

# “Competing in the Age of Austerity”

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## SPEECH

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Peter Straarup - Danske Bank - CEO

### Slide 1

Thank you for the invitation to this year's conference. And thanks to everybody here for taking the time to attend this presentation.

The themes of the conference are competition and austerity. I shall try to accommodate that.

### Slide 2: The future for Danske Bank

In the past year and a half, Danske Bank has been preparing the Group for a future with low economic growth: making the Bank very efficient by means of state-of-the-art technology and supplying expert solutions to our customers is our remedy in order to optimise our future earnings potential.

We have, during the past two years, faced up to many challenges, and we have, since virtually the inception of the financial crisis, focused on the day after the crisis.

In early 2009 we launched a "Future" programme, which improves efficiency, enables cost cutting and guides customer contact into the proper channels.

In addition to our "Future" programme, we have obviously been focusing intensely on the Bank's capital and liquidity situation so that our business partners can rely on our strength at all times.

I would like to elaborate on these issues to show how we will grow our business and enhance earnings in the coming Age of Austerity, as our host has expressed it.

### Slide 3: Geography: A strong Nordic franchise

Let me start by reminding you of our bank's position. We are a Nordic financial group with activities in most of northern Europe, including Ireland and the Baltics.

We have a strong customer base of 5 million, of which almost half are active Internet customers.

Almost three quarters of our income comes from retail banking, and 20 per cent from our capital markets operations.

You can look at Danske Bank from various angles or dimensions.

We have a geographic dimension. We're in 14 countries - predominantly a Nordic franchise, with 90 per cent of our loans coming from the Nordic area. Additionally, we have an important presence in the Baltics, Ireland and Northern Ireland.

### Slide 4: Strong, increasingly competitive financial services...

We also have a product dimension. Supporting our banking operation, we have four strong providers of financial products:

- Danske Capital, with almost 600 billion kroner under management, is the third-largest asset manager in the Nordic area. The business is growing, as illustrated by its 20 per cent market share of new sales of mutual funds and its strong inflow of institutional money from Nordic clients, sovereign funds and central European clients. This is based on a good performance record. For three years in a row, 60 per cent of the funds have beat their benchmarks.
- Danica, Denmark's largest private pension provider. Danica has shown strong growth within unit-link products: So far this year, premiums are up 50 per cent in Denmark, 100 per cent in Sweden and 200 per cent in Norway. Some 30 per cent of premiums are now coming from Sweden and Norway.
- Danske Markets is our capital markets operation. It has built up a strong position over the past 10 years and has gone from being a predominantly Danish franchise to being truly pan-Nordic, with strong positions in almost all segments.
- In the Nordic market, Danske Bank is number one or two within fixed income, derivatives and forex trading. Within equity trading, we have a very strong Danish franchise and have gradually strengthened our position in the other Nordic countries.
- Realkredit Denmark is a very strong mortgage finance provider and a valuable part of our Danish banking activities. The unique Danish mortgage system, which

enables us to provide mortgage loans without liquidity risk, has shown its resiliency during the financial crisis. Bonds have performed well, and the market has at no point in time been closed to new issues. A very well-functioning and safe part of our Danish operation.

#### **Slide 5: Customers: Improve service...**

Finally, we have a customer dimension. We work with all customer groups ranging from private individuals to the largest Nordic clients and the largest global companies who operate in the Nordic countries. We have segmented our clients according to size and complexity and have four main groups: CIB, SME, private banking and personal banking in the mass market.

Customers are in focus in the business strategies we have pursued and will pursue in the next couple of years.

The headline of this strategy is to improve our customer service and at the same time create a more efficient bank. The key to solving this equation is digitalisation.

This strategy is now being rolled out.

#### **Slide 6: Customers have become more and more demanding...**

Our strategy is based on our customers' behaviour, which has changed and will continue to change. We must meet customers when they want to meet us, where they want to meet us and in the way they want to meet us. But we must also guide customers to utilise the most efficient channel. This is precisely what we are doing in our channel management efforts - getting customers to use the most efficient channel and thus creating the best possible service.

#### **Slide 7: Improving customer service, digitalisation...**

Is this possible? We believe so.

We will offer our customers improved service by expanding our services within Internet banking, mobile banking and other electronic solutions.

An example of this is our "Business Direct" service. Here we serve 80 per cent of the bank's business customers. This 80 per cent segment contributes less than 10 per cent of earnings. Therefore, they cannot be serviced profitably through the branch network. Instead, we provide call centre service with skilled commercial banking advisers answering

the phone. This makes it possible to reduce staff in the branch network.

Our call centre activities for personal customers are also growing strongly, and it is actually a much more efficient way of servicing our customers than through our branch network. Especially customers with a relatively small wallet.

#### **Slide 8: Digital channels will become increasingly important...**

This slide illustrates how we see the electronic solutions becoming more and more important as the key service channels, whereas our branches and contact centres will continue to be the most important channels when more complicated and value-creating advisory services are needed.

Let me illustrate our channel management by looking at our segmentation.

#### **Slide 9: Service strategy for business customers...**

We have divided our business customers into four groups:

1. Large corporate and institutional customers, which are served by our new Corporate Banking unit across the Group. They have account managers and our capital markets specialists to serve them.
2. Regional businesses are served locally through our finance centre as their main channel.
3. Local businesses are less complex customers, which are served by the branch network.
4. Finally, as I mentioned, we have moved our smallest business customers from the branches to our Business Direct contact centre. They will be served by experts both day and night, which means that they get a much better service at a lower cost to us.

#### **Slide 10: Private customers: Needs and service offerings...**

For our private customers, we are using the same strategy in many ways.

We offer a number of different accounts based on customers' needs and preferences. We have

1. Danske 24/7, which is a pure Internet and mobile bank offering based on self-service and is thus very cheap.
2. Danske Basis and Danske Basis Plus are our standard products for customers with simple needs with or

without credit facilities. No running fees, but a start-up fee, and you can get personal advisory service.

3. Danske Extra is our offering for customers with more complex needs, with advisory service, overdraft facilities and much more for a fixed fee.
4. Private Banking is our offering for highly affluent customers, with a high degree of service and personal contact at our finance centres

The basic idea is to allocate the right channel to our customers depending on customers preference and business potential.

In this process we are able to improve customer service and reduce the bank's cost of service

#### **Slide 11: Strong capital position maintained under the new Basel III**

Let us look at the bank's capital position

Our capital ratios have improved, and our total solvency is now at 17.2 per cent. Our tier 1 ratio is 13.7 per cent, and our core tier 1 ratio is more than 9 per cent.

In comparison with our ICCAP result of 10.1 per cent, our total solvency is very strong, and the EU stress test results also showed that Danske Bank is well capitalised, with a 2011 tier 1 ratio of 10 per cent in the most stressed scenario, against the required minimum level of 6 per cent.

Our current core tier 1 capital is also higher than the new capital standards from the Basel Committee, with a minimum core tier 1 ratio of 7 percent including a conversion buffer, even after adjusting the ratio to the new Basel III definition.

The introduction of a countercyclical buffer as well as a potential buffer for systemic banks will – given the proposed transition period – also be manageable according to what we know today.

So, on capital we stand on solid ground.

#### **Slide 12: Strong loan-to-deposit ratio**

Our funding and liquidity are other areas where we have strengthened our position. First of all, we have managed to reduce the gap between lending and deposits from almost 30 per cent to 17 per cent, or from 400 billion to 250 billion kroner.

#### **Slide 13: Funding need for 2010 has been met, ...**

Second, our funding structure has changed. In 2009 we increased our long-term funding by 180 billion, which should be seen in the light of the 250 billion lending gap I just mentioned.

This means that today we fund our entire loan book by deposits, Danish mortgage bonds and long-term funding only. Our short-term funding, mainly commercial paper programmes, are used to finance the short-term liquidity assets and our trading portfolio.

The price for this is a little higher funding costs, but it reduces the Bank's liquidity and funding risks.

#### **Slide 14: Bond spreads**

The bond market seems to like this low-risk profile.

By building up a strong balance sheet, we have the best possible foundation to serve our customers.

Another matter that has a large influence on our spread is our geographic position in the Nordic area.

#### **Slide 15: Nordic countries are well below EU debt limit..**

I believe that the Nordic region has a relatively good fundamentals from which to manage the many challenges in the next couple of years. We expect that growth in Europe will be low, also because of the high public debt that needs to be addressed. The Nordics are in a better position than the rest of Europe. This means that the constraints in the Nordic countries will probably be smaller than in many other European countries, and we will therefore have a more resilient platform.

But the low-growth scenario will limit topline growth in the coming period. We therefore expect that the major contribution to earnings growth in the near future will come from elsewhere. And this has also been the case recently. Let me give you a few examples.

#### **Slide 16: Very strong cost performance...**

In the first half of 2010, our operating expenses were down 14 per cent. The reduction in operating expenses was offset by goodwill impairment charges in 2009. In H1, the underlying cost base was down 3 per cent as a result of our efficiency and lean programmes.

A 4 per cent decline in staff is another example of this.

And as I mentioned, we are not finished yet. This process will continue throughout 2011, so the final result will not be visible until the beginning of 2012.

We have not communicated any targets, but we focus on realising results going forward comparable to the improvement we have already shown.

#### **Slide 17: 1 October...**

On top of this, you should expect our operating expenses to be down by some 8-10 per cent, or 625 million kroner, in the fourth quarter this year.

The reason is the termination of the Danish Bank Package I, which includes an overall guarantee of Danske Bank's liabilities. We have paid 625 million per quarter, and this will end after the third quarter this year.

So our cost base will benefit from the one-off reduction in Q4 and the ongoing savings until the end of 2011.

We have also paid 300 to 500 million per quarter in impairments to cover our obligation to pay for other Danish banks that go under, and this will also stop after the 463 million we expect to pay in Q3.

#### **Slide 18: Impairment charges fell for the sixth consecutive...**

Loan impairment charges have been a drag on Danske Bank's results, although we have managed to reduce the losses for six consecutive quarters.

In Q2 we booked 3.5 billion, and we hope this will come down further in Q3 as well as the following quarters. But obviously this figure can fluctuate. In Q4 we will see an extra reduction of almost 500 million from the termination of Bank Package I, as I just described.

Our main remaining issues regarding impairment are Denmark and Ireland. We do expect gradual improvement. In Denmark we see signs of improvement in the form of increasing exports and consumption as well as slightly better unemployment figures.

In Ireland, we will also see improvement, but I am afraid that it will be slow going.

#### **Slide 19: Key Priorities and earnings drivers going forward**

Let me conclude.

We have used most of our management efforts in the past year or two to prepare the Bank for a low-growth, but still competitive, future.

We are focusing on the four Cs – Customers, Costs, Credit and Capital – all issues I have described in this presentation.

No doubt, customers are our main focus area right now. But to be able to serve our customers in the best way, we need to be more lean, so our cost efforts will continue throughout 2012 and will continue to be an earnings driver for Danske Bank.

Credit management is also very important. Short-term, we hope it will be an earnings driver in form of a continuing decline in impairments. Longer-term, we want it to prevent us from ending up in a similar situation again.

With a more solid foundation than before, we expect to deliver a strong positive earnings trend despite the Age of Austerity.

#### **Slide 20: Q&A session**

This concludes my presentation - thank you for your attention.

I will be happy to answer any questions you may have.