

## **The Chairman's report to Danske Bank's Annual General Meeting**

March 23, 2004

### ***Slide: Logo***

One obvious difference from many preceding years is that I am presenting the report as chairman of the Board of Directors for the first time after my predecessor, Poul Johan Svanholm, retired last summer after his seventieth birthday, having held the post for more than 20 years. I would like to use this occasion to express our gratitude for the great effort that Poul Svanholm has made in his work for the Bank, which under his chairmanship achieved the leading position it holds today.

The year 2003 was in many areas a positive one for the Danske Bank Group.

The financial results for the year were the best in Danske Bank's history. The net profit after tax amounted to DKr9,286m, and there were improvements in all the key indicators.

We achieved this result despite sluggish economic conditions, modest activity in the capital markets and, not least, low interest rates.

Besides our satisfaction with the accounts for 2003 and the strong bottom line, there were other results that were significant when we set the year in perspective. We are pleased that studies show increasing satisfaction among customers and staff, among other things. After several years of rationalisations and staff reductions, our organisation has found its proper size. The structure has now fallen into place, and we do not expect significant staff reductions this year. This stabilised situation means that there will be a clear expectation that staff can concentrate fully on improving our good relations with customers and business partners as well as other stakeholders.

There are surely some who have been sceptical about of the division in Denmark between bank branches with the two different brands – Danske Bank and BG Bank. We choose the

two brands out of consideration for our customers. This was the right decision. We are extremely satisfied with the development of the two brands, and in the autumn of 2003, we decided to sharpen the profiles further by giving each bank its own management, credit department and financial reporting.

Product development was intensified, and the sale of customer packages, property financing products and the new interest-only mortgage loan exceeded our expectations. Banking market shares in Denmark reached the highest level in a long time, and mortgage finance also showed a good trend in market shares of both gross lending and net new lending.

Regarding the more formal aspect of the meeting today, we issued our announcement of the annual accounts for 2003 on February 5, two weeks earlier than in the preceding year, and the Annual Report was available on the Bank's Web site on the same day. The printed annual report has been available at the Bank since February 23 and was sent to all registered shareholders who requested it.

Also this year the Annual Report contains a large amount of information and detailed reporting, including information about the individual business areas and accounting items. The sections on risk and financial management in particular have been expanded and now contain a substantial amount of new information about the evaluation of the Group's risks.

The Annual Report has long been available and has been commented on, analysed and compared with those of other banks. So, as in previous years, in this oral report I will review only the main features of the accounts.

***Slide: Profit & loss account***

As I mentioned earlier, the net profit after tax was DKr9,286m. More than one billion kroner higher than in 2002.

Some years ago, Danske Bank chose to break down its official financial accounts into core earnings and earnings from investment portfolios (see page 68 of the Annual Report). This distinction was made because core earnings show the trend in ordinary operations, that is, the

part of the Group's earnings that is most stable. As in previous years, this review of the accounts is based on the Bank's breakdown of earnings.

Core earnings after provisions showed a small increase to almost DKr10.5bn.

Net interest income fell 2 per cent in comparison with the level in 2002. Even at the beginning of 2003, money market rates were at a low level. The additional drop in interest rates during the year was positive for the Danish economy in many areas, especially for homeowners, but it had a negative effect on the Bank. Declining interest rates actually reduced the Bank's net interest income by DKr1.2bn.

The drop in rates put pressure on our interest margin, since deposit interest rates had reached a point where further reductions could not be made for many accounts. The increasing volume of business in Norway and Sweden as well as in the mortgage finance area could not fully offset the effects of falling interest rates.

Earnings from fees and commissions rose DKr100m. The advance was owing not to increased fees in the banking business but mainly to an increase in fee income from refinancing and loan processing resulting from heavy activity related to the new interest-only mortgage loans.

The Bank's operating expenses and write-offs declined DKr669m, and this reduction is an important reason for the rise in core earnings before provisions.

Before the annual general meeting last year, we had a regrettable experience of a breakdown in the Bank's IT systems and a suspension of operations for several consecutive days. The reason for the breakdown was identified and corrected, but since we consider confidence in the Bank's IT systems a most serious issue, we undertook various detailed investigations and substantial investments to further improve IT security. We thus carried out a number of external analyses of the systems' strength and the planned reorganisation of our IT infrastructure so that we now duplicate all vital data in two geographically separate operations centres. Although the systems have a high level of security today, we continue to work on additional measures to improve the opportunities to manage software errors; one of these is to set up a third system that will be able to run the operations of the most vital systems in case of an operating crisis in the normal operating environment. So far the first stage of the project

has been completed, and by the end of this year, we expect an expansion of additional essential systems will be completed.

The cost/core income ratio improved to 55. Our objective is still to bring it down further by a combination of somewhat higher growth in core earnings, possibly as a result of higher interest rates, and stronger economic growth in the markets where the Group operates, as well as continuing efficiencies.

Net losses and provisions for bad and doubtful debts amounted to DKr1,662m, somewhat higher than in 2002, but still at a relatively low level, the equivalent of only 0.15 per cent of total loans and guarantees. The Bank's generally low provisioning level in relation to business volume was owing to both the large portfolio of low-risk mortgage loans and the Bank's efforts to maintain high credit quality in the credit portfolio. As a result of these efforts, the Group's expected annual loss over the course of a business cycle has been reduced from 0.23 per cent of total loans and guarantees to 0.19 per cent. Regarding the quality of the credit portfolio, I refer you to the more detailed information in the Annual Report, on pages 39 to 49.

Earnings from investment portfolios, which derives from the Group's own shares, fixed-income holdings and foreign exchange positions, amounted to DKr2,569m and was one of the main reasons that the net profit for the year was so good. Earnings from investment portfolios from the banking business were DKr1,493m. Investment earnings from Danica Pension enabled Danica to contribute DKr1,076m to overall investment earnings in 2003. In 2002, Danica's investment return was not enough to allow the Bank to book a risk allowance from the insurance business. The higher return in 2003 was sufficient to allow the Bank to book DKr954m in risk allowances from previous years.

The Group's total tax amounted to DKr3,750m, including DKr66m for the special tax on provisions, and the effective tax rate is calculated to be 29 per cent. The financial services employer tax of about DKr500m was not included in the calculation of the tax rate. This special tax on the financial sector is booked as part of staff costs.

Regarding these two taxes and duties, I would like to say that the Bank finds that not only are they unfair, they have no appropriate incentive structure.

***Slide: Balance sheet***

At the end of the year, the Group's total assets stood at DKr1,826bn, and we also saw solid growth here.

The assets of the insurance companies, which according to prevailing legislation are not consolidated in the Group accounts, stood at DKr188bn. Counting the insurance companies' assets, the Group's total assets would have reached DKr2,014bn.

The Group's shareholders' equity was about DKr60.5bn at year-end.

As in previous years, we discuss in the Annual Report the trends in the Group's various business areas. In October, 2003, it was decided to make an adjustment to the organisation that would take effect generally on January 1, 2004. For 2003, the reporting is based on the organisational structure in place during that year.

In 2003, Banking Activities accounted for two-thirds of the Group's total core earnings before provisions.

Let me make some brief comments on the individual business areas' results.

***Slide: Banking Activities Denmark***

The Danish segment of Banking Activities accounted for almost half of the Group's core earnings before provisions. The trend in the economy led, unfortunately, to a decline of 4 per cent, mainly because of lower money market rates. On the other hand, there was a reduction in operating costs and write-offs of DKr671m, or 8 per cent.

Beginning on January 1, the organisation of Banking Activities Denmark will have separate management, credit departments and reporting for Danske Bank and BG Bank, and this should give clearer profiles to the two brands and probably sharpen their competitiveness.

It is my pleasure to report that ongoing studies show customer satisfaction in both Danske Bank and BG Bank rose strongly from 2002 to 2003, and scores for the quality of personal

service and the Bank's ability to meet the customer's expectations were especially high. That clearly reflects the number of new products launched and also the fact that the completion of adjustments after the merger has allowed the staff to focus their energies more intently on the customers.

The Bank also conducts ongoing surveys of employee satisfaction. These show satisfaction and loyalty at both Danske Bank and BG Bank. The employee's perception of the Bank's image and senior management was particularly impressive.

This could be seen in the positive trend in the Bank's market share in the second half of 2003.

***Slide: Banking Activities International***

Core earnings from the Banking Activities International as a whole showed a positive trend, rising 5 per cent over the 2002 level in Danish kroner.

At Fokus Bank in Norway, income rose 2 per cent in local currency. There was fair lending growth, but it could not compensate for the drop in Norwegian yields and the Norwegian krone's exchange rate. Costs rose also, particularly because of increased provisions for pension obligations and branch openings in the large cities.

Earnings in Sweden showed a solid trend, although the decline in costs must be seen in light of the conclusion of the upgrade of the Swedish account system to the shared IT platform.

Banking Activities in the United Kingdom showed a rise in core earnings of 8 per cent in local currency, but here there was also a rise in costs, particularly for increased pension costs and performance-based compensation. At the annual general meeting last year, an initiative to expand the customer segment in the UK to include medium-sized businesses was mentioned. We should inform you that the level of our ambitions has been modified substantially.

In our American Banking Activities, core income rose 8 per cent in local currency, but there was also a rise in costs, especially transaction-dependent costs, in this case.

We also have banking activities in Luxembourg, Finland, Germany and Poland, whose core earnings before provisions, taken together, were almost unchanged in Danish kroner.

***Slide: Realkredit Danmark***

There was much mortgage refinancing activity at Realkredit Danmark, especially in the first half of 2003, and an increase in the lending portfolio that had a positive effect on core earnings. Realkredit Danmark placed its liquidity in high-coupon bonds with short maturities at a price over par, and this produced market value adjustments that reduced the other core income. The rise in core income was therefore only 2 per cent. Costs rose 10 per cent, particularly because of IT costs. Some of the IT costs derive from the conversion to the Group's central IT platform, but in the autumn of 2003 it was decided – partly in order to improve IT security – to change the structure in the conversion of Realkredit Danmark's systems and extend the conversion over a longer period. Realkredit Danmark also developed a new system for the new interest-only loans; the system was probably an important reason for the Bank's fine market share of this type of loan. Core earnings before provisions declined 3 per cent. The drop in interest rates can once again be adduced as the main reason for the fall, since it lead to a reduced return on capital and liquid funds.

In May 2003, Realkredit Danmark was assigned the highest possible rating from Standard & Poor's: AAA. This will further increase the foreign investors' interest in the Realkredit Danmark's bonds.

***Slide: Danske Markets***

Trading in fixed-income, shares and foreign exchange products produced solid core earnings before provisions – even considering that the comparison with 2002 includes a special provision of DKr350m for restructuring the investment banking area.

Danske Markets achieved this result without significantly increasing its risk-taking, and the advance took place in all business segments.

***Slide: Danica Pension***

The trend at Danica Pension, Denmark's largest life and pensions company, is also encouraging. Once again in 2003, Danica was one of the Group's largest growth areas. Total gross premiums rose 13 per cent during the year.

Danica Pension's growth took place with almost the same level of resources as in the preceding year, so the expense ratio fell to 8.2 per cent. It was also able to reduce processing time.

Unit-linked policies are yet another relatively new product in Denmark – but they have brought annual premiums of more than DKr2bn in the few years that Danica has offered them.

The return on the investment of customer funds was 6.4 per cent in 2003. In comparison, unit-linked life insurance customers with a medium-risk profile obtained a return of 11.7 per cent.

Danica continues to maintain a high solvency ratio and adequate reserves and can thus withstand a substantial drop in share prices or interest rates without encountering problems. The company's financial strength led to an upgrade of Standard & Poor's rating from A+ to AA-.

Despite the positive business trend, core earnings from insurance activities fell by 10 per cent. A leading reason was the decline in interest rates that caused the return on shareholders' equity to be lower. There was also a one-off provision for run-off business in loss-of-earnings-capacity insurance.

Danica breaks down its core earnings and earnings from investment portfolios according to the same principles as are used elsewhere in the Danske Bank Group. This means that the actual business trend in Danica's result will be reflected in the core earnings, while the part of the result that is exposed to market risk will be reflected in the investment earnings.

Danica's contribution to earnings from investment portfolios was DKr1,076m, which includes the booking of the deferred risk allowance from 2002.

*Slide: Danske Capital*

The earnings base at Danske Capital was hurt by the trend in which many customers re-allocated their equity investments to bond investments. This caused a drop in the earnings margin. Total assets under management increased by DKr27bn, and new agreements in 2003 amounted to DKr9bn.

*Slide: Danske Bank's share price performance in the past five years*

Let me now turn to something that should have considerable interest for our shareholders, that is, the Bank's share price performance. At the end of the year, Danske Bank's share price was DKr138.8 against 117.4 at year-end 2002. During the year, shareholders received a dividend of DKr4.75 per share and a share repurchase totalling DKr5bn.

In the past four years, a total of DKr28bn has been distributed to shareholders in the form of dividends and share buybacks.

In the past five years, the share has given a total return to shareholders of 13 per cent annually, with wide fluctuations in individual years.

It is not possible to present the report for the year without a few comments about the important issue of corporate governance. At Danske Bank much attention has been given to the responsible performance of management duties. The Annual Report discusses the most important recommendations regarding good corporate governance that are operational and in the Group's interest, and material on the topic has also been available on the Bank's Web site for some time.

The Bank adheres to the Danish recommendations to a great extent, but does not believe they should be followed uncritically. For example, the Danish recommendations state that a board of directors should not have more than six members elected by the annual general meeting. Since the merger with RealDanmark, there have been agreements about the size of the Board of Directors, with the purpose of reducing the number of members chosen by the annual general meeting to 10. The board holds many meetings during the course of the year in comparison with many other companies, and recognising that it is not always possible to conduct extended discussions of various topics, has created five committees: an audit

committee, a credit committee, a salary and bonus committee, a risk committee and a shareholder committee. The purpose of the committees is to devote more time to detailed examinations of various issues and topics that are important to the Group before they are submitted to the entire Board of Directors.

Many recommendations on good corporate governance from Denmark and abroad figure in the presentations that the Board has considered in its discussions to set forth the Bank's principles of good corporate governance. Corporate governance will remain on the Board's agenda in the future; for example, we will review the latest version of the recommendations from the Copenhagen Stock Exchange's committee on good corporate governance, which was released on January 5 of this year.

The financial sector is seeing the influence of globalisation in matters other than corporate governance. This is the case, for example, with the implementation of the new accounting rules, the International Financial Reporting Standards (IFRS), which will affect both our profit and loss account and our balance sheet. Another example is the forthcoming BIS II rules, which will lay the basis for banks' solvency and consolidation rules in the future.

The final form of the rules has not been determined, and the Danish financial authorities are among those that have not yet released their final opinion. We expect that, beginning with the earnings report for the first quarter of 2005, we will submit the Bank's accounts in accordance with the new accounting standards and that the effect on specific amounts in the report of the accounting standards applying on January 1, 2005, will be announced in the Annual Report for 2004.

I would like to use this occasion to offer a few remarks to the Danish Financial Supervisory Authority, which is part of the Ministry of Economic and Business Affairs. The Financial Supervisory Authority makes a great and laudable effort to maintain a sound financial sector with a generally uniform set of rules.

But we must also acknowledge that we are not always in complete agreement with the Authority. The Authority has considered a special "light" version of the new International Financial Reporting Standards for Danish banks.

If Danske Bank as an independent Danish bank is still to have the opportunity to expand in markets outside Denmark – and for that matter to compete on equal footing with banks that operate in Denmark under international rules – it is crucial that the Bank operates according to the same rules as apply in foreign markets. It is thus necessary that the Danish rules do not conflict with the new International Financial Reporting Standards or have higher capital adequacy requirements and that there are no special Danish deviations in the coming requirements and the calculation of the requirements.

It is also crucial that any special Danish rules do not become such a great administrative burden that Denmark will actually not enjoy the advantages of the IFRS rules contain.

***Slide: Outlook for 2004***

We expect that the macroeconomic conditions in the Nordic countries will improve in 2004. The Group therefore expects to expand its activities from the level recorded in 2003. Lower average interest rates in Denmark and Norway, however, are likely to leave net interest income unchanged.

Fee income is expected to rise slightly in 2004 as a result of increased activities.

Trading income is likely to fall in step with the lower activity expected in the fixed-income and foreign exchange markets.

Core insurance earnings should increase as a result of an improved risk result.

The Danske Bank Group's total core income should be at roughly the same level as in 2003.

The Group foresees another decline in costs in 2004, in part because some of the cost savings achieved in 2003, such as the reduction in headcount, will not have their full effect until the 2004 accounting year. IT operating costs are also expected to fall.

Developments in the loan portfolio are not expected to lower its quality, and the provisioning ratio is therefore expected to remain relatively low.

Taking all these factors into consideration, we expect core earnings to be slightly higher in 2004.

As in previous years, earnings from investment portfolios in the banking and insurance businesses will depend on the trends in the financial markets, including the level of securities prices at the end of the year.

The Group expects its tax charge, including the tax on loan loss reserves, to amount to 30 per cent of pre-tax profit.

***Slide: Key figures and ratios***

The Danske Bank Group is a diversified enterprise, and a key element binding it together is the Group's five core values: integrity, commitment, accessibility, expertise and value creation. The core values express the importance that Group and the staff place on integrity and professional responsibility in our relations with everyone with whom our businesses brings us in contact. The values thus have both an ethical and a professional dimension as they guide the staff in their daily work. They also function as criteria by which to measure quality. Today's meeting focuses on an evaluation of value creation.

With a solvency ratio at the end of 2003 of 11 per cent and a core capital ratio of 7.7 per cent, the Group is financially sound, and even slightly more so than in 2002 despite the share repurchase worth DKr5bn during the year.

As mentioned in the Annual Report, we plan to change the target for core capital to 7 per cent, of which we expect hybrid capital to represent about 0.5 per cent.

We have also changed the target for the dividend to shareholders to about 50 per cent of net profit. Even after paying a dividend of this size, there is still money left over, if you will. It has therefore provisionally been decided to carry out another share repurchase programme, worth DKr3bn, in the first half of 2004. A share buyback of this size is still rather conservative in comparison with the target for the core capital ratio, and during the year, the Board of Directors will consider whether to make additional repurchases.

*Slide: Allocation of profit*

The net profit for 2003 at the disposal of the annual general meeting is Dkr9,286m.

The Board of Directors proposes to the annual general meeting that a dividend of Dkr6.55 per share, or a total of Dkr4,661m, be paid to shareholders. In comparison, the dividend last year was Dkr4.75 per share.

Of the remaining amount, the Board proposes that Dkr3,852m be transferred to reserves according to the equity method and Dkr773m brought forward to shareholders' equity

If the annual general meeting endorses these proposals, the Group's shareholders' equity as of end of 2003, will stand at Dkr60,451m.

I will conclude this report by thanking, on behalf of the Board of Directors, our shareholders for the support that they give to Danske Bank with their investment. We will continue to endeavour to live up to the trust you have placed in us. We also thank our customers for their patronage and co-operation; our talented staff, who made another impressive effort this year; and not least to the Executive Board for an especially successful performance.

I will now, on behalf of the Board of Directors, submit the Annual Report for 2003 for the approval of the annual general meeting.