided compensation according to the previous method. This meant that Danske Bank had to pay 200 million DKK to the Guarantee Fund for its share of the compensation (P. 7-8, Danske Bank 2011c).

Bank bailout package IV was amended in the beginning of 2012, making it easier for banks to obtain the government guarantee. The previous requirement was that at least one of the merging banks had to have a government guarantee from the credit package, but this was abolished in the amended version. Now all banks, merging with or acquiring a distressed bank, would be able to obtain the government guarantee. As in previous bailout packages, banks obtaining a government guarantee would be restricted from paying out dividends, exercising stock options schemes or making any capital reductions (Finanswatch.dk 2012).

---

[6] See: http://www.evm.dk/arbejdsomraader/finansielle-forhold-og-vaekstkapital/finansiel-stabilitet/initiativer/medgiftsordningen
[7] Structurally Important Financial Institutions

4 Danske Bank

Danske Bank was founded as *Den Danske Landmandsbank* on October 5th 1871 by the Danish saddler *Gottlieb Hartvig Abrahamsson Gedalia* and had by 1910 grown to become Scandinavia's largest bank. Following World War I the bank faced serious problems but was saved by the Danish government. The problems, nevertheless, still sent shockwaves through the Danish society due to the large size of the company. Despite the problems after World War I, the bank maintained its position as the largest bank in Denmark (P. 3, Danske Bank 2011b).

The bank experienced high growth rates from 1920 to 1950 as well as an increasing system of branches, and chose in 1976 to change its name from *Den Danske Landmandsbank* to *Den Danske Bank* due to its large size, high share of customers in Denmark and the fact that it no longer exclusively focused on farmers. In the period from 1960 to 1990 the Danish banking sector was subject to deregulations which meant that Danish banks were now allowed to use marketing, product development and technological development more effectively in their businesses. The deregulations also meant that the level of competition increased, originating not only from banks already present on the Danish market but also from new entrants (P. 3, Danske Bank 2011b).

As a consequence of the recent deregulations and associated competition, Den Danske Bank merged with two other Danish banks – *Handelsbanken* and *Provinsbanken* – on April 6th 1990 under the name Den Danske Bank. In 2000 Den Danske Bank changed its name to Danske Bank (P. 3, Danske Bank 2011b).

4.1 Recent Mergers & Acquisitions

Since the merger between Den Danske Bank, Handelsbanken and Provinsbanken the company has been involved in a series of mergers and acquisitions. The Danish pension fund *Danica Pension* was acquired in 1995 for an undisclosed amount and in 1997 the Swedish bank *Östgöta Enskilda Bank* was purchased for 1,8 billion DKK. The Nordic crusade escalated in 1998 when Den Danske Bank purchased three brokerages in Norway, Sweden and Finland as well as the Norwegian bank *Fokus Bank*, the latter at an amount of 6 billion DKK. In 2000 Danske Bank acquired the Danish Bank *BG Bank*, the Danish mortgage provider *Realkredit Danmark* and the Danish real estate chain *Home* for a combined price of 27 billion DKK thus further establishing its position as market leader on the Danish financial market (P. 231, Mikkelsen 2007). The BG Bank brand would continue on its own until 2007 when it was integrated into the existing Danske Bank organisation (P. 3, Danske Bank 2011b).

In 2004, Danske Bank enlarged its search field for new acquisitions from the Nordic countries to include the British Isles. The bank purchased the Irish bank *National Irish Bank* and the Northern Irish bank *Northern Bank* from a joint owner for 10,4 billion DKK (Børsen 2004). In 2005, Danske

Bank turned once again to the Nordic market, when it purchased two real estate companies in Norway and Sweden respectively (P. 231, Mikkelsen 2007).

Danske Bank's biggest acquisition came in 2006 when it paid 30,1 billion DKK for *Sampo Bank* - the third largest bank in Finland. The acquisition of Sampo Bank served the purpose of strengthening Danske Bank's presence in the Nordic countries as well as improving the competitiveness of Sampo Bank by being part of a larger group (EPN.dk 2006).

With the latest acquisition, Danske Bank has grown to become a major financial company with operations in Denmark, Sweden, Norway, Finland, Estonia, Latvia, Lithuania, Russia, Poland, Germany, Luxembourg, England, Ireland and Northern Ireland. The company had 23.632 employees in 2007 spread across its banking, investment banking, pension, real estate and insurance activities (Danske Bank 2007). The CEO has from 1998 until 2011 been Peter Straarup who started in the company in 1968 and became a part of the management team in 1986. He has thus been involved in all of Danske Bank's mergers and acquisitions and has been a deciding factor in a large number of them (P. 230, Mikkelsen 2007). In February 2011, Eivind Kolding replaced Peter Straarup as CEO of Danske Bank (EPN.dk 2011).

5 Strategic Analysis

The strategic analysis is the first analytical part of this thesis. The purpose of it is to provide pertinent information on the external and internal situation of Danske Bank. The strategic analysis is divided into an external analysis that will investigate the general surroundings and the Danish banking industry, and an internal analysis that will examine Danske Bank. The external and internal analysis will be summarised in the third part of this section, including a treatment of Danske Bank's overall strategy. Since the purpose of this thesis is to understand why the Danish banking sector was unable to resist the impact of the recent financial crisis, the strategic analysis will have a retrospective point of view and be conducted for the years preceding the financial crisis. This will provide information on the environmental circumstances, the competitive situation in the Danish banking sector as well as how and why the management of Danske bank managed the bank as they did.

5.1 External Analysis

The external analysis is the first part of the strategic analysis and it will provide valuable information regarding the environment surrounding Danske Bank. The importance of the external analysis is underlined by the fact that the majority of companies compete against others and any information on environmental opportunities or threats can be crucial in the attempt to improve performance. The external analysis will commence with the PESTEL analysis, which will provide insights into the general surroundings while Porter's Five Forces will offer further insights into the Danish banking industry.

5.1.1 PESTEL Analysis

The first part of the external analysis is the PESTEL analysis "*...which consists of the Political, Economic, Socio-cultural, Technological, Environment and Legal aspects of the environment"* (P. 82, Lynch 2009). The purpose of the PESTEL analysis is to gain a better understanding of the environment and how it affects the company in question through the treatment of the environmental aspects. Changes in one or all of these environmental aspects can have a significant impact on a company's strategic decisions as well as its financial performance (P. 47, Lægaard, Vest 2010). The following sections will treat the environmental aspects individually. It should however be noted that the subsequent treatment of relevant environmental aspects is by no means exhaustive and additional factors might exist.

5.1.1.1 Political

The Danish banking sector and indeed the entire financial system is heavily affected and regulated by the Danish and European political system. The following examples will illustrate which national and international political aspects have affected the Danish banking sector prior to the current financial crisis.

The Danish corporation tax has steadily declined over the years and has from 1995 to 2008 been reduced five times. While Danish companies had to pay a corporation tax of 34% in 1995, it had by 2008 been reduced to 25%. During the economic boom preceding the financial crisis, the corporation tax was reduced from 30% to 28% in 2004 and from 28% to 25% in 2006 – see Exhibit 5.0 (Beierholm 2008). This reduced tax burden meant that the Danish banking sector and indeed all Danish companies were able to retain more capital at their own disposal.

Exhibit 5.0	**2004**	**2005**	**2006**	**2007**	**2008**
Danish corporation tax	30%	28%	28%	25%	25%

Source: Beierholm 2008
Own production

The Danish financial sector is regulated by the Danish parliament and supervised by the *Danish Financial Supervisory Authority*. The financial sector is also increasingly regulated at an EU level to ensure financial harmonization and stability across Europe. In 2004, the EU agreed upon a new agreement on capital requirements for banks – called Basel II – which stipulates how much capital a bank should maintain given its financial situation (P. 28, Finansrådet 2007). The changes made by the EU in the solvency requirements through the 1990's and 2000's meant that the requirements were in fact eased. The transition to the Basel II requirements, which was implemented in Denmark in 2007, meant that a majority of Danish banks faced a lower capital requirement than before due to a lower risk on their customers (P. 131-133, Danmarks Nationalbank 2010).

The EU also introduced new IFRS[8] accounting standards, which required banks to incorporate the effects of actual events that they expected would lead to future losses. The new standard only allowed banks to make impairments if an objective indication pointed to a loss in the value of the asset (P. 28, Finansrådet 2007). The new accounting standard, which came into effect on January 1st 2005, meant that the impairments would typically come at a later stage than previously because it required an objective indication rather than just a probable indication (P. 69, Danmarks Nationalbank 2007). This meant that banks were no longer allowed to accumulate hidden reserves as they were before, which reduced their capital buffer and made them more vulnerable to losses (P. 134, Danmarks Nationalbank 2010).

[8] International Financial Reporting Standards.

5.1.1.2 Economical

The Danish banking sector is also significantly affected by the general economic climate. A strong and viable economic climate affects the financial sector positively and vice versa (P. 11, Finansrådet 2007). The following will illustrate how the economic climate affected the Danish banking sector prior to the current financial crisis.

The years preceding the financial crisis was characterized by a strong economic climate. Exhibit 5.1 presents five key variables describing the progress in the Danish economy. The growth in the Danish economy (GDP) prior to the current financial crisis was relatively high. The growth rates from 2004 to 2006 were constantly above 2% and peaked in 2006 with 3,39%. The first signs of the financial crisis appeared in 2007 when the economic growth rate dropped to 1,58% until the crisis amplified and sent the Danish economy into a recession in 2008. The economic growth rate per person (GDP per capita) has roughly followed the same development at a slightly lower level.

Exhibit 5.1	**2004**	**2005**	**2006**	**2007**	**2008**
Real GDP growth (2005 prices)	2,30 %	2,45 %	3,39 %	1,58 %	-0,78 %
Real GDP growth per capita (2005 prices)	2,05 %	2,15 %	3,05 %	1,12 %	-1,35 %
Unemployment	5,80 %	5,10 %	3,90 %	2,70 %	1,90 %
Inflation	1,20 %	1,80 %	1,90 %	1,70 %	3,40 %
Interest rate (Diskonto, end of year)	2,00 %	2,25 %	3,50 %	4,00 %	3,50 %

Source: Danmarks Statistik
Own production

The unemployment level has also followed a particularly positive development. In 2004, 5,80% of the entire workforce was unemployed and this figure had by 2008 decreased to 1,90%. The unemployment level reacted more slowly than the GDP to the financial crisis and it was not until 2009 that the unemployment level increased to 3,70%. The fact that the unemployment level reacted more slowly than the GDP to the effect of the financial crisis is generally the norm, since the hiring and firing of employees are both time-consuming and costly, and company managers are therefore cautious and reluctant when staff adjustments have to be made.

The inflation level similarly reflected the strong Danish economy. Even though the inflation did rise from 2004 to 2006 it was nonetheless at a very low level. The increasing inflation reflected the current economic development where both consumers and businesses demanded more and more goods and services causing prices to increase. The inflation was additionally affected by the 2008 financial crisis when it increased to 3,40%. The final economic variable is the general interest rate

set by the Danish central bank. While it did display an increasing tendency from 2004 to 2007, the level was still relatively low. The increasing interest rate reveals the Danish central bank's efforts to dampen the nearly overheating Danish economy.

All of the above mentioned economic variables tell the story of an economy in progress. This development affects both consumers and businesses and consequently also the Danish banking sector. The general economic climate was therefore particularly beneficial for the Danish banking sector, which is also reflected in their performance for those years.

5.1.1.3 Socio-cultural

The third environmental aspect that has had an effect on the Danish banking sector is socio-cultural factors. Changes in socio-cultural factors could be shifts in lifestyle or demographic changes, which has the potential to change the way business is conducted (P. 82, Lynch 2009). The following will exemplify how the Danish banking sector is affected by socio-cultural factors.

The Danish banking sector has over the past decade been witness to a change in the lifestyle of their customers. The change has come in the way people and businesses fulfil their banking needs. Previously, when a customer needed to transfer money, pay a bill or make an investment, he/she would either visit his/her local branch or call his/her bank advisor, which, however, only was possible when the bank was open. This old-fashioned way of conducting your banking needs when the bank is open has been subject to a change, as the customers now demand increasing levels of accessibility. Banking customers began to demand the possibility to conduct their banking needs whenever it fitted their schedule and not the schedule of the banks. This is also evident in the figures from Exhibit 5.2.

Exhibit 5.2	**2004**	**2005**	**2006**	**2007**	**2008**
Branches of all Danish banks	2.025	1.975	2.000	1.962	1.879
Home banking: Consumers	2.130.280	2.523.005	2.827.435	3.076.944	3.342.017
Home banking: Businesses	175.727	200.446	226.603	290.842	288.718

Source: Finansrådet
Own production

The number of branches has from 2004 to 2008 decreased by 146 or roughly 7%. This can be linked to the increasing demand of non-stop accessibility, which is also evident in the increasing number of consumers and businesses using home banking. An example of the shift towards increased accessibility came in 2006 when Danske Bank introduced counselling by phone lines that are open round the clock (Politiken 2006). While round the clock counselling by phone is an expensive

service, Danske Bank was able to minimize costs by moving people to the online platform and closing down branches.

Another socio-cultural change affecting the Danish banking sector is the changing demographics. The population of Denmark is getting older and older as illustrated by Exhibit 5.3 - the percentage of the population above 60 years old is increasing. This tendency of longevity increased the demand for pensions, not only the number of pension plans but also the total monetary amount placed in them. This increase in demand was beneficial for the Danish banking sector as they were able to charge fees on the opening of a pension plan as well as the administration of it.

Exhibit 5.3	2004	2005	2006	2007	2008
Total value of pension savings (M. DKK)	1.844.259	2.154.347	2.291.274	2.389.772	2.622.729
Percentage above 60 years old	21,2%	21,7%	22,2%	22,8%	23,4%

Source: Finansrådet & Dansk Statistik
Own production

5.1.1.4 Technological

The Danish banking sector is heavily involved in and affected by the technological development since so much of their customer contact is done via electronic platforms. The following will highlight some of the technological changes that have affected the Danish banking sector.

The trend in the past couple of years has been towards electronic payment methods instead of cash payments. This is illustrated in Exhibit 5.4, which shows the development in the number of transactions using Dankort and PBS. They both show an increasing tendency from 2004 to 2008, and have grown roughly 35% and 14% respectively.

Exhibit 5.4	2004	2005	2006	2007	2008
Dankort transactions (M.)	586	586	676	736	794
PBS transactions (M.)	208	214	212	227	238

Source: Finansrådet
Own production

This increasing tendency of using electronic payment methods instead of cash enables the Danish banking sector to save on handling costs. The handling costs of coins and bills alone surpass the combined cost of all other payment methods: Dankort, international cards, wire transfers and PBS. The Danish central bank has recently calculated the societal costs of using cash to be 5,8 billion DKK for 2009 which underlines the large possibility for cost reductions (Børsen 2011).

Another technological development that has affected the Danish banking sector is the increasing online activities available to their customers. The various home banking platforms have been significantly improved and enable users to perform their daily banking need as well as invest in stocks, bonds and currency. The increasing possibilities via home banking coupled with the socio-cultural tendency of higher levels of accessibility, means that the Danish banking sector has been able to save costs on those activities that their customers are now able to do on their own.

5.1.1.5 Environmental

While environmental aspects might not be the most influential factor on the Danish banking sector, they do nonetheless have an impact as illustrated by the following.

The Danish banking sector does not consume that much energy compared to other industries, but it does however require a fair amount of energy to power the vast amount of computers, servers and branches as well as the industry's paper consumption. Exhibit 5.5 illustrates the financial companies' energy consumption from 2004 to 2008.

Exhibit 5.5	**2004**	**2005**	**2006**	**2007**	**2008**
Energy consumption by financial companies (GJ)	2.975.705	2.955.659	3.118.896	3.095.653	3.411.022

Source: Dansk Statistik
Own production

Although the annual energy consumption by the financial companies does not constitute a large percentage of the total, it does show an increasing tendency - 435.317 GJ or roughly 14 % from 2004 to 2008. The resource consumption of the largest Danish companies became the subject of a law enacted in 2008 by the Danish government. The new law required the 1.100 largest Danish companies to account for their work on corporate social responsibility in their annual reports or on their websites. The new law did not require the companies to adopt any particular CSR policies, but rather describe what policies they might or might not have and how they intend to bring them to action (Samfundsansvar.dk 2009).

5.1.1.6 Legal

The Danish banks are like every other Danish company regulated by the Danish *companies' act*. Besides the general companies' act, Danish banks have to fulfil additional requirements set forth in the *financial business act*. The following will illustrate how the Danish banking sector is affected by legislation.

The Danish companies' act, which was last amended in 2009, establishes certain requirements that all companies must fulfil. The requirements mainly deal with the establishment of a company, the level of equity required, administrative bodies and general assembly, auditing and management responsibilities. The requirements ensure that all companies are run legally, that the management always acts ethically and morally correct and that any information provided is always accurate (Danske Bank 2010b).

In addition to the Danish companies' act, the Danish banking sector is also regulated by the financial business act which sets forth more specific requirements only applicable to financial companies. The authorization to establish a financial institute is covered by the financial business act, as well as how a financial company should be run. Furthermore, it contains additional standards on management and ownership structure, capital requirements as well as annual reports and auditing. A final part of the financial business act is the general provision on good practise. It prescribes that all financial companies must act according to sound business practise and with loyalty towards their customers (Finansrådet 2011a).

5.1.2 Porter's Five Forces

The second and final part of the external analysis is the industry analysis, which will be executed using Porter's Five Forces. The aim of doing an industry analysis using Porter's Five Forces is to get a better understanding of a specific industry in terms of how it's organised, its attractiveness and the degree of competition (P. 61, Lægaard, Vest 2010). Porter's Five Forces is composed of five industry characteristics, which individually investigate an area of concern within the industry in order to determine the competitive industry environment (P. 96, Lynch 2009). The five characteristics, or forces, are the bargaining power of suppliers, the bargaining power of buyers, the threat of new entrants, the threat of substitutes and the extent of competitive rivalry.

The Danish banking sector is not like a traditional industry, characterized by companies and consumers trading goods and services with each other. A bank's product is essentially money, whether it is a mortgage, payment services or a deposit. Furthermore, a bank's customers (Debtors) are also most likely their suppliers (Creditors), providing money via deposits and obtaining loans of various forms. It would therefore be unwise to distinguish the two, and the subsequent analysis will instead focus on the bargaining power of business partners as a combination of both customers and suppliers. The customers and suppliers will in this analysis be defined as those borrowing capital

and those providing capital. The threat of substitutes will not be covered in this analysis, as it is assumed that such an examination will not provide pertinent information applicable to the aim of this thesis. The following sections will analyze the competitive situation in the Danish banking sector prior to the current financial crisis.

5.1.2.1 Threat of New Entrants

The Danish banking sector is characterized by high barriers to entry, which is the result of the following circumstances.

Firstly, the entire banking sector is heavily regulated. As all Danish companies, they have to fulfil the requirements in the Danish companies' act concerning establishment, organisation, responsibilities and other issues (Danske Bank 2010b). Additionally, the Danish financial business act contains provisions on the establishment of a financial company as well as capital requirements, ownership structure and auditing that the entire banking sector has to satisfy (Finansrådet 2011a). Besides being regulated from a national level, international regulation is also affecting the Danish banking sector. The Basel II agreement enacted by the European Union in 2004 requires all banks to fulfil certain capital requirements in order to promote financial stability (See section 6.2 for additional information) (P. 28, Finansrådet 2007).

Secondly, the process of changing banks is for the customer associated with different fees also known as switching costs. These are levied upon the customer by the customer's present bank. While the level of these switching costs differs from bank to bank, they do prevent some customers from choosing a new banking connection. However, the industry itself has for several years been working on improving the customers' possibilities by making their prices more transparent and making it possible to compare prices online (Finansrådet 2011b).

Third and finally, the Danish banking sector is characterized by high levels of fixed costs. As Exhibit 5.6 illustrates, the percentage of fixed costs have over the five-year period shown an overall increasing tendency. The fixed costs include personnel wages and various administrative costs for branches and so on. The fact that the industry has average annual fixed costs of approximately 56% of the total revenue means that new entrants have to have a large amount of capital ready for establishment and further operations. However, this is obviously only relevant to those entrants that plan on establishing a traditional bank since those that plan on establishing themselves exclusively as an internet bank will be able to avoid the majority of these fixed costs.

Exhibit 5.6	2004	2005	2006	2007	2008
Industry revenue (M. DKK)	58.001	63.033	71.423	74.144	71.657
Expenses: Personnel & Adm. (M. DKK)	33.095	33.881	37.216	43.127	46.384
Expenses: Personnel & Adm. (%)	57%	53%	52%	58%	64%

Source: Finansrådet
Own production

The vast amount of regulations and requirements, switching costs and the high level of fixed costs all contribute in creating high barriers to entry. High barriers to entry deter new companies from establishing themselves on the Danish market, which is also apparent in the decreasing number of banks operating in Denmark (See Extent of Competitive Rivalry on page 25).

5.1.2.2 Bargaining Power of Business Partners

The bargaining power of the Danish banking sector's business partners means to what extent the business partners are able to influence the situation to their advantage. According to Porter's theory, the business partners have higher levels of bargaining power when there are few of them and they are concentrated (P. 98, Lynch 2009). The Danish banking sector has a vast amount of business partners – both consumers and companies – and most, if not all, of them are not concentrated. The theory therefore implies that their level of bargaining power opposite the Danish banking sector is relatively low.

An opposing argument would be the fairly undifferentiated products the Danish banking sector supplies. No matter how they try to customize and specialise their products, they will always be similar in essence. This increases the bargaining power of the business partners as they will be able to switch to another bank and obtain similar products. The existence of the previously mentioned switching costs might, however, have a decreasing effect on the trading partners' bargaining power.

Another argument supporting a high level of bargaining power comes from a report on the European retail banking industry made by the European Commission in 2007. The report analyzed numerous areas of the European retail banking industry including customer choice and mobility across the EU member states – see Exhibit 5.7 (P. 71, European Commission 2007).

Exhibit 5.7	Churn (%)	
	Consumers	**SMEs**
Denmark	10,02%	15,43%
Average: EU15	7,55%	12,21%
Average: EU25	7,78%	12,63%

Source: European Commission 2007
Own production

The information in the table above is for 2005, where the European Commission calculated the churn[9] for current accounts across the EU member states. It is clear from the figures on churn, that both Danish consumers and SMEs change their banking connection more rapidly than the EU average. More than 10% of Danish consumers and 15% of Danish SMEs switched bank in 2005, making Denmark the 6th and 4th most mobile country across 25 European countries in terms of consumers and SMEs respectively (P. 71, European Commission 2007). This high level of mobility can be interpreted as Danish consumers and SMEs having a high level of bargaining power relative to the majority of the EU member states. The bulk of Danish consumers and SMEs would most likely only switch to another bank if they were able to improve their conditions, and the fact that so many Danish consumers and SMEs changed to another bank supports the argument that they have a high level of bargaining power.

5.1.2.3 Extent of Competitive Rivalry

The extent of competitive rivalry in the Danish banking sector is relatively high. The fact that it is very difficult to differentiate banking products and services means that customers will focus more on price and choose the cheapest alternative available. Undifferentiated products will all things being equal increase the competition on price at the benefit of the customers. The fact that it is very cumbersome for a bank to exit the industry, due to legislation and financial obligations, increases the competitive rivalry even further.

Moreover, the operators in the Danish banking sector are very rapid in their reaction to changes made in another bank. If one bank decides to alter one of its interest rates or adjust the price of a product, the remaining banks in the Danish banking sector will almost certainly do the same. This practise of mimicking what the others are doing, makes it very hard to differentiate oneself from the rest of the market (DR.dk 2012).

[9] A measure that estimates the percentage of customers that switch bank in a given year.

Exhibit 5.8 illustrates the development in the number of banks operating in Denmark as well as the market share of Danske Bank and the six largest banks. It is apparent that the number of banks has experienced a massive reduction from 2004 to 2008, possibly due to increased competition. At the same time, the market share of Danske Bank and the combined market share of the six largest banks have been fairly constant over the same period. This would imply that the smaller banks operating in Denmark have grown in size, most likely as a result of mergers and acquisitions. This enables them to be able to compete more efficiently with the larger banks operating in Denmark, gain market shares and increase the industry competition.

Exhibit 5.8	2004	2005	2006	2007	2008
Number of banks in Denmark	196	187	181	175	154
Market share: Danske Bank	51%	53%	52%	51%	52%
Market share: Six largest banks	82%	82%	81%	77%	79%

Source: Finansrådet
Own production

Furthermore, the competitive situation in the Danish banking sector was analysed by the *Danish Bankers Association* (Finansrådet) in 2007. They compared it to other European banking sectors by means of a measure called a H-statistic. The H-statistic is a measure from zero to one that is used to describe the level of competition within a given industry, where a value of 1 indicates the highest level of competition. The Danish banking sector had a H-value of 0,57 in 2007 while the European average was 0,4. This means that the competitive situation in the Danish banking sector was more intense than the average of the European countries. The analysis also compared the competitive situation in the Danish banking sector to other Danish industries. The average across the included Danish industries was 0,38, meaning that the competitive situation in the Danish banking sector was also more intense than the average of the included industries (P. 40, Finansrådet 2007).

5.2 Internal Analysis

The internal analysis is the second part of the strategic analysis and will provide information on the internal situation of Danske Bank, including what advantages, disadvantages and strategic goals Danske Bank had prior to the 2008 financial crisis. The internal analysis is comprised of an analysis of Danske Bank's vision and mission statement as well as its corporate values.

5.2.1 Vision Statement

The vision statement of a company *"...is a challenging and imaginative picture of the future role and objectives of an organisation, significantly going beyond its current environment and competitive position"* (P. 227, Lynch 2009). The vision statement is thus a future image of the company illustrating how and where the company and its competitors are going to compete. The purpose of the vision statement is to steer the company via its mission statement and strategy to hopefully achieve the future objectives. While different reasons exist as to why companies formulate vision statements, some of the more cited includes; the ambitious challenge is poses for the company and its management as well as the strategic options it reveals by thinking long term (P. 260, Lægaard, Vest 2010).

The following quote (Exhibit 5.9) is Danske Bank's vision statement and subsequent vision elaboration. While the vision statement and subsequent elaboration might not fulfil most of the criteria regarding its relevance and appropriability[10], it is undoubtedly clear and understandable. Danske Bank aims to build and maintain brands that are unique within their markets and which create value for their customers. The method by which it intends to achieve this is by a concept called the Danske Banking Concept. The Danske Banking Concept is Danske Bank's business model that has fused all platforms into one. This one platform gathers all company competences and supports the fulfilment of the vision statement by enabling Danske Bank to develop exceptional brands.

"One platform – exceptional brands"

"The platform, which is both solid and scalable, consists of systems to manage IT, product development, communications, branding, credits, risk, HR development and finances. We continually develop our business through best practice activities and an active pursuit of new business opportunities. Our ambition is to build and maintain unique brands that respect our core values. We require that all our brands be unique in their market and that they create value for our customers" (Exhibit 5.9: Danske Bank 2007, Annual Report).

Since the turn of the millenium, Danske Bank has been involved in a series of acquisitions of both domestic and foreign companies[11]: Fokus Bank (Norway) in 1998, BG Bank, Realkredit Danmark and Home (Denmark) in 2000, Northern Bank and National Irish Bank (Northern Ireland and Ireland) in 2004 and latest Sampo Bank (Finland) in 2006. This high level of activity within

[10] Foresight, breadth, uniqueness, consensus and actionability. See p. 228 in *Strategic Management* for more.
[11] See section 4.1 for more detail.

acquisitions is closely linked to Danske Bank's vision statement, as any acquisition, whether by Danske Bank or another company, has to be in line with its overall strategy and thereby vision. The recent acquisitions can therefore be corroborated by the content of the vision statement. In the elaboration, Danske Bank mention that it develops its business through *"...an active pursuit of new business opportunities"* and aim *"...to build and maintain unique brands"* that are *"...unique in their market"*. In other words, this means that Danske Bank intends to pursue new and relevant business opportunities to be able to build unique brands and create customer value. When entering a new market, banks rarely rely on organic growth to build a strong brand and business, but moreso on inorganic growth via mergers and acquisitions due to the rapidity and immediate customer base it supplies. To a large extent Danske Bank's vision statement therefore focuses on acquisitions as a means to fulfil its strategic objectives and vision.

5.2.2 Mission Statement

While the vision statement is the future image of the company, the mission statement *"...outlines the broad directions that it should and will follow and briefly summarises the reasoning and values that lie behind it"* (P. 236, Lynch 2009). The purpose of the mission statement is to communicate to the company's stakeholders what the company stand for and the main reasons for the chosen strategic options and actions. The mission statement can therefore be characterized as an operationalisation of the vision statement (P. 268-270, Lægaard, Vest 2010). The following quote (Exhibit 5.10) is Danske Bank's mission statement and subsequent elaboration.

"To be the best local financial partner"

"We will continue to develop our brands in their markets. Our goal is to create comprehensive, mutually beneficial and long-lasting partnerships by providing the best product propositions. Our product propositions are based on our high ambitions for product range, competitiveness, accessibility and value creation" (Exhibit 5.10: Danske Bank 2007, Annual Report).

Unlike Danske Bank's vision, the mission statement does fulfil the majority of criteria judging its relevance and level of quality. It is not only realistic and attainable but also specific enough to make an impact and sufficiently flexible to any environmental changes (P. 238, Lynch 2009). The purpose of Danske Bank's mission statement is that it supports the aim of its vision statement of having exceptional brands, by supplying the best product propositions that all fulfil Danske Bank's

ambition concerning competitiveness, accessibility and value creation. The aim and direction of the mission statement is thus the route to fulfil the vision statement.

5.2.3 Corporate Values

Corporate values can be characterized as *"...what an organization stands for and believes in, supported by actions and deeds from management"* (P. 5, Joseph A De, Janssen 2001). These values which, emphasize various aspects such as ethics or employee consideration, are then integrated into the company and create a basis for how the company and its employees should work. Besides functioning as an internal guiding principle on what to do, and possibly even more important what not to do, the corporate values also act as a communication channel informing customers and suppliers about the company and what they can expect from them (P. 163, Lægaard, Vest 2010). The objective of articulating and integrating corporate values is in order for them to act as a foundation and guide the company and its employees in their work and influence the strategic development. While most large companies have outlined their corporate values, many fail when it comes to integrating and conforming to them (P. 14, Van Lee, Fabish & McGaw 2005).

The five below-mentioned corporate values (P. 5, Danske Bank 2006) act as a focal point for Danske Bank and its employees, by incorporating them into their daily routines and ensuring that all stakeholders are treated with the respect they deserve. Danske Bank's corporate values can be classified as belonging to two categories – values pertaining to customers and values pertaining to all stakeholders. The values that are most specific to Danske Bank's customers are *accessibility*, *competence* and *commitment*, which all aim to provide the customers with relevant and high quality products available to them when they want them. The more stakeholder oriented values are *orderliness* and *value creation,* which ensures an ethical behaviour in business and society, as well as a productive business that builds stakeholder value.

Orderliness	• *In business conduct and as a part of society*
Accessibility	• *Electronic and physical, in business and communications*
Value Creation	• *For shareholders, customers and employees*
Competence	• *By high standards of quality and professionalism*
Commitment	• *In customers' financial conditions*

Exhibit 5.11: The Corporate Values of Danske Bank
Source: Danske Bank, Samfundsansvar 2006
Own production

As previously mentioned, corporate values are not only supposed to be integrated into the daily life of the company but also in the strategic development. When we consider Danske Bank's corporate values, two of them stand out as having the largest impact on the strategic development. The high number of recent acquisitions Danske Bank has been involved in is not only in line with its vision and mission statement but also the two corporate values *accessibility* and *value creation*. Those two values prescribe that Danske Bank should be sufficiently accessible to customers as well as create value for shareholders, customers and employees. The long line of acquisitions have generally ensured that Danske Bank is accessible to ever more customers in more countries, while creating value for customers, employees and shareholders – the latter at least until the 2008 financial crisis hit.

5.3 SWOT Analysis & Corporate Strategy

The SWOT analysis *"...is an analysis of the strengths and weaknesses present internally in the organisation, coupled with the opportunities and threats that the organisation faces externally"* (P. 302, Lynch 2009) and thus acts as a summary of the external and internal analysis. Traditionally, the SWOT analysis serves the purpose of being the foundation onto which the corporate strategy can be developed, but not in this case. Because the purpose of this thesis is to understand why Danske Bank was so severely affected by the financial crisis, the SWOT analysis will be used to elicit the overall strategy Danske Bank followed before the crisis. As previously mentioned, the strategic analysis is by no means exhaustive and the uncovered factors in the SWOT analysis is only a result of the factors treated in the external and internal analysis.

As can be seen from the table below, Danske Bank was prior to the financial crisis in possession of several valuable strengths. Danske Bank was the market leader in Denmark, with a strong brand, competent counselling and it had a valuable business platform. The only weaknesses were Danske Bank's stagnating market share in Denmark and the problem of not being perceived as a local bank, as desired.

Strengths	Weaknesses
• Built on a single platform • Strong focus on competent counselling • Strong focus on IT • Strong brand portfolio • Market leader in Denmark	• Stagnating market share in Denmark • Rarely perceived as a local bank as desired by the mission statement
Opportunities	**Threats**
• Decreasing corporation tax in Denmark • Favourable economical climate • Shift towards more online banking • Increase in electronic payments • Lower capital requirements with Basel II • Low threat of new entrants • Higher demand for pension plans	• Increased regulation from the EU → IFRS & Basel II • New Danish regulation on CSR activities • Requirements from the Danish financial business act • Relatively high customer bargaining power and mobility in Denmark • Strong competition within the Danish banking sector

Exhibit 5.12: SWOT Analysis
Source: P. 302, Lynch 2009
Own production

Furthermore, the environment contained several opportunities. The economic climate prior to the financial crisis was particularly strong with high growth rates and low unemployment levels. The Danish corporation tax had shown decreasing tendencies over a couple of years and coupled with

the lower EU capital requirements this meant that Danish banks could retain more capital for themselves. The fact that online banking and electronic payments became increasingly popular and that the threat of new entrants was relatively low meant that Danish banks were able to save costs on branches and handling cash. While the environment surrounding Danske Bank before the financial crisis might seem rosy, there were however a couple of thorns. The Danish banking sector became increasingly regulated, both by the Danish government and the EU. New IFRS accounting standards, Basel II capital requirements, CSR legislation and the Danish financial businesses act meant that the Danish banking sector and Danske Bank incurred higher compliance costs and a reduced capital buffer. Additionally, the Danish banking industry was subject to strong competition and the Danish banking customers were able to exert pressure on their bank to obtain more favourable conditions.

The situation for Danske Bank on the Danish market before the financial crisis did not reveal many options. Their market share was stagnating, there was no room to grow and the strong competitive situation made it virtually impossible to do anything. To characterize Danske Bank's strategic plan, Ansoff's Market Options Matrix will be used, which *"...identifies the product and market options available to the organisation..."* (P. 313, Lynch 2009).

		Product	
		Present	**New**
Market	**Present**	**Market penetration**	**Product development**
	New	**Market development**	**Diversification**

Exhibit 5.13: The Market Options Matrix
Source: P. 314, Lynch 2009
Own production

Danske Bank's strategy before the financial crisis can generally be classified as *market development*. This means that Danske Bank provides its current product portfolio to new geographical markets in the attempt to get more customers, which is evident in the long line of recent acquisitions Danske Bank has been involved in. The market development strategy can be supported by a statement that its CEO, Peter Straarup, made when acquiring Sampo Bank in Finland. He stated that the acquisition was in accordance with the company's strategy to expand the retail bank business in northern Europe and to spread the company in terms of geography and risk (EPN.dk 2006). The strategy of Danske Bank prior to the financial crisis is concordant with one of the domestic issues that was a contributing factor to the financial crisis in Denmark (See section 2.3). Danske Bank's strategy of expanding the retail bank business is comparable to what many other banks were doing, namely expand at a dangerously high rate eventually causing them to be in over the heads during the financial crisis.

The corporate strategy of Danske Bank can be further clarified by Michael E. Porter's *Generic Strategies*. These *"...are the three basic strategies of cost leadership, differentiation and focus...open to any business"* (P. 303, Lynch 2009). As Porter argued, every business must pursue one of these strategies if it is to gain a sustainable competitive advantage. The three generic strategies are divided according to the level of competitive advantage and competitive scope they each possess (P. 302, Lægaard, Vest 2010). The generic strategy of a company is to be understood as the guiding corporate strategy that outlines the overall direction while there is underlying and more specific strategies beneath it, e.g. a specific strategy for every local market.

		Competitive Advantage	
		Lower cost	**Differentiation**
Competitive Scope	**Broad target**	**Cost leadership**	**Differentiation**
	Narrow target	**Cost leadership/Focus**	**Differentiation/Focus**

Exhibit 5.14: The Generic Strategies
Source: P. 303, Lægaard, Vest 2010
Own production

Danske Bank can to a large extent be classified as having a *cost leadership*. The cost leader provides *"...a standard...product and place considerable strategic emphasis on reaping scale or absolute cost advantages from all sources"* (P. 304, Lynch 2009). The quote matches Danske Bank well as it provide standard products to a broad target group at low costs. While Danske Bank is not the cheapest bank on individual products, e.g. a car loan, it is one of the cheapest banks when the entire product portfolio is included (Business.dk 2010). The fact that Danske Bank can be classified as having a cost leadership and consequently that it charges less for its products means that it has a lower profit margin on its products. A lower profit margin on its products implies that there is a higher risk of not making a profit at all due to unfavourable economic circumstances or the like. Having a lower profit margin also means that Danske Bank, compared to banks with higher prices, must sell a higher amount of products and services in order to cover its fixed costs and make a profit, which is perfectly in line with one of the attributes associated with having a cost leadership. The principle of *economics of scale* is closely related to cost leadership, as cost leaders can reap significant advantages by producing and selling products at a larger scale (P. 305, Lægaard, Vest 2010). Danske Bank has over the last 10-15 years heavily relied on the principle of economics of scale. Expanding its business geographically has enabled it to reach more customers, sell more products and consequently generate higher profits.

6 Financial Analysis

The second and final analytical section of this thesis is the financial analysis, in which Danske Bank and Nordea will be examined for the period from 2007 to 2011. The financial analysis is divided into two sections; an analysis of the performance of the two banks during the financial crisis as well as an analysis of how the capital situation of the two banks has developed over the last five years. The purpose of the financial analysis coupled with the strategic analysis is to ascertain why Danske Bank was so severely affected by the financial crisis. Moreover, the purpose of the financial analysis is to examine to what extent Danske Bank has been affected by the Danish bank bailout packages and whether differences in performance during the financial crisis occurred.

6.1 Performance Analysis

The performance analysis that will examine Danske Bank and Nordea according to a number of key financial figures is divided into four sections. The first section will focus on the profitability of the two banks, meaning their ability to earn a profit. The second section will investigate the development in loan impairments more in depth, including from where the loan impairments originate. The third section is a hypothetical example of how Danske Bank would have performed during the financial crisis, if it had not bought the banks in Ireland and Northern Ireland. The fourth and final section is an analysis of Danske Bank and Nordea according to the *Supervisory Diamond*, a risk and management tool published by the Danish Financial Supervisory Authority.

6.1.1 Profitability

The first key financial figure to study is the EBITDA margin as shown in Exhibit 6.0. The EBITDA margin is defined as the earnings before interest, tax, depreciation and amortisation as a share of the total revenue. Thus, it reveals how much of the revenue is left once the primary expenses have been deducted. The cost structure of a traditional bank is characterized by very high fixed costs. The majority of these are comprised of personnel wages and costs for IT, buildings, offices and general administration (P. 98, Danmarks Nationalbank 2002). Hence, Exhibit 6.0 illustrates how much of Danske Bank and Nordea's revenue is left once their personnel and administration costs have been paid.

Exhibit 6.0: EBITDA margin	2007	2008	2009	2010	2011
Danske Bank	52,2%	48,1%	59,6%	51,1%	48,0%
Nordea	49,7%	48,6%	51,9%	50,2%	47,1%

Source: Danske Bank & Nordea's annual reports, 2007-2011
Own production

As can be seen from the table above, Danske Bank and Nordea's EBITDA margins have been approximately similar over the five year period, except in 2009 when there was a difference of 7,7 percentage points. They are for the most part distributed on approximately 50 %, meaning that roughly half of the two companies' revenue is left once personnel and administration costs have been paid. Danske Bank has in four of the five years in question managed to surpass Nordea with higher EBITDA margins. They range from 0,9 percentage points (2010 and 2011) to 7,7 percentage points (2009) higher than the equivalent at Nordea. The five year average is 51,8% and 49,5 for Danske Bank and Nordea respectively, emphasising the fact that Danske Bank has managed to control its primary expenses relative to its revenue better than Nordea.

While the EBITDA margin illustrates how much of the revenue is left once the primary costs have been deducted, the profit margin exemplifies how much of the revenue is left once all costs except tax have been subtracted. The profit margins can be seen in Exhibit 6.1.

Exhibit 6.1: Profit margin	2007	2008	2009	2010	2011
Danske Bank	42,8%	5,2%	8,0%	13,9%	9,7%
Nordea	49,2%	41,4%	33,9%	39,0%	37,3%

Source: Danske Bank & Nordea's annual reports, 2007-2011
Own production

Although the EBITDA margins in Exhibit 6.0 indicated that Danske Bank surpassed Nordea in terms of profitability during the financial crisis, the situation is noticeably different when the profit margin is considered. Even though Danske Bank and Nordea's profit margins were somewhat divergent in 2007 with a difference of 6,4 percentage points, it is nothing compared to the differences in the subsequent years. From 2008 and onwards, Nordea's profit margin has surpassed Danske Bank's quite significantly within an interval of 25,1 (2010) to 36,2 (2008) percentage points. The average profit margin is 15,9% for Danske Bank while it is 40,2% for Nordea – a difference of over 60%. The drastic decrease in Danske Bank's profit margin in 2008 illustrates the initial impact of the 2008 financial crisis. Whilst both Danske Bank and Nordea benefitted from high profit margins in 2007, the economic climate changed considerably with the penetration of the

financial crisis and Danske Bank was unable to maintain the same profit level in the following years of the financial crisis.

Another essential key financial figure to consider is the return on equity (ROE), which is defined as the earnings before tax divided by the amount of equity in the company (P. 45, Schack 2009). The return on equity illustrates the profitability of the owner's investment, by showing how much profit the company can generate per unit of equity. Assuming the ROE is equal to 15%, the company would generate 15 oere (cent) in earnings for every krone (EUR) of equity in the company (P. 164, Sørensen 2009). The return on equity for Danske Bank and Nordea is presented in Exhibit 6.2.

Exhibit 6.2: ROE	2007	2008	2009	2010	2011
Danske Bank	18,5%	2,3%	4,7%	6,2%	3,3%
Nordea	22,6%	19,1%	13,7%	14,8%	13,6%

Source: Danske Bank & Nordea's annual reports, 2007-2011
Own production

Exhibit 6.2 describes a similar situation as was the case with the profit margin. The return of equity for Danske Bank and Nordea are relatively alike in 2007 with a difference of 4,1 percentage points in Nordea's favour. From 2008 onwards, the economic circumstances change when the financial crisis rears its ugly head. The profitability of Danske Bank's equity drops approximately 87% from 2007 to 2008 to a rather insignificant level of 2,3%, which remains fairly similar for the rest of the period. As Danske Bank, Nordea also experienced a declining return on its equity from 2007 to 2011 although not nearly to the same degree. The average return on equity is 7,0% for Danske Bank while it is 16,8% for Nordea - a difference of 9,8 percentage points or roughly 42%.

The considerable difference in profitability between Danske Bank and Nordea, both in relation to revenue and equity, can to a large extent be explained by the phenomenon of loan impairments. As mentioned in section 2, one of the consequences of the financial crisis was that many consumers and businesses were unable to pay the instalments on their debt due to various reasons. When a consumer or a company consequently went into bankruptcy, the associated bank was forced to write off the debt as an asset as it would no longer receive the outstanding instalments (or at least only a smaller fraction of the outstanding debt). Although the amount of loan impairments, incurred by Danish banks, during the financial crisis was quite significant (P. 98, Danmarks Nationalbank 2002) some were more fortunate than others as Exhibit 6.3 illustrates.

Exhibit 6.3: Impairments/revenue	**2007**	**2008**	**2009**	**2010**	**2011**
Danske Bank	1,5%	28,1%	43,3%	29,9%	30,4%
Nordea	-0,8%	5,7%	16,4%	9,4%	7,7%

Source: Danske Bank & Nordea's annual reports, 2007-2011
Own production

The above table illustrates the proportion of loan impairments to revenue in a given year for Danske Bank and Nordea respectively. This ratio exemplifies the relative size of the incurred loan impairments. The ratio of impairments to revenue is in both cases at a minimal level in 2007, illustrating the insignificant amount of loan impairments incurred prior to the financial crisis. However, this changes considerably from 2008 and onwards, when especially Danske Bank is forced to incur significantly higher amounts of loan impairments. The ratio of loan impairments to revenue for Danske Bank increased by more than 28 times from 2007 to 2009, whilst the equivalent increase was roughly 21 times for Nordea. Danske Bank has in the entire period been compelled to incur higher amounts of loan impairments than Nordea, averaging 26,6% of the total revenue while Nordea has been able to maintain the impairments to 7,7% of the annual revenue. This significant difference between Danske Bank and Nordea is one of the main reasons why Nordea was able to surpass Danske Bank in terms of profitability during the financial crisis.

Moreover, it is also of great relevance to examine the relationship between income and costs when analyzing the profitability of banks. The relationship between income and costs is treated in the following two key financial figures, namely the cost to income ratio and income per cost ratio. The cost to income ratio is a financial measure that relates the total amount of costs to income to determine how large a proportion of the income the costs constitute. While the cost to income ratio is relatively similar to the inverse of the EBITDA margin, the cost to income ratio includes all costs where the EBITDA margin only includes the primary costs.

The income per cost ratio is the second measure that examines the relationship between income and costs. The income per cost ratio is similar in nature to the cost to income ratio, except that it includes loan impairments as part of total expenses which is excluded in the cost to income ratio. The income per cost ratio illustrates the amount of income that is earned per unit of incurred costs. An income per cost ratio of 1,5 would thus mean that for every unit of costs incurred, 1,5 unit of income is earned (P. 98, Danmarks Nationalbank 2002). The cost to income ratio and income per cost ratio can be seen in Exhibit 6.4.

The cost to income ratios as seen from Exhibit 6.4 clearly shows that Danske Bank generally has a higher total cost level than Nordea, as its costs constitutes a larger proportion of its income. This means that for every unit of income, Danske Bank has to deduct a larger amount than Nordea to cover its costs. Danske Bank's cost to income ratio has had a very volatile development, ranging from 48,7% in 2009 to 66,7% in 2008 – a span of 18 percentage points. Nordea has at the same time managed to keep its cost to income ratio within a span of 5,2 percentage points, from 49,7% in 2009

to 54,9% in 2011. The average cost to income ratio has been 57,4% for Danske Bank and 52,1% for Nordea, a difference of 5,3 percentage points or roughly 9%.

Exhibit 6.4: Profitability ratios	2007	2008	2009	2010	2011
Danske Bank: Cost/income ratio	55,6%	66,7%	48,7%	56,2%	59,9%
Nordea: Cost/income ratio	51,6%	52,9%	49,7%	51,6%	54,9%
Danske Bank: Income per cost ratio	1,75	1,05	1,09	1,16	1,11
Nordea: Income per cost ratio	1,97	1,71	1,51	1,64	1,60

Source: Danske Bank & Nordea's annual reports, 2007-2011
Own production

The income per cost ratio for Danske Bank and Nordea follows a previously observed development; the level is approximately similar in the beginning followed by a considerable decrease in the profitability of Danske Bank. In the period from 2008 to 2011, Danske Bank is notably behind Nordea and is in 2008 and 2009 alarmingly close to an income per cost ratio of 1,0 or below. If Danske Bank had an income per cost ratio of 1,0 or below, it would mean that for every unit of costs incurred, it would only be able to generate one unit or below in income, and thus be losing money. The average income per cost ratio is 1,23 for Danske Bank while it is 1,68 for Nordea, a difference of approximately 26% [12].

6.1.2 Loan Impairments

The profitability of Nordea and especially Danske Bank was seemingly severely affected by loan impairments incurred as a result of collapsing consumers and businesses. This was (and is) a general problem for the entire Danish banking sector, as it incurred loan impairments amounting to 130 billion DKK from the beginning of 2008 and until the second half of 2011. The final amount is expected to be considerably higher (Business.dk 2012). As the high level of loan impairments has significantly decreased the profitability of Danske Bank and Nordea, the purpose of this section is to examine the development and origin of the loan impairments to get a better understanding of the effect they have had on the profitability of Danske Bank during the financial crisis.

As established by the previous section, Danske Bank was more severely affected by the 2008 financial crisis than Nordea was. This can to a large extent be attributed to Danske Bank's higher cost level as well as the massive amounts of loan impairments it was forced to incur. In total

[12] See appendix 3 for information on the above calculations.

Danske Bank has from 2007 to 2011 incurred in excess of 65 billion DKK in loan impairments while the equivalent for Nordea is roughly 26 billion DKK, a difference of approximately 60%. Exhibit 6.5 clarifies the development and origin of the loan impairments incurred in Danske Bank.

Exhibit 6.5: Loan impairments (M. DKK)	**2007**	**2008**	**2009**	**2010**	**2011**
Banking activities	674	8.532	22.486	14.421	14.241
- Denmark	-176	4.354	10.049	7.649	4.316
- Ireland & Northern Ireland	148	2.341	6.637	6.216	8.512
Other activities	13	3.556	3.191	-604	-1.056
Danske Bank: Total loan impairments	687	12.088	25.677	13.817	13.185
Nordea: Total loan impairments	-450	3.495	11.145	6.593	5.513

Source: Danske Bank & Nordea's annual reports, 2007-2011
Own production

As might have been expected, the vast majority of loan impairments incurred at Danske Bank originates from its banking activities. Of these, it is especially the banking activities in Denmark, Ireland and Northern Ireland that are responsible for the majority of the loan impairments, on average in excess of 62%. The Danish part of Danske Bank has from 2007 to 2011 incurred what amounts to roughly 26 billion DKK in loan impairments, while the banking activities in Ireland and Northern Ireland are jointly accountable for approximately 24 billion DKK. The loan impairments incurred in the whole of Danske Bank peaked in 2009 with more than 25 billion DKK, while the equivalent figure was approximately 11 billion DKK in Nordea, a difference of 56%.

These high levels of loan impairments incurred in the Irish and Northern Irish parts of Danske Bank are of particular interest for two reasons; the market share of Danske Bank in Ireland and Northern Ireland as well as the size of the Irish economy. Exhibit 6.6 illustrates the market share of Danske Bank in Denmark and Ireland in terms of lending.

Exhibit 6.6: Market shares for lending	**2007**	**2008**	**2009**	**2010**	**2011**
Denmark	27%	31%	28%	28%	29%
Ireland	5%	5%	5%	3%	4%

Source: Danske Bank's annual reports, 2007-2011
Own production

As can be seen from the table above, in the past five years the market share of Danske Bank in Denmark has been more or less been equal to 30% while it has roughly been 5% in Ireland, meaning Danske Bank's lending business in Denmark is proportionally much larger than in Ireland and Northern Ireland. Danske Bank's market share in Northern Ireland has not been made available. Moreover, the size of the Irish economy (GDP) was in 2011 equal to 1.170 billion DKK (156 billion EUR) while the size of the Danish economy was 1.800 billion DKK (240 billion EUR) – a difference of roughly 35% (Eurostat 2012). The interesting point in this is that even though the Irish economy is considerably smaller than the Danish and Danske Bank's market share in Ireland and Northern Ireland is smaller than the equivalent in Denmark, the two regions have incurred an almost similar amount of loan impairments over the five year period. This is further examined in Exhibit 6.7, which illustrates the amount of annual impairments to the total amount of loans in each of the three regions.

Exhibit 6.7: Impairments/loan portfolio	2007	2008	2009	2010	2011
Denmark	-0,2%	0,4%	1,0%	0,8%	0,5%
Ireland	0,2%	2,1%	6,8%	7,1%	9,9%
Northern Ireland	0,0%	1,2%	2,7%	2,4%	4,1%

Source: Danske Bank's annual reports, 2007-2011
Own production

As established above, Danske Bank incurred roughly the same amount of loan impairments in Denmark as in Ireland and Northern Ireland in the period from 2007 to 2011. This was despite the fact that both the economy of Denmark and Danske Bank's market share in Denmark is considerably larger than the Irish equivalent. Consequently, the ratio of loan impairments to the total loan portfolio is much larger in Ireland and Northern Ireland than in Denmark. At its peak, the Danish banking activities of Danske Bank incurred loan impairments equal to 1,0% (2009) of the total amount of loans, while the highest figure in Ireland and Northern Ireland was 9,9% (2011) and 4,1% (2011) respectively. The average ratio of loan impairments to the loan portfolio is 0,5%, 5,2% and 2,1% for Denmark, Ireland and Northern Ireland respectively.

A major contributing factor for why Danske Bank has been forced to incur such a high amount of loan impairments in Ireland can be substantiated by the major impact of the financial crisis on the economy of Ireland. Ireland was considerably harsher affected by the financial crisis than Denmark was, as the average economic growth rate in Ireland was -4% from 2008 to 2010 while only -1,5% in Denmark (EU-Oplysningen 2011). It is evident that the high level of loan impairments Danske Bank incurred in Denmark, Ireland and Northern Ireland has been a major contributing factor in why it experienced a significantly deteriorating profitability during the financial crisis[13].

[13] See appendix 4 for information on the above calculations.

6.1.3 Danske Bank without Banking Activities in Ireland & Northern Ireland

As the previous two sections established, the high level of loan impairments Danske Bank incurred in Denmark, Ireland and Northern Ireland were the main factor in the subsequent deteriorating financial profitability. The loan impairments incurred by Danske Bank in Ireland and Northern Ireland were proportionately much larger than those incurred in Denmark, which can be attributed to the predominant economic recession Ireland was exposed to from 2008 to 2010. This section intends to illustrate the financial performance of Danske Bank had it not purchased National Irish Bank and Northern Bank in 2004.

The subsequent exhibits all contain financial figures for Danske Bank and Nordea as well as Danske Bank excluding Ireland and Northern Ireland (signified by the asterisk), where all necessary financial figures relating to them have been removed. The profit margin for Danske Bank excluding Ireland and Northern Ireland is illustrated in Exhibit 6.8 alongside Danske Bank including Ireland and Northern Ireland as well as Nordea.

Exhibit 6.8: Profit margin	2007	2008	2009	2010	2011
Danske Bank	42,8%	5,2%	8,0%	13,9%	9,7%
Danske Bank*	45,5%	16,0%	18,7%	27,3%	29,6%
Nordea	49,2%	41,4%	33,9%	39,0%	37,3%

Source: Danske Banks & Nordea's annual reports, 2007-2011
Own production

The situation seems considerably better by calculating the profit margin for Danske Bank excluding Ireland and Northern Ireland, although Nordea's profit margin is still superior to that of Danske Bank. As mentioned in section 6.1.1., the average profit margin for Danske Bank including Ireland and Northern Ireland was 15,9% and 40,2% for Nordea. When excluding Ireland and Northern Ireland from Danske Bank, the average profit margin increases to 27,4%; an improvement of 11,5 percentage points and only 12,8 percentage points behind Nordea as opposed to 24,3 percentage points before.

An equivalent increase in profitability is evident according to the cost to income ratio and the income per cost ratio, when excluding Ireland and Northern Ireland as illustrated by Exhibit 6.9. The proportion of costs to income at Danske Bank decreases and closes part of the gap to Nordea. The decreasing proportion of costs is especially apparent in 2007 and 2008, while the improvements from 2009 to 2011 are of a more minor degree. The average cost to income ratio for Danske Bank excluding Ireland and Northern Ireland is 54,8% compared to 57,4% including Ireland and Northern Ireland – a decrease of 2,6 percentage points. The average cost to income ratio is 52,1% for Nordea reducing the difference between the two to 2,7 percentage points – an improvement of 50%.

Exhibit 6.9: Profitability ratios	2007	2008	2009	2010	2011
Danske Bank: Cost/income ratio	55,6%	66,7%	48,7%	56,2%	59,9%
Danske Bank*: Cost/income ratio	52,9%	59,3%	47,5%	55,2%	58,9%
Nordea: Cost/income ratio	51,6%	52,9%	49,7%	51,6%	54,9%
Danske Bank: Income per cost ratio	1,75	1,05	1,09	1,16	1,11
Danske Bank*: Income per cost ratio	1,85	1,19	1,23	1,38	1,42
Nordea: Income per cost ratio	1,97	1,71	1,51	1,64	1,60

Source: Danske Banks & Nordea's annual reports, 2007-2011
Own production

Similarly, Danske Bank's income per cost ratio increases when the banking activities in Ireland and Northern Ireland are excluded. This means that Danske Bank is better at generating income per unit of cost without Ireland and Northern Ireland in the equation. The average income per cost ratio is 1,41 for Danske Bank without Ireland and Northern Ireland while it is 1,23 including them, a difference of roughly 14%. The average income per cost ratio for Nordea is still 1,68, making it 19,3% higher than Danske Bank's without Ireland and Northern Ireland and 36,7% when they are included.

Had Danske Bank refrained from purchasing the two banks, National Irish Bank and Northern Bank, in 2004, it would most likely have managed to perform remarkably better than with the two banks in the portfolio. The profitability of Danske Bank excluding the banking activities in Ireland and Northern Ireland would still be exceeded by Nordea, primarily due to the high amount of loan impairments incurred in Denmark, but not nearly to the same extent[14].

6.1.4 The Supervisory Diamond for Banks

In June 2010, the Danish Financial Supervisory Authority published a risk and management tool, the Supervisory Diamond, to help executives of financial companies manage their business in more stable and secure way. As the Danish Financial Supervisory Authority realized that there were a number of common features applicable to those banks that experienced problems during the financial crisis, they created the Supervisory Diamond with those in mind. The Supervisory Diamond consists of five key indicators, as seen in Exhibit 6.10 below, with the aim of combating excessive levels of risk while still allowing managers to run their business (Finanstilsynet 2010a).

[14] See appendix 5 for information on the above calculations.

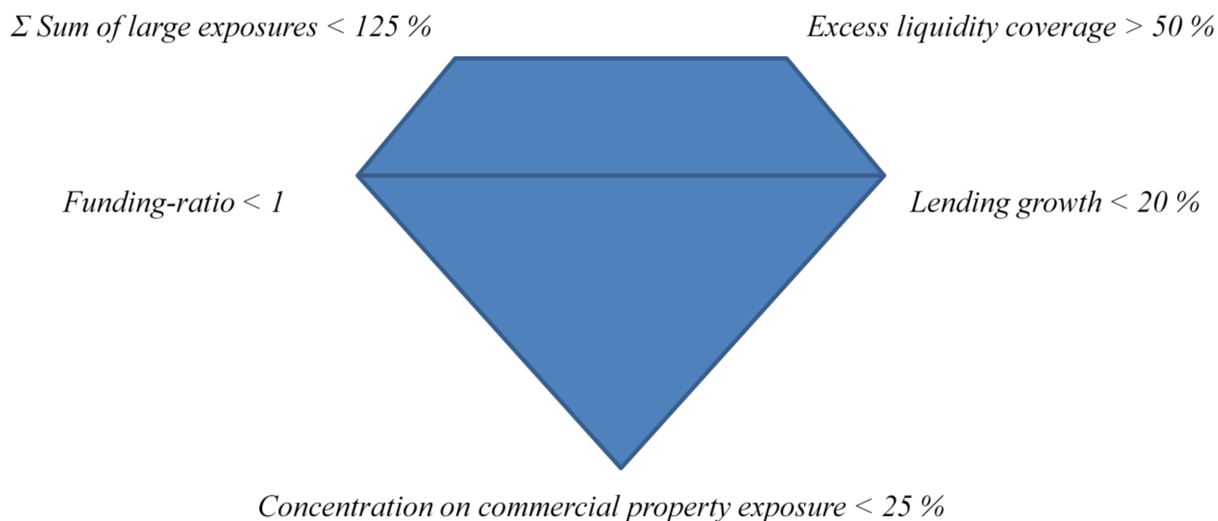

Exhibit 6.10: The Supervisory Diamond
Source: Finanstilsynet 2010
Own production

The five original indicators of the Supervisory Diamond are:

- The sum of large exposures should be below 100% of the total amount of capital excluding exposures of less than 3 million DKK. A large exposure is defined as an exposure that amount to 10% or more of the company's total capital.
- The funding-ratio should be below 1,25. The funding ratio is defined as the amount of loans divided by the amount of deposits.
- The commercial property exposure should be less than 25% of the total amount of loans issued. The exposure towards commercial property is defined as the percentage of the total amount of loans relating to property administration and trading as well as the business services sector.
- The growth in lending from year to year should be below 20%.
- The excess liquidity coverage should be above than 50%. The excess liquidity coverage is defined as the excess amount of liquidity after meeting the statutory minimum requirement as a percentage of the statutory minimum requirement (Finanstilsynet 2010a).

Three of the five indicators were modified in December 2010. The critical limit in relation to the sum of large exposures was changed to 125% of the total capital instead of 100%. The funding-ratio requirement was changed to 1 instead of 1,25. The calculation method of the funding-ratio was changed as well, meaning the amount of loans should be divided by the amount of working capital and not deposits as previous. Finally, the definition of what should be included as commercial property exposure was amended (Finanstilsynet 2010b).

The Supervisory Diamond is not a firm piece of legislation but rather a guiding tool for how Danish financial companies should conduct business. If a financial company is found to exceed one or more

indicators, the Danish Financial Supervisory Authority will take action. The first step is an increased level of supervision after which an investigation will be initiated until finally an injunction will be issued to the financial company in question (Finanstilsynet 2010a).

6.1.4.1 Application of the Five Indicators

The purpose of this section is to examine Danske Bank and Nordea according to the five indicators of the Supervisory Diamond. This is done in order to assess whether the performances of Danske Bank and Nordea were significantly different. Since the legal basis of the Danish Financial Supervisory Authority is limited to supervise banks operating in Denmark, the analysis will be conducted for the Danish banking activities of Danske Bank and Nordea. As the Supervisory Diamond does not have to be fully implemented until the end of 2012, any violation of the critical limits before that date will therefore not initiate any sanctions (Finanstilsynet 2010a).

The first indicator is the sum of large exposures as can be seen from Exhibit 6.11. This should ideally be below 125% of the total amount of capital. The sum of large exposures at Danske Bank was equal to 151% in 2007 while the equivalent at Nordea being roughly half as big, 81,7%. From 2007 and onwards, the sum of large exposures at Danske Bank has been drastically reduced from 151% in 2007 to 32,6% in 2011, a reduction of approximately 78%. The sum of large exposures at Nordea has been more consistent in the beginning of the period, yet has still seen a decrease of 68% from 2007 to 2011. Generally seen, the average sums of large exposures at Danske Bank and Nordea have been approximately similar with 65,4% and 67,5% respectively.

Exhibit 6.11: Large exposures	**2007**	**2008**	**2009**	**2010**	**2011**
Danske Bank	151,0%	98,2%	22,8%	22,8%	32,6%
Nordea	81,7%	77,6%	82,9%	69,4%	26,1%

Source: Danske Bank & Nordea Bank Danmarks annual reports, 2007-2011
Own production

The second indicator of the Supervisory Diamond is the funding-ratio as illustrated by Exhibit 6.12. Ideally, the funding-ratio should be below 1, i.e. the amount of loans should be less than the amount of working capital. The funding-ratio at Danske Bank has in the entire period been below the established requirement as well as the equivalent at Nordea, which from 2007 to 2010 was above 1,0. The fact that Nordea's funding-ratio was above 1,0 means that the amount of issued loans surpassed the amount of working capital. The average funding-ratio for Danske Bank is 0,77 while it is 1,03 at Nordea, a difference of 33%.

Exhibit 6.12: Funding-ratio	2007	2008	2009	2010	2011
Danske Bank	0,80	0,78	0,74	0,75	0,80
Nordea	1,02	1,08	1,10	1,03	0,93

Source: Danske Bank & Nordea Bank Danmarks annual reports, 2007-2011
Own production

The third indicator from the Supervisory Diamond is the concentration of commercial property exposure as illustrated by Exhibit 6.13. The concentration of commercial property exposure should preferably be less than 25% of the total amount of loans. Even though neither Danske Bank nor Nordea is anywhere near the critical limit, Danske Bank has a significantly higher exposure to commercial property. The average exposure to commercial property is 11,6% at Danske Bank while the corresponding figure is 6,9% at Nordea, a difference of 68%. The high level of exposure to commercial property is for Danske Bank definitely a contributing factor to the high amount of loan impairments that it was forced to incur in Denmark since the Danish real estate sector was considerably affected by the financial crisis (Politiken 2011).

Exhibit 6.13: Property exposure	2007	2008	2009	2010	2011
Danske Bank	12,9%	9,8%	12,2%	11,0%	12,2%
Nordea	6,4%	5,8%	6,3%	7,1%	8,9%

Source: Danske Bank & Nordea Bank Danmarks annual reports, 2007-2011
Own production

The fourth indicator of the Supervisory Diamond is the annual growth in lending as can be seen in Exhibit 6.14. The growth in lending from one year to the next should ideally be below 20%. A common trait of those Danish banks that fell into trouble during the financial crisis was that they, in the years leading up to the financial crisis, all experienced a drastic increase in lending. The growth in lending at Danske Bank was from 2006 to 2007 20,3%, which is just above the recommended level. From 2008 and onwards, the growth in lending has been significantly reduced with an average decrease of -0,4% from 2008 to 2011. The decrease amount of loans issued by Danske Bank is also evident in Danske Bank's funding-ratio as illustrated by Exhibit 6.12. From 2007 to 2010, Danske Bank's funding-ratio follows an overall declining tendency meaning that the amount of loans constitutes a smaller and smaller part of the total amount of working capital. From 2007 to 2011, the average growth in lending has been 3,8% at Danske Bank and 5,0% at Nordea.

Exhibit 6.14: Lending growth	**2007**	**2008**	**2009**	**2010**	**2011**
Danske Bank	20,3%	5,9%	-3,5%	-4,4%	0,6%
Nordea	10,2%	15,0%	9,2%	1,4%	-10,6%

Source: Danske Bank & Nordea Bank Danmarks annual reports, 2007-2011
Own production

The fifth and final indicator of the Supervisory Diamond is the excess liquidity coverage as illustrated by Exhibit 6.15. The excess liquidity coverage should preferably be higher than 50% of the statutory minimum capital requirement. The levels of excess liquidity coverage at Danske Bank and Nordea have from 2007 to 2011 both surpassed the required level. The amount of excess liquidity at Danske Bank is slightly lower than at Nordea with an average excess liquidity coverage of 108% compared to 117%. The large increase in the amount of excess liquidity coverage from 2008 to 2009 at Danske Bank is primarily the result of the hybrid core capital injection it received as a participant in the credit package. The equivalent spike from 2008 to 2009 at Nordea can be attributed to its 18,7 billion DKK (2,5 billion EUR) share issue.

Exhibit 6.15: Excess liquidity coverage	**2007**	**2008**	**2009**	**2010**	**2011**
Danske Bank	88,3%	66,3%	138,3%	144,6%	107,4%
Nordea	144,0%	84,8%	128,2%	107,5%	121,5%

Source: Danske Bank & Nordea Bank Danmarks annual reports, 2007-2011
Own production

Generally seen, Danske Bank and Nordea have according to the five indicators of the Supervisory Diamond performed somewhat similarly during the five year period and were for the most part within the acceptable limits. The declaration of a winner among the two must be done with caution, as the five indicators of the Supervisory Diamond are not 'the higher the better' ratios. It is not necessarily optimal to have the lowest exposure to commercial property or the highest excess liquidity coverage. Having that in mind, Nordea surpassed Danske Bank in terms of property exposure and excess liquidity coverage, while Danske Bank surpassed Nordea in terms of stable funding. When it comes to the sum of large exposures and growth in lending they have on average performed so similarly that the two indicators must be classified as a tie. Taking the Supervisory Diamond as a whole, neither Danske Bank nor Nordea significantly outperformed the other one causing it to be categorized as a draw[15].

[15] See appendix 6 for information on the above calculations.

6.2 Capital Analysis

An important aspect when analyzing financial companies is to examine their capital situation. A capital analysis can be performed by calculating and examining the company's solvency and capital ratios (P. 62, Danmarks Nationalbank 2001). This section intends to outline the different capital requirements Danske Bank and Nordea are subject to and examine how they have developed during the 2008 financial crisis. Lastly, this section will also analyze what effect the Danish bank bailout packages and the issue of new shares have had on Danske Bank and Nordea.

6.2.1 Capital Requirements

One of the initial capital requirements applicable to financial companies came in 1988 when the *Basel Committee* published a set of minimum capital requirements known as the *1988 Basel Accord* or *Basel I*. The Basel Committee established the minimum capital requirement as the financial sector was and is of particular societal interest and they hoped to ensure financial stability by introducing capital requirements (P. 77, Danmarks Nationalbank 2002). The minimum capital requirement from Basel I became a permanent piece of legislation and thus unavoidable when the European Community introduced it in a directive in 1991 and it subsequently was implemented in the EC member states. The minimum capital requirement from Basel I was a measure called the solvency ratio, which contrasts the capital base relative to the risk weighted assets. The minimum capital requirement from Basel I required all EC member states to have a solvency ratio of at least 10% in 1991 and 1992, 9% in 1993 and 1994 and 8% from 1995 and onwards (P. 131-132, Danmarks Nationalbank 2010).

The minimum capital requirement from Basel I was on January 1st 2007 replaced by the more extensive *Basel II* framework. The Basel Committee had developed the Basel II capital framework as Basel I failed to sufficiently account for the financial innovation, risk management techniques, internal controls and different types of risk that were present in most financial companies (P. 133, Danmarks Nationalbank 2010). The Basel II capital framework is centred on three pillars:

- The first pillar establishes the minimum capital requirement, which as in Basel I is still a solvency ratio of 8% or above. The solvency ratio from Basel I was calculated by dividing the capital base with the amount of risk weighted assets. The definition of the risk weighted assets was changed with the implementation of Basel II, as that the previous method had failed to account for the different types of risk a financial company was exposed to. Instead of dividing the capital base with the traditional risk weighted assets, financial companies now have to contrast the capital base with the amount of credit risk, market risk and operational risk it is exposed to when calculating the solvency ratio (P. 11, Grosen, Andersen 2005). The alteration of the solvency ratio's calculation method was implemented to ensure that it would be better equipped at reflecting the individual risk position of a

financial company and not the uniform risk position as prescribed by Basel I (P. 69, Danmarks Nationalbank 2007).

- The second pillar of Basel II concerns the supervision of financial companies by government authorities as well as the financial companies own responsibilities in that process. Basel II obliges all financial companies to assess their individual solvency need by considering their profitability, stability, future growth expectations as well as the general economic climate to take account of their unique risk profile. This solvency need is afterwards to be discussed with the supervising authority, which ultimately can impose a higher capital requirement on the company if deemed necessary (P. 69, Danmarks Nationalbank 2007). Furthermore, Basel II expands the supervising authorities' options of intervening earlier as well as other means of supervising and controlling the risk profile and capital base of financial companies (P. 134, Danmarks Nationalbank 2010).

- The third pillar of Basel II introduces the principle of market discipline that prescribes what information that needs to be made public in terms of risk management and capital structure. The principle of market discipline was included in the Basel II capital framework with the aim of promoting stability and transparency in the financial market (P. 70, Danmarks Nationalbank 2007).

Lastly, besides the minimum capital requirement established by Basel II, the credit package (bank bailout package II) required the participating banks to fulfil another capital requirement. The primary prerequisite of obtaining a government loan in the form of hybrid core capital was that the tier 1 capital ratio of the participating banks was at or above 12% once the government loan had been issued (P. 2, Økonomi- og Erhvervsministeriet 2009). As Nordea chose not to participate in the credit package, it is therefore not subject to its inherent capital requirement (TV2 Finans 2009).

6.2.2 Capital Ratios

The Basel I and II framework as well as the credit package all impose minimum capital requirements on banks and these are some of the most vital to consider when examining the capital base of financial companies. Both the solvency ratio as well as the tier 1 capital ratio are financial indicators that clarify how financially sturdy a financial company is. The solvency ratio and the tier 1 capital ratio will be the focus of this section.

As mentioned above, the solvency ratio is calculated by contrasting the capital base with the amount of credit risk, market risk and operational risk present in the company, collectively called the risk weighted assets. The capital base of a financial company is comprised of tier 1 capital that is primarily share capital, retained earnings and hybrid core capital and tier 2 capital, which is subordinated loan capital. The difference between tier 1 and tier 2 capital is that tier 1 is equity

capital while tier 2 is borrowed capital. Thus, the tier 1 capital is the first to be lost in the event of a bankruptcy while tier 2 capital comes after. In calculating the solvency ratio, the capital base is divided by the risk weighted assets. The risk weighted assets are defined as the assets and off balance sheet exposures weighted according to the company's credit risk, market risk and operational risk. The risk weighted assets is thus an expression of the risk of not receiving the stipulated amount of money back from a customer due to default or the like. Hence, the higher the amount of risk weighted assets present in the company, the larger the capital base is needed to fulfil the minimum capital requirement (P. 133, Danske Bank 2011a).

What is more, the tier 1 capital ratio is somewhat similar to the solvency ratio. They both explain how capitalized a financial company is, but the difference lies in the calculation. Where the solvency ratio includes all capital, the tier 1 capital ratio only includes the tier 1 capital. The purpose of calculating the tier 1 capital ratio is that it illustrates how resistant the company's equity capital is against loss and not the entire capital base as the solvency ratio does (P. 120, Danske Bank 2010a).

The solvency ratio and tier 1 capital ratio for Danske Bank and Nordea for the period of 2007 to 2011 is illustrated in Exhibit 6.16. Generally seen, the solvency ratio of both Danske Bank and Nordea displays an overall positive tendency, which is more apparent with Danske Bank than Nordea. The solvency ratio of Danske Bank has increased from 9,3% in 2007 to 17,9% in 2011 which is an increase of nearly 93%. The solvency ratio of Nordea has in the same period only increased by 22%. This significant difference between the two can be explained by the fact that Nordea decided not to receive a government loan from the Danish state in connection with the credit package, while Danske Bank borrowed 26 billion DKK in hybrid core capital from the Danish state (TV2 Finans 2009). In comparison, Nordea has only received 3,7 billion DKK in hybrid core capital from the Swedish government in connection with their bank bailout package (EPN.dk 2009).

It is clear from Exhibit 6.16, that both Danske Bank and Nordea fulfil the 8% minimum capital requirement from Basel II with room to spare. The average solvency ratio is 15,1% for Danske Bank and 10,6% for Nordea, which is 7,1 and 2,6 percentage points above the stipulated minimum capital requirement. However, the solvency ratios of Danske Bank and Nordea will look noticeably different if the hybrid core capital they both received is excluded from the capital base. They are both somewhat lower with an average of 11,7% and 9,8% for Danske Bank and Nordea respectively. While the difference in the solvency ratio between Danske Bank and Nordea was 42% including the hybrid capital, it is down to 19% when it is excluded. The minimum capital requirement of 8% is still fulfilled by both banks when the hybrid capital is excluded, even though they were only marginally above it in 2007.

Exhibit 6.16: Capital ratios	**2007**	**2008**	**2009**	**2010**	**2011**
Danske Bank					
Solvency ratio	9,3%	13,0%	17,8%	17,7%	17,9%
Solvency ratio (ex. hybrid loans)	8,3%	11,6%	12,9%	12,7%	13,2%
Tier 1 capital ratio	6,4%	9,2%	14,1%	14,8%	16,0%
Core tier 1 capital ratio (ex. hybrid loans)	5,6%	8,1%	9,5%	10,1%	11,8%
Nordea					
Solvency ratio	9,1%	9,5%	11,9%	11,5%	11,1%
Solvency ratio (ex. hybrid loans)	8,4%	8,9%	11,0%	10,6%	10,2%
Tier 1 capital ratio	7,0%	7,4%	10,2%	9,8%	10,1%
Core tier 1 capital ratio (ex. hybrid loans)	6,3%	6,7%	9,3%	8,9%	9,2%

Source: Danske Bank & Nordea's annual reports, 2007-2011
Own production

The tier 1 capital ratio of Danske Bank has followed the same positive trend as the solvency ratio and has from 2007 to 2011 increased by 150%. The tier 1 capital ratio of Nordea does not exhibit the same significant increase and has only grown by 44% from 2007 to 2011. As was the case with the solvency ratio, the considerable spike in the tier 1 capital ratio of Danske Bank from 2008 to 2009 is caused by its entrance to the credit package from which it borrowed 26 billion DKK in hybrid core capital (Danske Bank 2011c). A prerequisite of participating in the credit package was that Danske Bank had to manage a tier 1 capital ratio of 12% or above, which has not been an issue.

The final capital ratio in Exhibit 6.16 is the core tier 1 capital ratio, which is the tier 1 capital ratio without the hybrid capital from government bank bailout packages, both Danish and Swedish. Thus, the core tier 1 capital ratio illustrates the solidity of a company's equity capital without foreign capital. The core tier 1 capital ratio of Danske Bank and Nordea both show an increasing tendency, although Nordea's seems to stagnate from 2009 to 2011. Danske Bank's core tier 1 capital ratio has from 2007 to 2011 increased by 110% while the equivalent is 47% for Nordea. When considering the above capital ratios, both including and excluding hybrid capital, the conclusion must be that Danske Bank is better capitalized than Nordea as all its capital ratios have shown higher growth rates as well as higher levels.

It is however not only government loans in the form of hybrid capital that Danske Bank and Nordea have used to capitalize themselves during the financial crisis. Both Danske Bank and Nordea have in the period from 2007 to 2011 issued new stocks; Danske Bank raised 19,8 billion DKK with its stock issue in the spring of 2011 (Finanswatch.dk 2011), while Nordea raised roughly 19 billion

DKK (2,5 billion EUR) in 2009 (TV2 Finans 2009). Exhibit 6.17 contains the same capital ratios as Exhibit 6.16, but excluding the capital Danske Bank and Nordea gained from the issue of new stocks.

As it appears from Exhibit 6.17, both Danske Bank and Nordea fulfil the necessary minimum capital requirements without the issue of new stocks. The solvency ratio not including the hybrid capital and capital gained from the issue of new stocks is above the 8% solvency requirement for both Danske Bank and Nordea, and the tier 1 capital ratio of Danske Bank is above the required 12%. The core tier 1 capital ratio of Danske Bank has increased 71% from 2007 to 2011 while the equivalent figure is 29% for Nordea. Once again, the same conclusion must be reached by taking all the capital ratios from Exhibit 6.17 into account. Danske Bank has in the period from 2007 to 2011 been better capitalized than Nordea, as all its capital ratios exceed the equivalent at Nordea.

Exhibit 6.17: Capital ratios, ex. stock issues	**2007**	**2008**	**2009**	**2010**	**2011**
Danske Bank					
Solvency ratio	9,3%	13,0%	17,8%	17,7%	15,7%
Solvency ratio (ex. hybrid loans)	8,3%	11,6%	12,9%	12,7%	11,0%
Tier 1 capital ratio	6,4%	9,2%	14,1%	14,8%	13,8%
Core tier 1 capital ratio (ex. hybrid loans)	5,6%	8,1%	9,5%	10,1%	9,6%
Nordea					
Solvency ratio	9,1%	9,5%	10,6%	10,3%	10,0%
Solvency ratio (ex. hybrid loans)	8,4%	8,8%	9,7%	9,4%	9,1%
Tier 1 capital ratio	7,0%	7,4%	8,9%	8,6%	9,0%
Core tier 1 capital ratio (ex. hybrid loans)	6,3%	6,7%	8,0%	7,7%	8,1%

Source: Danske Bank & Nordea's annual reports, 2007-2011
Own production

While it might or might not come as a surprise that Danske Bank, from 2007 to 2011, was better capitalized than Nordea, the superior performance cannot only be ascribed to Danske Bank's participation in the credit package. Rather, the main reason is to be found in the development of the two banks' asset base as illustrated in Exhibit 6.18, which displays the development in the capital base and risk weighted assets of the two banks – the primary components in the considered capital ratios. When examining the development in the capital base of Danske Bank and Nordea, they have roughly followed the same development with minor differences and it is thus not the cause of the difference.

Exhibit 6.18: Index analysis	2007	2008	2009	2010	2011
Danske Bank: Capital base	100	103	122	123	133
Nordea: Capital base	100	109	123	133	133
Danske Bank: RWA	100	73	64	64	69
Nordea: RWA	100	104	94	105	109

Source: Danske Bank & Nordea's annual reports, 2007-2011
Own production

However, the development in the risk weighted assets is a different case. While the amount of risk weighted assets at Nordea follows a stable positive growth with minor fluctuations, the risk weighted assets at Danske Bank have in the same period dropped noticeably. They have over the period declined by 31% to index 69, while Nordea's have increased by 9% to index 109. The difference between Danske Bank and Nordea in 2011 is 40 index points.

The above section has ascertained that Danske Bank was a better capitalized and more financially sturdy bank than Nordea from 2007 to 2011. The primary reason for Danske Bank's superior capital situation can be ascribed to two things; first, that the amount of risk weighted assets at Danske Bank have been significantly decreased over the five year period and second, that Danske Bank, unlike Nordea, borrowed 26 billion DKK in connection with the credit package[16].

[16] See appendix 7 for information on the above calculations.

7 Conclusion

The global economy was considerably affected by the 2008 financial crisis and Denmark, like so many others, was unable to avert the impact. The financial crisis forced the Danish economy into a recession in 2008 and 2009 and sparked a considerable nose-dive in the prices of the Danish property market. Thousands of employees lost their jobs, countless consumers went bankrupt and numerous companies, including financial companies, collapsed. The tremendous impact of the financial crisis on the Danish economy was however not only caused by international circumstances. Domestic factors contributed as well. The Danish homeowners had prior to the financial crisis become increasingly indebted and the majority of mortgages had switched from having a fixed rate to a variable rate. The Danish banking sector procured this additional capital from foreign banks in order to sustain the high growth in lending and close the 500 billion DKK funding gap. This combination of deteriorating international circumstances and the high level of domestic indebtedness were the responsible factors for the downfall of the Danish economy.

In October 2008, the Danish government introduced the first of so far five bank bailout packages with the aim of ensuring stability and viability throughout the financial sector and the Danish society. These bank bailout packages were comprised of various components such as government guarantees, hybrid capital injections, liquidation procedures as well as improved options of mergers and acquisitions within the Danish banking sector. However, these advantages came at a cost as the participating banks were prohibited from paying out dividends, issuing new stocks and engaging in stock option schemes among others besides the financial burden of participating in them.

Danske Bank was one of the participating banks that borrowed hybrid capital in connection with bank bailout package II in order to increase the capital base and make the company more resistant to potential losses. The hybrid capital injection obligated Danske Bank to have a tier 1 capital ratio of 12% or above besides the mandatory 8% solvency requirement as prescribed by the Basel II framework. As the capital analysis proved, Danske Bank managed to fulfil both capital requirements. Moreover, the capital analysis revealed that neither Danske Bank nor Nordea had - all things being equal - needed to obtain hybrid capital from the Danish and Swedish governments in order to fulfil the capital requirement. Had Danske Bank and Nordea not received any hybrid capital from the Danish and Swedish state they would still have met the 8% capital requirement from Basel II. That said, the hybrid capital injection Danske Bank and Nordea received might have made it easier for them to obtain additional capital which would not have been possible otherwise. Lastly, the capital analysis also revealed that neither Danske Bank nor Nordea's issue of new shares was necessary in terms of fulfilling the 8% solvency requirement as stipulated by Basel II.

The primary reason why Danske Bank was unable to avert the impact of the 2008 financial crisis is to be found in the strategy the company has followed since 2000. As unveiled by the strategic analysis, the economic climate was particularly beneficial in the years preceding the financial crisis where Danske Bank was able to generate large profits. This was despite the high level of competition within the Danish banking sector. According to the strategic analysis, Danske Bank can

be characterized as being a cost leader with lower profit margins than its competitors meaning that Danske Bank has to rely on economics of scale and a broad target market to earn a profit. Seeing that the Danish banking market is relatively small and highly competitive, prompted Danske Bank to expand its operations in order to benefit from the associated economics of scale. This can be corroborated by the fact that Danske Bank has since 2004 acquired banks in Ireland, Northern Ireland and Finland as well as minor companies in Norway and Sweden. Consequently, Danske Bank has followed a market development strategy in which it expands its banking business to be able to cater to a larger amount of customers and in return to be able to generate higher profits.

While the market development strategy was an advantage for Danske Bank prior to the financial crisis it became a disadvantage when the financial crisis hit. The economy of Ireland was particularly affected by the financial crisis which caused havoc in the Irish banking and real estate sector. As a result, Danske Bank's banking activities in Ireland and Northern Ireland was forced to incur an enormous amount of loan impairments. From 2007 to 2011 the Irish and Northern Irish activities of Danske Bank have written nearly 24 billion DKK off. By comparison, Danske Bank's activities in Denmark have incurred 26 billion DKK in loan impairments even though Danske Bank has a much larger presence in Denmark than in Ireland and Northern Ireland. While the Danish banking activities of Danske Bank has on average incurred loan impairments equal to 0,5% of the total national loan portfolio the equivalent is 5,2% and 2,1% for Ireland and Northern Ireland respectively. This extraordinarily high level of loan impairments in Ireland and Northern Ireland during the financial crisis was the primary reason why Danske Bank was so significantly affected and unable to avert the impact of the financial crisis.

The high level of loan impairments incurred in Ireland, Northern Ireland as well as Denmark has had quite an apparent effect on the financial performance of Danske Bank during the financial crisis. As the performance analysis showed, Nordea has done considerably better during the financial crisis than Danske Bank has, which can be ascribed to the significant difference in the amount of loan impairments incurred. While Danske Bank on average incurred loan impairments equal to 26,6% of total revenue the corresponding figure for Nordea is a mere 7,7%. Furthermore, the financial analysis also ascertained that the Danish activities of Danske Bank and Nordea performed fairly similar throughout the financial crisis in terms of financial stability and risk level according to the Supervisory Diamond.

Finally, the performance analysis posed a hypothetical situation in which Danske Bank had not purchased the two banks in Ireland and Northern Ireland in 2004. The result was that the profitability of Danske Bank would have been considerably better had it not purchased those two companies. Although Danske Bank would still not have been able to match the profitability of Nordea, due to high loan impairments levels in Denmark, it is still a significant increase. While the Irish and Northern Irish activities have imposed large losses on Danske Bank, Nordea predicts that the Irish economy has hit rock-bottom and is about to make a turnaround. Moreover, Nordea forecasts that the amount of loan impairments Danske Bank will have to incur in Ireland and Northern Ireland will be less than anticipated increasing its earnings per share by 20% to 55% from 2012 to 2014 (Børsen 2012).

8 References

Bechmann, K.L. & Raaballe, J. 2009, "Danske bankdirektørers aflønning: incitamentsaflønning eller tag selv bord?", *Finans/Invest,* vol. 6, pp. 16-25.

Bechmann, K.L. & Raaballe, J. 2008, "Danske banker og finanskrisen", *Finans/Invest,* vol. 8, pp. 11-17.

Bechmann, K.L., Raaballe, J. & Rose, C. 2009, "Manglende bremseklodser i danske banker", *Finans/Invest,* vol. 8, pp. 4-13.

Beierholm 2008, *, Historiske skatteprocenter*. Available: http://www.beierholm.dk/skat-moms-og-afgifter/skat/selskabsskat/d.html [2012, 2/26].

Bjerre-Nielsen, H. 2010, "Fra Bankpakke til Exitpakke", *Finans/Invest,* vol. 8, pp. 12-14.

Børsen 2012, *, Nordea: Irland når bunden - God værdi i Danske Bank-aktie*. Available: http://finans.borsen.dk/artikel/1/229985/nordea_irland_naar_bunden_-_god_vaerdi_i_danske_bank-aktie.html [2012, 4/20].

Børsen 2011, *, Kontanter er alt for dyre i brug*. Available: http://borsen.dk/nyheder/oekonomi/artikel/1/220872/kontanter_er_alt_for_dyre_i_brug.html [2012, 2/27].

Børsen 2004, 12/14-last update*, Danske Bank køber irske banker for 10 mia. kr.* Available: http://borsen.dk/nyheder/artikel/1/68095/danske_bank_koeber_irske_banker_for_10_mia_kr_ny.html [2012, 1/29].

Business.dk 2012, *, Bankkrisens foreløbige pris: 130 milliarder*. Available: http://www.business.dk/finans/bankkrisens-foreloebige-pris-130-milliarder [2012, 3/26].

Business.dk 2011a, 2/7-last update*, Finanskrisen har lukket hver fjerde danske bank*. Available: http://www.business.dk/finans/finanskrisen-har-lukket-hver-fjerde-danske-bank [2011, 11/28].

Business.dk 2011b, 11/1-last update*, Massiv nedtur i Danske Bank - 2.000 stillinger skæres*. Available: http://www.business.dk/finans/massiv-nedtur-i-danske-bank-2.000-stillinger-skaeres [2011, 11/28].

Business.dk 2010, *, Er Danske Bank den billigste?*. Available: http://www.business.dk/bank/er-danske-bank-den-billigste [2012, 4/7].

Danmarks Nationalbank 2010, *Dansk pengehistorie 1990-2005*.

Danmarks Nationalbank 2007, *Finansiel Stabilitet 2007*.

Danmarks Nationalbank 2002, *Finansiel Stabilitet 2002*.

Danmarks Nationalbank 2001, *Indikatorer for finansiel ustabilitet*.

Danske Bank 2011a, *Annual Report*.

Danske Bank 2011b, , *Bankens historie*. Available: http://www.danskebank.com/da-dk/om-os/Documents/BankensHistorie.pdf [2012, 1/29].

Danske Bank 2011c, , *Danish Bank Packages*. Available: http://danskebank.com/da-dk/ir/Documents/Presentations/2011/201111-Danish-Bank-Packages.pdf [2012, 2/11].

Danske Bank 2010a, *Annual Report*.

Danske Bank 2010b, , *Selskabsloven*. Available: http://www.danskebank.com/DA-DK/CORPORATE-GOVERNANCE/LOVGIVNING/Pages/krav-og-regler.aspx?tab=0#tabanchor [2012, 2/28].

Danske Bank 2009, *Annual Report*.

Danske Bank 2008, *Annual Report*.

Danske Bank 2007, *Annual Report*.

Danske Bank 2006, *Samfundsansvar 2006*.

DR.dk 2012, , *De store danske banker hæver renten samtidig*. Available: http://www.dr.dk/Nyheder/Indland/2012/02/04/204125.htm [2012, 4/8].

EPN.dk 2012, , *Regeringen klar med ny bankplan*. Available: http://epn.dk/brancher/finans/bank/article2710184.ece [2012, 4/1].

EPN.dk 2011, , *Eivind Kolding ny chef for Danske Bank*. Available: http://epn.dk/brancher/finans/bank/article2641259.ece [2012, 4/22].

EPN.dk 2010, , *Enighed om ny bankpakke III*. Available: http://epn.dk/samfund/article2020547.ece [2012, 2/18].

EPN.dk 2009, , *Nordea tvinges med i bankpakke*. Available: http://epn.dk/brancher/finans/bank/article1599011.ece [2012, 3/18].

EPN.dk 2006, 11/9-last update*, Danske Bank køber finsk*. Available: http://epn.dk/investor/aktier/article7892.ece [2012, 29/1].

EU-Oplysningen 2011, 8/1-last update*, Vækst i BNP*. Available: http://www.eu-oplysningen.dk/fakta/tal/BNP_vaekst/ [2011, 11/28].

European Commission 2007, *Report on the retail banking sector inquiry*.

Eurostat 2012, , *Gross domestic product at market prices*. Available: http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=tec00001&language=en [2012, 3/26].

Finansforbundet 2011, 11/1-last update*, Rekord mange finansfolk er ude i kulden*. Available: http://www.finansforbundet.dk/default.asp?mId=4281&ArtId=198205 [2011, 11/28].

Finansrådet 2011a, *, Lov om finansiel virksomhed*. Available: http://www.finansraadet.dk/tal--fakta/lovgivning-og-regulering/finansiel-virksomhed-og-myndigheder.aspx [2012, 2/28].

Finansrådet 2011b, *, Ønsker du at skifte bank?*. Available: http://www.finansraadet.dk/bankkunde/oensker-du-at-skifte-bank.aspx [2012, 3/4].

Finansrådet 2011c, 9/14-last update*, Sektoren i tal*. Available: http://www.finansraadet.dk/media/161819/sektoren_i_tal.xls [2011, 11/28].

Finansrådet 2007, *Banksektoren i samfundet - Finansanalyse 2007*.

Finanstilsynet 2010a, *Finanstilsynet introducerer 'Tilsynsdiamanten' for penge-institutter*.

Finanstilsynet 2010b, *Finanstilsynet justerer tilsynsdiamanten for pengeinstitutter*.

Finanswatch.dk 2012, *, Avis: Bankpakkejusteringer åbner for helt nye statsgarantier*. Available: http://finanswatch.dk/Finansnyt/Pengeinstitutter/article3002150.ece?referer=jp&aid=2700001&sid=2186 [2012, 2/20].

Finanswatch.dk 2011, *, Danske Bank: Aktieemission til 86 kr.* . Available: http://finanswatch.dk/Finansnyt/Pengeinstitutter/Danske_Bank/article2368174.ece [2012, 3/18].

Grosen, A. 2008, "To-års hjælpepakke til en dansk banksektor med stor risikoappetit", *Finans/Invest,* vol. 7, pp. 2-4.

Grosen, A. & Andersen, M. 2005, "Konkurrencemæssigt opbrud på pengeinstitutmarkedet - hvad betyder de nye Basel II-regler?", *Finans/Invest,* , no. 5, pp. 11-16.

Joseph A De, F. & Janssen, A. 2001, "Implementing a strategy successfully", *Measuring Business Excellence,* vol. 5, no. 4, pp. 4-6.

Lægaard, J. & Vest, M. 2010, *STRATEGI i vindervirksomheder,* 3rd edn, Jyllands-Posten.

Lynch, R. 2009, *Strategic Management,* 5th edn, Prentice Hall.

Mikkelsen, O. 2007, *Straarup,* 1st edn, Gyldendal.

Moffett, M., Stonehill, A. & Eiteman, D. 2011, *Fundamentals of Multinational Finance,* 4th edn, Pearson.

Nordea 2011, *Annual Report*.

Nordea 2010, *Annual Report*.

Nordea 2009, *Annual Report*.

Nordea 2008, *Annual Report*.

Nordea 2007, *Annual Report*.

Nordea Bank Danmark 2011, *Årsrapport*.

Nordea Bank Danmark 2009, *Årsrapport*.

Nordea Bank Danmark 2007, *Årsrapport*.

Økonomi- og Erhvervsministeriet 2011, *Aftale om en række konsolideringsinitiativer - Bankpakke IV*.

Økonomi- og Erhvervsministeriet 2010, *, Bankpakke III*. Available: http://www.evm.dk/arbejdsomraader/finansielle-forhold-og-vaekstkapital/finansiel-stabilitet/initiativer/bankpakke-iii [2012, 2/18].

Økonomi- og Erhvervsministeriet 2009, *Aftale om kreditpakken - Bankpakke II*.

Økonomi- og Erhvervsministeriet 2008, *Aftale om finansiel stabilitet - Bankpakke I*.

Østrup, F. 2010, "The Danish bank crisis in a transnational perspective", *Danish foreign policy yearbook,* .

Østrup, F. 2008, "De danske bankkriser i 2008", *Finans/Invest,* vol. 6, pp. 4-8.

Plesner, S. 2007, "Subprime-krisen : hvem er de skyldige?", *Finans/Invest,* vol. 6, pp. 2-5.

Politiken 2011, *, Huspriser rammer historisk gennemsnit*. Available: http://politiken.dk/tjek/penge/boligmarked/ECE1433786/huspriser-rammer-historisk-gennemsnit/ [2012, 4/22].

Politiken 2006, *, Danske Bank rådgiver døgnet rundt*. Available: http://politiken.dk/erhverv/ECE148191/danske-bank-raadgiver-doegnet-rundt/ [2012, 2/27].

Samfundsansvar.dk 2009, *Redegørelse for samfundsansvar - praktisk vejledning & inspiration*.

Schack, B. 2009, *Regnskabsanalyse og virksomhedsbedømmelse,* 4th edn, Jurist- og Økonomforbundets Forlag.

Sørensen, O. 2009, *Regnskabsanalyse og værdiansættelse - en praktisk tilgang,* 3rd edn, NBC.

TV2 Finans 2009, *, Nordea siger nej til bankpakke II*. Available: http://finans-dyn.tv2.dk/nyheder/article.php/id-23242728:nordea-siger-nej-til-bankpakke-ii.html [2012, 3/17].

Van Lee, R., Fabish, L. & McGaw, N. 2005, "The Value of Corporate Values", *strategy+business,* , no. 39, pp. 1-16.

Wihlborg , C., Oxelheim, L. & Østrup, F. 2009, "Origins and Resolutions of Financial Crises; Lessons from the Current and Northern European Crises
", *Asian Economic Papers,* .

9 Appendices

Appendix 1: Income Statement & Balance Sheet of Danske Bank

DANSKE BANK **INCOME STATEMENT** (DKK millions)	**2007**	**2008**	**2009**	**2010**	**2011**
Net interest income	24.391	27.005	27.524	23.843	23.537
Financing fees	1.663	1.529	1.480	1.518	1.377
Investment fees	1.728	1.127	1.043	1.227	1.191
Service fees	110	138	100	94	68
Fees generated by activities	3.501	2.794	2.623	2.839	2.636
Financing fees	631	641	699	605	384
Investment fees	2.480	2.147	1.955	2.670	2.990
Service fees	2.554	2.528	2.401	2.396	2.288
Fees generated by portfolios	5.665	5.316	5.055	5.671	5.662
Net fee income	9.166	8.110	7.678	8.510	8.298
Net trading income	7.378	6.076	18.244	7.921	7.325
Other income	3.010	3.585	3.083	3.857	3.648
Net income from insurance business	1.118	-1.733	2.810	2.146	569
Total income	**45.063**	**43.043**	**59.339**	**46.277**	**43.377**
Staff and administration expenses	21.489	21.613	21.395	20.712	21.800
Depreciation, intangibles	1.640	4.159	2.521	979	1.117
Depreciation, tangibles	1.894	2.245	2.440	2.405	2.323
Other operating expenses	47	709	2.551	1.914	747
Expenses	*25.070*	*28.726*	*28.907*	*26.010*	*25.987*
Hereof integration expenses	1.011	774	291	184	142
Profit before loan impairment charges	*19.993*	*14.317*	*30.432*	*20.267*	*17.390*
Loan impairment charges	687	12.088	25.677	13.817	13.185
Profit before tax	*19.306*	*2.229*	*4.755*	*6.450*	*4.205*
Tax	4.436	1.193	3.042	2.786	2.482
Net profit	**14.870**	**1.036**	**1.713**	**3.664**	**1.723**
Attributable to minority interests	57	25	-14	3	11
Net profit after minority interests	*14.813*	*1.011*	*1.727*	*3.661*	*1.712*

DANSKE BANK
BALANCE SHEET
(DKK millions)

	31/12 2007	31/12 2008	31/12 2009	31/12 2010	31/12 2011
Assets					
Cash in hand and demand deposits with central banks	13.861	16.379	33.714	35.403	28.617
Due from credit institutions and central banks	345.959	215.823	202.356	228.100	74.041
Trading portfolio assets	652.137	860.788	620.052	641.993	909.755
Investment securities	37.651	140.793	118.979	118.556	109.264
Assets hold for sale	59				
Repo lending	287.223	233.971	146.063	168.481	256.027
Loans and advances (ex repos)	1.700.999	1.785.323	1.669.552	1.679.965	1.698.025
Assets under pooled schemes and unit-linked investments	40.758	34.635	45.909	59.698	61.888
Assets under insurance contracts	190.223	181.259	196.944	217.515	230.668
Holdings in associated undertakings	1.128	939	1.086	1.040	989
Intangible assets	29.296	25.094	23.037	22.936	22.233
Investment property	4.904	4.470	4.948	4.799	4.624
Tangible assets	9.312	9.061	8.800	7.861	7.267
Current tax assets	690	2.103	2.274	1.404	580
Deferred tax assets	635	1.248	2.120	1.693	1.791
Others	34.695	32.088	22.643	24.442	18.634
Total assets	**3.349.530**	**3.543.974**	**3.098.477**	**3.213.886**	**3.424.403**
Liabilities					
Due to credit institutions and central banks	677.355	562.726	311.169	317.988	177.592
Trading portfolio liabilities	331.547	623.290	380.567	478.386	697.913
Repo deposits	125.721	74.393	55.648	60.440	269.515
Due to customers (ex repos)	798.274	800.297	803.932	800.613	795.275
Bonds issued by Realkredit Danmark	518.693	479.534	517.055	555.486	557.699
Deposits under pooled schemes and unit-linked investments	50.260	41.827	53.133	67.277	69.211
Liabilities under insurance contracts	213.419	210.988	223.876	238.132	248.966
Other issued bonds	402.391	526.606	514.601	450.219	366.920
Current tax liabilities	1.142	930	1.197	858	423
Deferred tax liabilities	3.397	3.082	5.391	6.003	6.278
Provisions	4.926	6.334	1.427	951	767
Subordinated debt	59.025	57.860	80.002	77.336	67.328
Others	59.025	57.860	49.820	55.455	40.661
Total liabilities	**3.245.175**	**3.445.727**	**2.997.818**	**3.109.144**	**3.298.548**
Equity					
Share capital	6.988	6.988	6.988	6.988	9.317
Foreign currency translation	-30	-290	-184	-136	-186
Reserve for available-for-sale financial assets		-1.937	-1.229	-1.330	-2.253
Proprosed dividend	5.940	-	-	-	-
Retained earnings	91.325	93.464	95.084	99.205	118.917
Shareholders' equity	*104.223*	*98.225*	*100.659*	*104.727*	*125.795*
Non-controlling interests	132	22	-	15	60
Total shareholders' equity	*104.355*	*98.247*	*100.659*	*104.742*	*125.855*
Total liabilities and equity	**3.349.530**	**3.543.974**	**3.098.477**	**3.213.886**	**3.424.403**

Appendix 2: Income Statement & Balance Sheet of Nordea

NORDEA
INCOME STATEMENT
(EUR millions)

	2007	**2008**	**2009**	**2010**	**2011**
Operating income					
Interest income	12.909	16.753	10.973	9.687	11.955
Interest expense	-8.627	-11.660	-5.692	-4.528	-6.499
Net interest income	**4.282**	**5.093**	**5.281**	**5.159**	**5.456**
Fee and commission income	2.734	2.532	2.468	2.955	3.122
Fee and commission expense	-594	-649	-775	-799	-727
Net fee and commission income	**2.140**	**1.883**	**1.693**	**2.156**	**2.395**
Net result on items at fair value	1.209	1.028	1.946	1.837	1.517
Profit from companies accounted for under the equity method	41	24	48	66	42
Dividends	-	-	-	-	-
Other operating income	214	172	105	116	91
Total operating income	**7.886**	**8.200**	**9.073**	**9.334**	**9.501**
Operating expenses					
General administrative expenses:					
Staff costs	-2.388	-2.568	-2.724	-2.784	-3.113
Other expenses	-1.575	-1.646	-1.639	-1.862	-1.914
Depreciation and amortisation of tangible and intangible assets	-103	-124	-149	-170	-192
Total operating expenses	**-4.066**	**-4.338**	**-4.512**	**-4.816**	**-5.219**
Profit before loan losses	**3.820**	**3.862**	**4.561**	**4.518**	**4.282**
Net loan losses	60	-466	-1.486	-879	-735
Impairment of securities held as financial non-current assets	-	-	-	-	-
Disposals of tangible and intangible assets	3	-	-	-	-
Operating profit	**3.883**	**3.396**	**3.075**	**3.639**	**3.547**
Appropriations	-	-	-	-	-
Income tax expense	-753	-724	-757	-976	-913
Net profit for the year	**3.130**	**2.672**	**2.318**	**2.663**	**2.634**

NORDEA
BALANCE SHEET
(EUR millions)

	31/12 2007	31/12 2008	31/12 2009	31/12 2010	31/12 2011
Assets					
Cash and balances with central banks	5.020	3.157	11.500	10.023	3.765
Treasury bills	5.193	6.545	12.944	13.112	11.105
Loans and receivables to credit institutions	24.262	23.903	18.555	15.788	51.865
Loans and receivables to the public	244.682	265.100	282.411	314.211	337.203
Interest bearing securities	38.782	44.830	56.155	69.137	81.268
Financial instruments pledged as collateral	4.790	7.937	11.240	9.494	8.373
Shares	17.644	10.669	13.703	17.293	20.167
Derivatives	31.498	86.838	75.422	96.825	171.943
Fair value changes of the items in portfolio hedge of IR risk	-105	413	763	1.127	-215
Investments in group undertakings	-	-	-	-	-
Investments in associated undertakings	366	431	470	554	591
Intangible assets	2.725	2.535	2.947	3.219	3.321
Property and equipment	342	375	452	454	469
Investment property	3.492	3.334	3.505	3.568	3.644
Deferred tax assets	191	64	125	278	169
Current tax assets	142	344	329	262	185
Retirement benefit assets	123	168	134	187	223
Other assets	7.724	14.604	14.397	22.857	19.425
Prepaid expenses and accrued income	2.183	2.827	2.492	2.450	2.703
Total assets	**389.054**	**474.074**	**507.544**	**580.839**	**716.204**
Liabilities					
Deposits by credit institutions	30.077	51.932	52.190	40.736	55.316
Deposits and borrowings from the public	142.329	148.591	153.577	176.390	190.092
Liabilities to policyholders	32.280	29.238	33.831	38.766	40.715
Debt securities in issue	99.792	108.989	130.519	151.578	179.950
Derivatives	33.023	85.538	73.043	95.887	167.390
Fair value changes of the items in portfolio hedge of IR risk	-323	532	874	898	1.274
Current tax liabilities	300	458	565	502	154
Other liabilities	22.860	17.970	28.589	38.590	43.368
Accrued expenses and prepaid income	2.762	3.278	3.178	3.390	3.496
Deferred tax liabilities	703	1.053	870	885	1.018
Provisions	73	143	309	581	483
Retirement benefit obligations	462	340	394	337	325
Subordinated liabilities	7.556	8.209	7.185	7.761	6.503
Total liabilities	**371.894**	**456.271**	**485.124**	**556.301**	**690.084**
Equity					
Minority interests	78	78	80	84	86
Share capital	2.597	2.600	4.037	4.043	4.047
Share premium reserve	-	-	1.065	1.065	1.080
Other reserves	-160	-888	-518	-146	-47
Retained earnings	14.645	16.013	17.756	19.492	20.954
Total equity	**17.160**	**17.803**	**22.420**	**24.538**	**26.120**
Total liabilities and equity	**389.054**	**474.074**	**507.544**	**580.839**	**716.204**

Appendix 3: Profitability Analysis

DANSKE BANK PROFITABILITY (DKK millions)	**2007**	**2008**	**2009**	**2010**	**2011**
EBITDA	23.527	20.721	35.393	23.651	20.830
Total income	45.063	43.043	59.339	46.277	43.377
EBITDA margin: (EBITDA/Income)	*52,2%*	*48,1%*	*59,6%*	*51,1%*	*48,0%*
Average	*51,8%*				
Net profit (before tax)	19.306	2.229	4.755	6.450	4.205
Total income	45.063	43.043	59.339	46.277	43.377
Profit margin: (Profit/Income)	*42,8%*	*5,2%*	*8,0%*	*13,9%*	*9,7%*
Average	*15,9%*				
Net profit (before tax)	19.306	2.229	4.755	6.450	4.205
Equity	104.223	98.225	100.659	104.727	125.795
ROE: (EBT/Equity)	*18,5%*	*2,3%*	*4,7%*	*6,2%*	*3,3%*
Average	*7,0%*				
Impairments	687	12.088	25.677	13.817	13.185
Total income	45.063	43.043	59.339	46.277	43.377
Impairments/revenue	*1,5%*	*28,1%*	*43,3%*	*29,9%*	*30,4%*
Average	*26,6%*				
Expenses	25.070	28.726	28.907	26.010	25.987
Total income	45.063	43.043	59.339	46.277	43.377
Cost/income ratio: (Expenses/Income)	*55,6%*	*66,7%*	*48,7%*	*56,2%*	*59,9%*
Impairments	687	12.088	25.677	13.817	13.185
Income per cost ratio: (Income/Expenses+Impairments)	*1,75*	*1,05*	*1,09*	*1,16*	*1,11*
Average cost/income ratio	57,4%				
Average income per cost ratio	1,23				

NORDEA PROFITABILITY (EUR millions)	**2007**	**2008**	**2009**	**2010**	**2011**
EBITDA	3.923	3.986	4.710	4.688	4.474
Total income	7.886	8.200	9.073	9.334	9.501
EBITDA margin: (EBITDA/Income)	*49,7%*	*48,6%*	*51,9%*	*50,2%*	*47,1%*
Average	*49,5%*				
Net profit (before tax)	3.883	3.396	3.075	3.639	3.547
Total income	7.886	8.200	9.073	9.334	9.501
Profit margin: (Profit/Income)	*49,2%*	*41,4%*	*33,9%*	*39,0%*	*37,3%*
Average	*40,2%*				
Net profit (before tax)	3.883	3.396	3.075	3.639	3.547
Equity	17.160	17.803	22.420	24.538	26.120
ROE: (EBT/Equity)	*22,6%*	*19,1%*	*13,7%*	*14,8%*	*13,6%*
Average	*16,8%*				
Impairments	-60	466	1.486	879	735
Total income	7.886	8.200	9.073	9.334	9.501
Impairments/revenue	*-0,8%*	*5,7%*	*16,4%*	*9,4%*	*7,7%*
Average	*7,7%*				
Expenses	4.066	4.338	4.512	4.816	5.219
Total income	7.886	8.200	9.073	9.334	9.501
Cost/income ratio: (Expenses/Income)	*51,6%*	*52,9%*	*49,7%*	*51,6%*	*54,9%*
Impairments	-60	466	1.486	879	735
Income per cost ratio: (Income/Expenses+Impairments)	*1,97*	*1,71*	*1,51*	*1,64*	*1,60*
Average cost/income ratio	*52,1%*				
Average income per cost ratio	*1,68*				

Appendix 4: Loan Impairment Charges at Danske Bank

DANSKE BANK PROFITABILITY (DKK millions)	**2007**	**2008**	**2009**	**2010**	**2011**
TOTAL LOAN IMPAIRMENT CHARGES					
Banking Activities Denmark	-176	4.354	10.049	7.649	4.316
Banking Activities Ireland	117	1.700	5.238	4.969	6.334
Banking Activities Northern Ireland	31	641	1.399	1.247	2.178
DISTRIBUTION OF LOANS					
Total amount of loans: Denmark	985.000	1.043.000	1.006.000	961.686	967.672
Total amount of loans: Ireland	69.000	79.000	77.000	70.233	63.728
Total amount of loans: Northern Ireland	59.000	53.000	52.000	52.130	53.326
Impairments/loan portfolio: Denmark	-0,02%	0,42%	1,00%	0,80%	0,45%
Impairments/loan portfolio: Ireland	0,17%	2,15%	6,80%	7,08%	9,94%
Impairments/loan portfolio: Northern Ireland	0,05%	1,21%	2,69%	2,39%	4,08%

Appendix 5: Danske Bank without Banking Activities in Ireland & Northern Ireland

DANSKE BANK EXCLUDING IRELAND & NORTHERN IRELAND PROFITABILITY (DKK millions)	**2007**	**2008**	**2009**	**2010**	**2011**
Total income	45.063	43.043	59.339	46.277	43.377
- Ireland & Northern Ireland	3.763	3.528	3.020	2.805	2.641
Income	41.300	39.515	56.319	43.472	40.736
Net profit (before tax)	19.306	2.229	4.755	6.450	4.205
- Ireland & Northern Ireland	515	-4.107	-5.753	-5.438	-7.856
Net profit (before tax)	18.791	6.336	10.508	11.888	12.061
Expenses	25.070	28.726	28.907	26.010	25.987
- Ireland & Northern Ireland	3.238	5.294	2.136	2.027	1.985
Expenses	21.832	23.432	26.771	23.983	24.002
Impairments	687	12.088	25.677	13.817	13.185
- Ireland & Northern Ireland	148	2.341	6.637	6.216	8.512
Impairments	539	9.747	19.040	7.601	4.673
Net profit (before tax)	18.791	6.336	10.508	11.888	12.061
Total income	41.300	39.515	56.319	43.472	40.736
Profit margin: (Profit/Income)	*45,5%*	*16,0%*	*18,7%*	*27,3%*	*29,6%*
Average	*27,4%*				
Expenses	21.832	23.432	26.771	23.983	24.002
Total income	41.300	39.515	56.319	43.472	40.736
Cost/income ratio: (Expenses/Income)	*52,9%*	*59,3%*	*47,5%*	*55,2%*	*58,9%*
Impairments	539	9.747	19.040	7.601	4.673
Income per cost ratio: (Income/Expenses+Impairments)	*1,85*	*1,19*	*1,23*	*1,38*	*1,42*
Average cost/income ratio	*54,8%*				
Average income per cost ratio	*1,41*				

Appendix 6: The Supervisory Diamond

DANSKE BANK DANMARK
THE SUPERVISORY DIAMOND
(DKK millions)

	2007	2008	2009	2010	2011
INDICATOR 1					
Large exposures	151,0%	98,2%	22,8%	22,8%	32,6%
Average large exposures	65,5%				
NB: Calculated by Danske Bank					
INDICATOR 2					
Total amount of loans	985.000	1.043.000	1.006.000	961.686	967.672
Deposits	753.767	732.984	713.229	696.032	685.872
Issued bonds	326.393	462.915	478.952	419.726	326.729
Subordinated debt	50.593	49.700	70.738	68.482	63.241
Equity	106.376	100.013	101.094	105.956	127.390
Total working capital	1.237.129	1.345.612	1.364.013	1.290.196	1.203.232
Funding-ratio: (Loans/WC)	0,80	0,78	0,74	0,75	0,80
Average funding-ratio	0,77				
INDICATOR 3					
Total amount of loans	985.000	1.043.000	1.006.000	961.686	967.672
Loans appertaining to real estate	127.065	102.214	122.732	105.785	118.056
Exposure to commercial property	12,9%	9,8%	12,2%	11,0%	12,2%
Average exposure	11,6%				
INDICATOR 4					
Amount of loans in 2006: 818.530					
Total amount of loans	985.000	1.043.000	1.006.000	961.686	967.672
Growth in lending	20,3%	5,9%	-3,5%	-4,4%	0,6%
Average growth in lending	3,8%				
INDICATOR 5					
Excess liquidity coverage	88,3%	66,3%	138,3%	144,6%	107,4%
Average	109,0%				
NB: Calculated by Danske Bank					

NORDEA BANK DANMARK **THE SUPERVISORY DIAMOND** (DKK millions)					
	2007	**2008**	**2009**	**2010**	**2011**
INDICATOR 1					
Large exposures	81,7%	77,6%	82,9%	69,4%	26,1%
Average large exposures	67,5%				
NB: Calculated by Nordea					
INDICATOR 2					
Total amount of loans	533.237	613.200	669.735	679.315	607.082
Deposits	277.972	315.853	323.894	346.942	313.122
Issued bonds	205.910	210.886	246.061	271.709	287.257
Subordinated debt	9.507	9.499	9.488	9.504	20.258
Equity	29.744	30.263	30.221	32.982	31.854
Total working capital	523.133	566.501	609.664	661.137	652.491
Funding-ratio: (Loans/WC)	1,02	1,08	1,10	1,03	0,93
Average funding-ratio	1,03				
INDICATOR 3					
Total amount of loans	533.237	613.200	669.735	679.315	607.082
Loans appertaining to real estate	34.393	35.642	41.865	48.530	54.164
Exposure to commercial property	6,4%	5,8%	6,3%	7,1%	8,9%
Average exposure	6,9%				
INDICATOR 4					
Amount of loans in 2006: 483.794					
Udlån	533.237	613.200	669.735	679.315	607.082
Growth in lending	10,2%	15,0%	9,2%	1,4%	-10,6%
Average growth in lending	5,0%				
INDICATOR 5					
Excess liquidity coverage	144,0%	84,8%	128,2%	107,5%	121,5%
Average	117,2%				
NB: Calculated by Nordea					

Appendix 7: Capital Analysis

DANSKE BANK **CAPITAL RATIOS** (DKK millions)	**2007**	**2008**	**2009**	**2010**	**2011**
Credit risk	1.211.000	814.178	703.782	712.900	752.879
Market risk	102.000	67.602	44.533	43.284	63.686
Operational risk	n/a	78.299	85.927	88.025	89.414
Risk weighted assets	**1.313.000**	**960.079**	**834.242**	**844.209**	**905.979**
Shareholders' equity	109.525	102.959	104.025	108.926	130.417
Core tier 1 capital	73.537	77.293	79.138	85.106	106.826
Hybrid capital	12.977	13.640	41.099	42.208	42.366
Statutory deduction for insurance subsidiaries	-2.230	-2.555	-2.308	-2.422	-4.175
Other statutory deductions	-18	-31	-	-55	-
Tier 1 capital	84.266	88.347	117.929	124.837	145.017
Subordinated debt, ex. hybrid capital	34.714	35.023	31.969	26.710	20.480
Hybrid capital	3.477	1.120	-	-	-
Revaluation of domecile property	1.602	924	753	675	743
Difference between expected losses and impairment charges	-	2.036	-	-	-
Statutory deduction for insurance subsidiaries	-2.230	-2.555	-2.308	-2.422	-4.175
Other statutory deductions	-18	-31	-	-55	-
Total capital base	**121.811**	**124.864**	**148.343**	**149.745**	**162.065**
Before share issue					
Solvency ratio: (Capital base/RWA)	9,3%	13,0%	17,8%	17,7%	17,9%
Solvency ratio (ex. hybrid capital)	8,3%	11,6%	12,9%	12,7%	13,2%
Tier 1 capital ratio: (Tier 1 capital/RWA)	6,4%	9,2%	14,1%	14,8%	16,0%
Core tier 1 capital ratio (ex. hybrid capital)	5,6%	8,1%	9,5%	10,1%	11,8%
Capital raised from share issue (April 2011)					19.800
After share issue					
Solvency ratio: (Capital base/RWA)	9,3%	13,0%	17,8%	17,7%	15,7%
Solvency ratio (ex. hybrid capital)	8,3%	11,6%	12,9%	12,7%	11,0%
Tier 1 capital ratio: (Tier 1 capital/RWA)	6,4%	9,2%	14,1%	14,8%	13,8%
Core tier 1 capital ratio (ex. hybrid capital)	5,6%	8,1%	9,5%	10,1%	9,6%
Index					
Capital base	100	103	122	123	133
Risk weighted assets	100	73	64	64	69

NORDEA **CAPITAL RATIOS** (EUR millions)	**2007**	**2008**	**2009**	**2010**	**2011**
Credit risk	156.952	150.746	153.123	164.662	161.604
Market risk	3.554	5.930	5.386	5.765	8.144
Operational risk	10.976	11.896	13.215	14.704	15.452
Additional capital requirements cf. to transition rules	33.103	44.709	20.134	29.629	38.591
Risk weighted assets	**204.585**	**213.281**	**191.858**	**214.760**	**223.791**
Equity	17.160	17.803	22.420	24.538	26.120
Proposed/actual dividend	-1.300	-519	-1.006	-1.168	-1.048
Hybrid capital loans	1.409	1.447	1.811	1.946	1.964
Deferred tax assets	-185	-58	-122	-266	-169
Intangible assets	-2.088	-2.193	-2.612	-2.878	-2.986
IRB provisions excess (+)/shortfall (-)	-30	-269	-211	-234	-243
Deduction for investments in credit institutions (50%)	-80	-87	-98	-106	-117
Other items, net	-656	-364	-605	-783	-880
Tier 1 capital (net after deduction)	14.230	15.760	19.577	21.049	22.641
- of which hybrid capital	1.409	1.447	1.811	1.946	1.964
Tier 2 capital	6.076	6.097	4.933	5.305	3.924
- of which perpetual subordinated loans	664	690	682	710	723
IRB provisions excess(+)/shortfall(-)	-30	-269	-211	-234	-243
Deduction for investments in credit institutions (50%)	-80	-87	-98	-106	-117
Other deduction	-1.535	-1.175	-1.275	-1.280	-1.367
Total capital base	**18.661**	**20.326**	**22.926**	**24.734**	**24.838**
Before share issue					
Solvency ratio: (Capital base/RWA)	9,1%	9,5%	11,9%	11,5%	11,1%
Solvency ratio (ex. hybrid capital)	8,4%	8,9%	11,0%	10,6%	10,2%
Tier 1 capital ratio: (Tier 1 capital/RWA)	7,0%	7,4%	10,2%	9,8%	10,1%
Core tier 1 capital ratio (ex. hybrid capital)	6,3%	6,7%	9,3%	8,9%	9,2%
Capital raised from share issue	3	3	2.503	6	4
After share issue					
Solvency ratio: (Capital base/RWA)	9,1%	9,5%	10,6%	10,3%	10,0%
Solvency ratio (ex. hybrid capital)	8,4%	8,8%	9,7%	9,4%	9,1%
Tier 1 capital ratio: (Tier 1 capital/RWA)	7,0%	7,4%	8,9%	8,6%	9,0%
Core tier 1 capital ratio (ex. hybrid capital)	6,3%	6,7%	8,0%	7,7%	8,1%
Index					
Capital base	100	109	123	133	133
Risk weighted assets	100	104	94	105	109