

Morgan Stanley European Financials Conference

“Managing for value in an uncertain economic and regulatory environment”

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Danske Bank

SPEECH

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Managing for value in an uncertain environment

Thank you for the invitation to this year's conference. And thank you everybody present for taking the time to attend this panel debate on how we navigate through the crisis.

Danske Bank holds a strong position

In my view, Danske Bank holds a well strengthened position today, in particular considering the very serious economic downturn we have experienced in the past five quarters and the fact that several of the countries in which we operate have been hit very hard. Those include the Baltic countries and Ireland, but also Denmark has been more severely affected than the other Nordic countries.

At the conference a year ago, we were all very concerned about the future. What kind of losses would we suffer? How deep would the crisis be? We don't know the final answer yet, but we do know that Danske Bank came through 2009 with a profit of 1.7 billion Danish kroner, despite historically high impairment charges of 26 billion kroner. We even managed to improve our solvency significantly. Our core tier 1 capital ratio rose from 8.1 to 9.5 per cent, and our solvency ratio from 13 to as much as 17.8 per cent. We did this without raising fresh equity, although we did raise hybrid capital from the Danish state.

Let there be no doubt that Danske Bank has dedicated many resources to finding a safe course through the crisis, but we have also been preparing the Group for the time after. Our goal is to be in the strongest possible position when the crisis is over.

The 4Cs

The strategy we have decided on has four elements. We call them the 4Cs: Credit, Costs, Customers and Capital. Where Credit focuses on how to steer through the current crisis in the best possible way, the other three Cs aim at the future. But let us look at them one by one.

Credit management

Obviously, credit management is key during a downturn, not least when the downturn is as serious as this one. We have seen high impairment charges. But it is worth noting that in most regions, our losses are at the same level as those of other banks operating in the same region. That is the case in Ireland and the Baltic countries. As in Denmark, where corporate customers in many sectors are going through difficult times. Some think that our impairment charges reflect a very conservative impairment strategy, but it is too early yet to tell. We base our impairment charges on the assumption that the economic recovery and growth will be

modest in the next couple of years. We can hope that we are mistaken, but as yet, there is nothing to indicate that.

Our impairment charges have declined each quarter since the fourth quarter of 2008. We expect impairments to be lower in 2010 than in 2009, but I dare not promise that the declining trend will continue uninterrupted in 2010. We cannot rule out bumps down the road.

Cost management

The second C stands for Costs. We have been focusing on costs for more than a year now and proceed along two tracks: One is a thorough review of all our costs, the other is strong focus on how best to use our resources to serve our customers.

The first track is very straight-forward. We are cutting away everything unnecessary and are changing processes, purchasing habits and the like to make our operations more efficient. The first results are already coming through, and we will see more during 2010 and 2011.

Allocate resources

The second track is more complex, but still with a simple goal: We want to use our resources where our customers are, and we want to allocate most resources to our best customers.

Our customers use our online banking products more and more and our brick-and-mortar branches less and less. That is in line with the general trend in society and the result of our pricing structure, which makes online banking more attractive. This process has been ongoing for a number of years, and our 4Cs strategy will be a strong driver by moving an increasing number of our customer segments towards online banking and telephone services at our contact centres.

We have recently extended this channel to comprise our small business customers. At the new business contact centres, Business Direct, small corporations are served by expert corporate advisers.

Obviously, it is important that we do not forget groups of customers while we are busy streamlining processes. That is why we are also busy increasing the expertise of our staff so that when customers have moved to our contact centres, they get – as a minimum – the same quality of service as they did before.

Tangible results of intensified cost focus

Let me give you some numbers to illustrate what I mean. Since the summer of 2008, we have cut our staff by 7 per cent and the number of branches by 12 per cent. This process will continue in 2010 and 2011.

Customer focus

Our new customer focus, changes the way we serve customers, the third C. Customer focus is also linked to the Danske Bank Group's future growth strategy. Our future strategy is organic growth - not growth through acquisitions. And we do not plan to sell off activities either.

Throughout the crisis, we have been supporting our customers. But in some geographic areas and within certain industries, we have been more cautious. Our corporate customers, in particular, have been cautious too, for instance by drawing less on working capital and other credit lines.

Now things are slowly beginning to brighten up again. It is important for us that our customers see Danske Bank delivering superior customer service in a way that match each of our four main segments, CIB, SME, Private Banking and Personal Banking. Besides the channels, we will focus on designing products that match each segment's needs. We will also ensure that our customer-facing employees improve their expertise, so we can offer better advise and become an even better partner to our customers.

Price is also an important parameter for us. We deliver products and services at attractive prices at the same time as we also focus on value creation based on each customers total business with us. The efficiency of the bank and the quality of staff are the tools that can combine these two goals.

We want our customers to see Danske Bank as a superior supplier of financial products and we have taken the right steps to ensure that.

Capital and new regulation

The last C stands for Capital and for the new regulatory requirements that will be implemented in coming years. We do not know the requirements in detail yet, but based on what the Basel Committee and the European Union have announced so far, the headlines will be capital, liquidity and leverage.

In most of these areas, we are doing fine. A high solvency ratio, in particular, is a strong basis. As mentioned, our core tier 1 capital ratio is 9.5 per cent. Even though the principles for calculating this ratio are likely to be tightened, we believe that we are at the high end of European banks. Our solvency ratio is 17.8 per cent, and that is without doubt among the highest in Europe and in the Nordic region as well.

In 2009, we also reduced our gearing through a reduction of our trading portfolio, our interbank business and, to a lesser extent, our loan portfolio.

Narrowing the gap

Finally, we have been focusing on funding. Lower lending and higher deposits have reduced our long-term funding needs by almost 200 billion kroner. Moreover, we have strengthened our long-term funding by 180 billion kroner in 2009. This is double our usual annual funding need. As a result, we now have a very good funding structure and a significant liquidity reserve.

It also means that we are well prepared when the general Danish state guarantee expires on October 1.

There is no doubt that we will see higher capital, liquidity and leverage requirements. But what is important for us and the sector in general is that the new requirements are implemented in the most appropriate way. It is clear that steps should be taken to avoid a financial crisis in the future.

I hope to have shown you that Danske Bank is shedding the burden of the crisis - and emerging as a stronger bank than we were a year ago. We are focusing increasingly on the time after the crisis rather than on crisis management - as important as that may be.

Thank you for your attention.