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Peter Straarup

CEO and Chairman of the Executive Board, Danske Bank

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Danske Bank

SPEECH

Peter Straarup - Danske Bank - CEO

Thank you for giving me the opportunity to talk about Danske Bank. We have been asked to focus on two topics this year: growth and risk management. Both, very relevant topics as we are in the middle of a crisis in the international capital markets. A crisis which has spill-over effect to the macroeconomic environment.

Danske Bank at a glance (1/2)

Most of you know Danske Bank pretty well, but let me briefly recap the business profile.

Today Danske Bank is a universal, full-scale bank with 5 million customers and core activities in nine northern European countries. We are foremost a retail bank in its classical meaning with more than 80 per cent of the revenues coming from our relationship with private individuals, SMEs and corporate customers.

Our business model is based on our vision of “one platform – exceptional brands” and our mission to be “the best local financial partner”. This means that we use our single-platform structure to be efficient and at the same time to maintain a close relationship with our customers. Since we normally keep the majority of the risk on our own book, we have a very thorough knowledge of our customers and their risk profiles.

Today our focus is on fine-tuning our current activities, maintaining our double-A rating and accelerating organic growth.

In the first part of this presentation, I will thus try to show you how we see Danske Bank developing during the next few years.

Danske Bank at a glance (2/2)

Our market positions in our nine main countries differ. Consequently we deploy different and distinct strategies in the respective markets.

In Denmark, Finland and Northern Ireland, we are one of the market leaders, and that gives us some good opportunities. Here we have an in-depth knowledge of the markets and our customers, and we often have a large part of our customers’ wallets, which means we can generate attractive returns.

In Sweden, Norway, Ireland and the three Baltic countries, we are market challengers, which give us other opportunities because we are taking market shares through above-average growth. We have generated many thousands of new customers, mainly on the lending side, and they offer great cross-selling potential. In our challenger markets we therefore expect to show improved returns in the coming years. A trend which is already visible.

Rising profit outside Denmark

On this slide, the green bars show how pre-tax profit increased between 2006 and 2007 at most units, and the red bars show that we expect a continuation in 2008, with the Baltic countries as an exception due to one-off expenses related to the integration process.

Domestic vs. international growth

Our investment in new banks and new branches means that Danske Bank’s dependence on the domestic market has been reduced. In 2007, 39 per cent of the lending and 43 per cent of the income in our banking activities came from abroad. If you look at the growth of these items 57 per cent and 72 per cent came from outside Denmark.

As such, we get less dependent on the Danish economy. And our franchises are placed in attractive markets. If you look at our weighted GDP-growth we are clearly above the EU-Zone average.

Increasing diversification

This trend is not new, but the importance of the units outside Denmark has increased, and we expect that within a few years they will account for more than 50 per cent of our banking activities.

The increase is not a result of increased volume alone. Higher returns are also an important factor, as the next slide will show

Pre-tax return on equity

At all our foreign units, except for those from our latest acquisition of Sampo Bank, ROE increased considerably in 2007, and it is set to do the same in 2008.

The increase in Sweden and Norway was owing to the improved cross-selling I mentioned earlier, while the improvement at the banks in Ireland and Northern Ireland predominantly came from lower costs.

The investments we have made in recent years are not fully visible in the results, so returns should continue their upward trend.

These are good returns in relative small full scale universal banks. How can we accomplish these returns, despite these operations have modest market shares? The answer lies within our cross boarder banking concept and our proprietary it-system, that every unit taps into and thus create economics of scale across the group.

How far can we take it from here?

In Sweden and Norway, we are already at competitive levels, but we expect to do better.

In Ireland and Northern Ireland, we can now put the integration behind us and concentrate fully on looking at the business opportunities ahead.

Finland has just made a successful IT migration, which means that they can begin to look at the synergies and business opportunities as well.

Finally, we have taken the first steps into the CRD age, which means a more precise way of calculating risk and thus pricing our products right. We has been approved to become advanced.

If you then add our "one platform – exceptional brands" business model, we think we have an excellent foundation to deliver growth – and earnings growth – in the coming years.

Despite the good momentum we have ambitions to do even better. The next step is to bring the Group up to a new and unseen level of digitalisation. This is an essential part of the 2012 financial targets we introduced a couple of months ago.

Financial Targets 2012

Our plan is to improve earnings growth through a combination of top-line growth, improved efficiency and optimal capital allocation. In 2012 we expect total revenues to be above 55 billion kroner and our cost/income ratio to be below 45 per cent, and our goal is annual EPS growth of at least 8 per cent.

Given the uncertain outlook for the next year or two, it is difficult to predict the top line, but in the banking business low top-line growth normally leads to increasing solvency and thus to increasing opportunities to do share buybacks. Our EPS growth target is thus quite robust in various growth scenarios.

Our financial targets assume that the financial markets will return to normal and include normalised loan losses in 2012.

To achieve these targets, we implement a new Digital Banking concept in the Group, and we have therefore decided to spend 500 million kroner in both 2008 and 2009 on this project.

Key elements of Digital Banking

Now, what will we get for this billion?

Well, basically we will bring the Group up to a new standard in terms of convenience, optimisation and automation.

Convenience for our customers. They will have access to the Bank whenever they want, wherever they are and through whatever channel they wish. You do not need to go to your branch to get a loan; you can use your mobile or your computer during a holiday at the other side of the World..

We will get optimisation of execution for the Bank and our customers. We need to bring paperwork down to a minimum so that our customers will not be overloaded with forms and applications just to get a short-term overdraft on their current accounts, for example. The introduction of the digital signature will be a big step forward in diminishing the tons of paper that today are transported out to our customers and back again.

The digital project will give us improved automation. Today straight through processing is an important part of our back office function, but the next step forward will streamline the processes even further, reducing manual processes as much as possible.

In 2010 we will use Digital Banking as our default offering to customers whenever we can.

EPS growth components

To conclude about our growth prospects for the coming years, we will achieve growth through the business opportunities in our markets. And we expect to deliver a little more than the average European bank. If growth is low because of macroeconomic factors, share buybacks can compensate.

But on top of this, the investment we have made in the past couple of years will – almost automatically – improve earnings, as will the Digital Banking project.

On this slide, we have depicted our expectations on the basis of the elements of EPS growth. It shows that half of the growth will come independently of market conditions. The other half will depend on the market, but if the top line produces less than expected, a share buyback will replace this contribution and ensure the expected growth.

Please remember that our 8 per cent annual EPS growth is a minimum target. We hope to do better, although 2008 seems to be a tough beginning.

C/I ratio financial target 2012

Looking at our cost/income target, we see pretty much the same picture. Roughly half of the improvement will come from low-hanging fruit such as reduced integration costs and the effect of the Digital Banking project, while the other half as mentioned is more dependent on the markets.

In conclusion it is now up to us to deliver, and we have already started.

Risk management

The second part of my presentation concerns our risk management programme, which is an important focus area in our group. We have organised our risk management to ensure that all risk aspects are covered using a number of committees and a number of tools.

This is a large topic, and given the limited scope of this presentation, I have decided to focus on a few aspects only.

For those of you who want to dig into some of the other aspects, I can recommend our Risk Management Report 2007, which is available on our website.

Capital and credit management

Danske Bank has been approved to use the advanced internal rating-based approach. The transition to CRD has reduced Danske Bank's capital requirement by 23 per cent.

Assuming CRD fully implemented, Danske Bank's minimum solvency ratio was 8.5 per cent at year-end 2007 including pillar II requirement.

Our current solvency ratio is 12.6 per cent, which is well above the minimum. The 8.5 per cent requirement is actually covered by tier 1 capital only. Both ratios stand quite well against peers.

Danske Bank has a strong and safe credit exposure. In our risk management report you can find a number of tables giving you an in-debt insight. The chart to the right shows our total credit exposure distributed by our internal rating categories and the size of collateral for each category. It shows a strong and safe distribution with more than 60 per cent within the four investment grade categories.

We are now moving into a more troublesome period in which credit risk will rise. We also expect our losses will increase, but our credit book is relatively strong and should generate lower losses than the average European bank.

Healthy funding structure

A strong liquidity position is crucial during troublesome periods for banks.

Danske Bank's funding position is strong, in fact stronger than it looks at first glance. Since the financial crisis began last August, we have explained repeatedly that the conventional Danish mortgage system is the perfect funding vehicle for a bank because we have no liquidity risk or interest rate risk. We do have not any inventory that must be re-priced because of increasing spreads; nor do we have any loans that are not funded. This covers almost 40 per cent of our 1700 billion kroner loan book.

Excluding the self-supporting mortgage book, our loan-to-deposit ratio was 1.34 at the end of 2007, and that is a fairly healthy ratio compared with the level at other European banks.

Stable pricing on Danish mortgages

The bond market knows how safe Danish mortgages are. With a triple-A rating, and without a single default ever since their beginning in 1796, Danish mortgage bonds have constantly traded at very good prices without interruption.

We had a single day in the beginning of March when market making was suspended, but the interruption was short and the market itself didn't close.

This chart shows that, in a period when spreads on other bonds widened, Danish mortgages were almost unchanged.

Liquidity management

Danske Bank has a well-defined strategy for liquidity management. It is based on four themes.

The foundation is long-term planning, which must be established in good times, with well-functioning markets. Key elements are to use a variety of funding sources and not look only at short-term costs. A new funding supplement to conventional mortgages is covered bonds, which we began to tap in December 2007. We expect that this normally cheap funding source will cover an important part of our funding growth in the coming years.

The second theme in our funding is short-term liquidity, which is measured on the basis of known cash flow streams and is divided into Danish kroner and other currency segments.

The third theme is stress testing, which we also use in other areas of risk management. Our analysis involves both group-specific and general market crises, and they are based on the assumption that lending activities are not reduced.

The fourth theme in our liquidity management is Moody's 12-month liquidity curve, which is based on the assumption that there is no access to capital markets.

At the end of 2007, our curve showed positive liquidity until the fourth quarter of 2008. The curve has been pushed forward to still reflect 3 quarter coverage. A slope we will endeavour to improve further.

The Danske Bank has an ambition to maintain a double-A rating, and strong liquidity is an important requirement for this rating.

Danske Bank

This concludes my short presentation of how we see Danske Bank in the next few years. I have chosen to focus more on how we differ from other banks rather than the similarities, which of course are many.

I hope this can be a good starting point for the discussion we will have shortly.

Thank you for your attention.