

## **The Chairman's report to Danske Bank's annual general meeting on March 14, 2006**

The year 2005 was another successful year for the Danske Bank Group.

This was not only because our net profit was the best ever in the Bank's 135-year history, but also because we invested so much in our future growth and development that 2005 was truly the Group's biggest year of expansion since the merger with RealDanmark in 2000.

### **Slide: 2005 in brief**

Our net profit for 2005 was DKr12,822m. This represents an increase of 38% and exceeds the guidance we issued both at last year's annual general meeting and also when we announced the results for the first three quarters of 2005.

The year was marked by strong customer activity in all the Group's core markets: Denmark, Sweden, Norway, Northern Ireland and the Republic of Ireland. Securities trading and refinancing of home loans were major drivers of our strong performance. We also benefited from one-off income and an extraordinarily favourable trend in the credit quality of our loan portfolio, which resulted in a net positive entry for credit loss expenses. Even leaving out these items, however, we reported a solid financial performance. The rise in expenses reflects investments in retail banking activities in particular.

Apart from our satisfying bottom-line results, many other factors are important when putting the year into perspective. We can look back at a year characterised by strategic changes for Danske Bank. In addition to acquiring the two banks in Northern Ireland and in the Republic of Ireland, we closed the New York branch and scaled down the London-based operations.

### **Slide: Vision and mission**

The Group defined its vision and mission. Our vision is: "One platform - exceptional brands" and our mission is to be "The best local financial partner". Our vision and mission define the overall framework for Danske Bank's development and growth.

Our ambition is to expand our international retail banking activities and to become an increasingly international financial player. We still have some way to go to achieve our goals. However, our 2005 performance shows we're on the right track, as our international activities made an aggregate contribution of some DKr3.7bn to the consolidated results. In fact, Danske Bank is one of the largest contributors to Danish foreign exchange earnings.

Danske Bank has more than 19,000 full-time equivalent staff, including 5,600 based outside Denmark.

The Danske Bank Group plays an active role in the community, and we allocate millions of Danish kroner to various sponsorships within culture, sports, training and knowledge. We want to introduce a corporate social responsibility policy which covers our commitment to the communities in which we operate.

As to the more formal background for our meeting today, I would mention that we announced our results for 2005 on February 9 and made our Annual Report available on our Web site on the same date. The print version of the Annual Report has been available at the Bank's offices since February 20 and was also sent to those of our registered shareholders who had so requested.

Again this year, the Annual Report contains a significant volume of information and details on the individual business areas and specific items in the financial statements. I would like to draw your attention to the fact that this is the first time our consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards, or IFRS for short, as adopted by the EU. Transition to the new rules has resulted in a number of changes to the accounting policies and to the layout of the income statement, balance sheet and other sections. The effect of the transition to IFRS is described in more detail in the notes to the consolidated financial statements.

The Annual Report was made public some time ago, and the media have commented on it, analysed it and compared us with our peers. As in previous years, I will therefore comment only on the highlights of the Annual Report in my oral report.

**Slide: Net profit for the year**

As I mentioned earlier, the Group posted a net profit of DKr12,822m, which was 38% more than in 2004. We would characterise this performance as satisfactory although it includes items of one-off income.

I will base my review of the financial statements on the Bank's presentation of the Group's financial highlights, which are shown here in a slightly simplified form. A formal, detailed presentation of the income statement is set out on page 76 of the Annual Report and in the note on page 83.

Income was DKr34,891m, which was 20% higher than in 2004. Income from the banks in Northern Ireland and the Republic of Ireland contributed 45% of the increase, while the remainder was attributable to good performances in all of our other business areas.

Net interest income rose 16% to DKr17,166m, after a decline in recent years. Bank lending increased 35%, driven mainly by growth in low-margin home finance products secured on real property. Corporate lending, however, also showed sound growth.

Net fee income at DKr7,288m was up 24% on last year. The increase was 14% net of the banks in Northern Ireland and the Republic of Ireland. The increase was attributable not to higher fees or new fees on banking services, but purely to a rise in customer demand for the products offered by the Bank. That is, customers did more business with the Group in the form of record-high mortgage refinancing activity and securities trading.

### **Slide: Fees**

This slide shows a breakdown of fee income. Of the total DKr7.3bn, Danske Capital accounted for DKr922m, our international activities accounted for DKr1,742m, and corporate customers accounted for DKr1,782m. Of the remaining DKr2,842m which Danish retail customers paid in fees in 2005, loans and not least mortgage refinancing contributed DKr987m, fees for arranging pension and insurance products amounted to DKr233m, and the unusually strong securities trading activity resulted in fee income of DKr973m.

The remaining Dkr649m came from Danish retail customers' everyday use of the Group's services such as credit and charge cards, money transfers and giro payment forms, and certain customer packages. The public often focuses on those fees, which actually constitute only a small portion of our total fees and can be said to represent the payment the Bank gets for its services.

Some people take a rather adverse view of the notion of "fee". This may be because of a widespread misunderstanding that we charge fees which the customer has not been informed of, which the customer cannot avoid, or for which the customer does not receive a service. This is incorrect. A fee is a payment the Bank receives for services rendered, just as other businesses charge a fee for their services.

It is actually possible for customers to walk into a branch of Danske Bank or BG Bank and set up an account, have a Dankort charge card attached to their account, use the Dankort in banks and in shops, and have their salary paid into the account without having to pay any fees. Customers may also sign up for online banking facilities, which offer a whole universe of additional free services.

In view of the intense criticism, however, we owe it to the public to communicate better. And we have started doing that.

**Slide: [www.danskebank.com/fees](http://www.danskebank.com/fees)**

We believe that openness and transparency are key to understanding fees and prices. We have therefore launched a new section about fees on Danske Bank's Web site: [www.danskebank.com/fees](http://www.danskebank.com/fees). A similar section in Danish only is available for BG Bank at [www.bgbank.dk/gebyrer](http://www.bgbank.dk/gebyrer). The slide shows the opening page of the new section. The section is designed to guide customers through what the media often call the "fee jungle" and ensure that customers are always updated on our fees, and know how to avoid them. In the final analysis, this new feature is intended to make sure that customers get the best and least expensive product.

**Slide: Net profit for the year**

Let me turn to the other highlights of the income statement after this long explanation about a single item. Net trading income was DKr6,504m. The 33% increase reflects strong activity in the equity and fixed-income markets, gains on the sale of HandelsFinans and loan portfolios as part of the downscaling of our banking activities in London and New York.

Other income includes income and gains related to real property. The advance of DKr227m to DKr2,256m was attributable mainly to a favourable performance in operating leases and the acquisition of the Norwegian chain of real-estate agencies Krogsveen.

Net income from insurance business rose 3% to DKr1,677m. An increase in business volume and higher return on investments made up for the loss on the health and accident business. In 2005, the Group booked the deferred risk allowance for previous years of DKr 441m, eliminating the risk allowance outstanding from previous years at January 1, 2006.

As I predicted at last year's annual general meeting, operating expenses rose in 2005. The increase was 18%, bringing the item to DKr18,198m. However, closer scrutiny of the figures shows a better picture. Excluding the banking activities in Northern Ireland and the Republic of Ireland, operating expenses remained largely unchanged despite the expansion of business activities in the Nordic region and a rise in performance-based compensation reflecting financial results. The cost/income ratio of 52.2 was a slight improvement over last year's 52.7.

The past few years have seen an increasing focus on corporate governance and in particular on transparency with regard to the management structure. Danske Bank continues its tradition of openness, and we have disclosed even more information in our Annual Report 2005. This means that Danske Bank is applying the "comply or explain" principle a year earlier than required by the Copenhagen Stock Exchange, whose disclosure requirements were amended recently. We have taken inspiration from various international standards of relevance to our investors. There has been much interest in management's remuneration on the part of the public. Danske Bank has disclosed such information for a number of years already.

**Slide: [www.danskebank.com/cg](http://www.danskebank.com/cg)**

We now have full transparency regarding the remuneration paid to individual members of the Board of Directors and the Executive Board as well as their holdings of Danske Bank shares. The remuneration paid to each member of the Board of Directors and the remuneration and bonuses paid to the Executive Board for 2005 are disclosed in note 5 on pages 87 and 88, and our remuneration policy and individual fees and holdings of Danske Bank shares are disclosed on our Web site: [www.danskebank.com](http://www.danskebank.com).

As shown on page 19 of our Annual Report, directors receive only a fixed fee. The Board of Directors intends to raise the annual fee, which has not been adjusted since 1999, to Dkr325,000 from Dkr250,000. The chairman will continue to receive a triple fee and vice chairmen a double fee.

Board committee membership was previously compensated by an annual fee of Dkr125,000. We have had five committees: the Credit Committee, the Audit Committee, the Salary and Bonus Committee, the Stakeholder Committee, and the Risk Committee. The two latter committees have been dissolved, and their former duties will be shared by the full Board. A new Nomination Committee has been set up to assess the Board's competency and knowledge profiles, structure and performance, and to identify potential new candidates for the Board of Directors. The mandates of the other three committees have been expanded, and the committees will meet more frequently. As a result of the restructuring, the average number of committee members has been reduced. All this is described in the mandates of the four Board committees, and I recommend a visit to our Web site for more detailed information.

The Board of Directors intends to increase the annual fee for Board committee membership to Dkr200,000. Our remuneration ceiling remains unchanged. This means that no director may receive a total remuneration of more than twice the directors' fee, except for the chairman and vice chairmen, who may receive up to four times the directors' fee.

These increases should be seen in the light of the fact that, as already mentioned, the regular fee has not been adjusted since 1999, and of the change in the committee structure. Furthermore, the directors' duties and responsibilities have developed significantly over the past few years, and the new committee structure entails a greater workload for the full Board as well as for the individual committees. The annual expense for Board and committee fees is expected to total Dkr9.1m after the adjustment against Dkr8.4m in 2005.

**Slide: Net profit for the year**

Let me revert to the income statement highlights once again. You may remember that at last year's annual general meeting I pointed out the rather unusual feature that the Bank had recorded a net positive entry for credit loss expenses in a quarter. It was the first time it had happened in the Bank's history and the amount recorded was DKr18m. This year we note another unusual feature, that is, that the Bank recorded a net positive entry on credit loss expenses for a full year of as much as DKr1,096m. In 2004, credit loss expenses were a charge of DKr759m. Naturally, the net positive entry for credit loss expenses contributed to our improved results for 2005. In brief, the explanation is the high quality of our lending portfolio and favourable macroeconomic conditions, and I recommend that you read the Annual Report's more detailed description in the section Capital Management on pages 49–53 and the notes on risk management on page 114 and the following pages.

The Group's tax charge totalled DKr4,967m. The financial services employer tax of DKr606m is not included in the calculation of the tax charge, but is included in payroll costs.

I would reiterate that the Bank finds the special financial services employer tax not only unfair but also lacking in any appropriate incentive structure. Its abolition would be proper, sooner rather than later. As regards another much-criticised tax, the tax on provisions for credit loss expenses, a bill has been put forward for its abolition, and we welcome this initiative.

**Slide: Balance sheet**

At DKr2,432bn, total assets also showed solid growth.

Shareholders' equity stood at DKr74.5bn at December 31, 2004, but for the sake of good order, I would remind you that according to the new rules it includes the DKr6,383m which we today recommend be approved as the total amount of dividends.

As in previous years, the Annual Report contains a description of the performance in the Group's individual business areas.

Allow me to comment briefly on the results of the individual areas.

The Danish banking activities are carried out in two divisions, Danske Bank and BG Bank.

**Slide: Banking Activities Danske Bank**

The Danske Bank banking activities saw many favourable trends. The pre-tax profit increased as much as 66% to Dkr5,767m. Income climbed 11%, while the volume of lending to retail customers and corporate customers was 22% and 20% higher, respectively. In other words, the interest margin continued to decline, and the Danish banking market remained fiercely competitive.

Danske Bank customers traded a large volume of securities in 2005 and sought an unprecedented volume of mortgage refinancing, generating good earnings. Another factor that contributed to the very good performance was the net positive entry for credit loss expenses amounting to almost one billion Danish kroner that I mentioned earlier. I would also emphasise that operating expenses remained largely unchanged from the 2004 level. In fact, they were reduced by Dkr25m, which contributed to improving the cost/income ratio.

**Slide: Banking Activities BG Bank**

BG Bank also recorded solid growth in pre-tax profit, which was up 22% to Dkr1,782m. Income improved, and operating expenses were 3% lower relative to 2004. BG Bank also recorded a small net positive entry on credit loss expenses.

Lending to BG Bank retail customers increased 17%, and lending to corporate customers increased 12%. Rather unusually for the Danish part of the Group, BG Bank opened a new branch in 2005 in Brejning, near Vejle in Jutland.

**Slide: Banking Activities Sweden**

The pre-tax profit of Banking Activities Sweden rose 22% to Dkr809m. Total income showed a healthy increase of 9%, and there was a net positive entry for credit loss expenses.

Operating expenses, on the other hand, grew by 10%. In 2005, 12 new branches were added to the Swedish branch network, bringing the total number to 58. At the end of September, Banking Activities Sweden acquired the real-estate agency chain Skandia Mäklarna, which has 70 offices. In December, the division established a co-operative agreement with Bjurfors, another Swedish chain of real-estate agents.

**Slide: Banking Activities Norway**

Banking Activities Norway recorded a pre-tax profit of DKr579m, generating strong growth of 80%. Total income showed sound growth; there was a net positive entry for credit loss expenses and higher operating expenses. The Norwegian branch network was expanded by a single branch. Krogsvveen, the chain of real-estate agencies acquired in June, has 21 offices.

**Slide: Banking Activities Northern Ireland**

Northern Bank, our newly acquired bank in Northern Ireland, recorded total income of DKr1,810m in the ten months from March 1 to December 31, in line with our expectations. Amortisation of intangible assets amounted to DKr 374m, and integration costs were DKr349m. After other operating expenses of DKr1,028m and credit loss expenses of DKr36m, the pre-tax profit was a modest DKr23m, as expected.

**Slide: Banking Activities Ireland**

Our other new acquisition, National Irish Bank in the Republic of Ireland, recorded a fairly similar performance. Total income for the ten-month period amounted to DKr753m. After amortisation of intangible assets of DKr85m, integration costs of DKr204m, other operating expenses of DKr566m and credit loss expenses of DKr4m, the operation reported a pre-tax loss of DKr106m, in line with expectations.

The integration of Northern Bank and National Irish Bank is progressing as planned. The staff of the two operations have managed to generate growth in lending and to continue developing the business while making substantial efforts to support the integration process and acquire new skills and knowledge. We are all looking forward to the big “M day”, the day of the system migration that will take place at Easter and that we hope will successfully bring the

two banking organisations a major technological step forward and create a strong platform for further expansion in our two new domestic markets. We have planned for one or two Danske Bank employees to be present in every branch in the two countries to assist in the transition, and so some 275 Danske Bank employees from other countries will work in the branches during the system migration.

### **Slide: Other Banking Activities**

Other banking activities include the leasing activities of Nordania and the banking activities in England, Finland, Luxembourg, Poland, Germany and the US. These activities generated an aggregate pre-tax profit of DKr1,241m, which represented an improvement of 74%. The favourable performance was boosted to some extent by extraordinary income from the write-down of selected international wholesale activities.

Nordania recorded a pre-tax profit of DKr394m or an increase of DKr108m resulting from increased business volume.

### **Slide: Realkredit Danmark**

The pre-tax profit of Realkredit Danmark rose 24% to DKr2,755m. Lending activity reached an all-time high as a result of low interest rates, increasing property prices and new loan products. Mortgage loans extended by Realkredit Danmark accounted for almost one-third of total mortgage lending in Denmark. Operating expenses were unchanged from 2004, and credit loss expenses amounted to a net positive entry of DKr118m.

Realkredit Danmark launched a new product for corporate customers in the autumn of 2005. RD Cbor6® is a floating-rate bond loan to be refinanced at a later date. The interest rate is fixed every January 1 and July 1 on the basis of the 6-month CIBOR. Cbor6® loans worth a total of DKr9.5bn, or 2% of the loan portfolio, had been disbursed by the end of 2005.

### **Slide: Danske Markets**

Danske Markets recorded a pre-tax profit of DKr3,872m, which was 32% higher than in 2004. The figure includes income from the investment portfolio. So the profit on the sale of

HandelsFinans and the sale of unlisted shares in companies relating to the banking activities and shares in property companies, totalling Dkr850m, is included.

Income from trading activities increased 30% over 2004 to Dkr3,068m.

### **Slide: Danske Capital**

The pre-tax profit of Danske Capital rose 40% to Dkr509m based on substantial income from performance-related fees.

A very successful event of the year was the introduction of four new mixed funds: Danske Invest Mix and BG Invest Blandet, both available in versions *med sikring* and *uden sikring*. *Med sikring* funds limit the investor's risk exposure. Sales of units in the four funds totalled Dkr4.9bn. The introduction marked an innovative new step in the Danish market for investment funds, as investors in the *med sikring* funds will receive at least the principal amount invested after seven years.

On October 1, Danske Capital's Norwegian company acquired investment manager Fondsfinans Aktiv Forvaltning ASA. The acquisition was part of Danske Capital's strategy to become a leading investment manager in the Nordic region.

In October, the Group began marketing unit trust solutions outside Denmark under the name "Danske Fund", which replaced the previously used name, "Firstnordic".

### **Slide: Danica Pension**

Net income from the insurance activities of Danica Pension, which remained Denmark's leading supplier of life and pension products, increased 3% to Dkr1,677m.

Total gross premiums, including payments on investment contracts, amounted to Dkr16.9m, an increase of 15% over 2004. Regular premiums in Danica also performed satisfactorily.

In May 2005, Danica launched a new life-cycle product called Danica Balance, which combines the security of conventional products with the advantages of unit-linked products.

Total premiums for Danica Link and Danica Balance were up 72% to DKr3.2bn. The two products accounted for 85% of the total growth of Danica's insurance portfolio, and some 48,000 customers opted for the more market-based products.

Danica Pension posted a return on investments from customer funds of 12.6% in 2005 against 10.3% in 2004. Given the market conditions and the chosen risk profile, the return was satisfactory. Danica Pension has decided to gradually increase the portion of customer funds invested in equities to 20%–25%.

Most Danica Link customers again saw a higher return than customers who had opted for traditional contracts.

The health and accident business remained unsatisfactory. The unfavourable performance has caused Danica Pension to change its consolidation policy beginning in 2006 so that the risk allowance will include the total result of the health and accident business and will not have a negative effect on life insurance customers' savings.

#### **Slide: Five-year Danske Bank share price performance**

Let me turn to the performance of Danske Bank shares. At December 31, 2005, the price of Danske Bank shares was DKr221.18 against DKr167.5 at December 31, 2004. That is an increase of 32%. During the year, shareholders received a dividend of DKr7.85 per share, or a total of some DKr5.3bn. The total return thus amounted to 38.2%.

In the past five years, Danske Bank shares have generated an average annual return of 13.6%, subject to some fluctuation in individual years.

The Board of Directors has resolved to grant employees shares worth a total of DKr118m.

#### **Slide: Outlook for 2006**

We expect that Europe is likely to see moderate economic growth in 2006 with slightly rising interest rates. We expect growth in the Group's principal markets to be higher than average European growth.

We expect net interest and fee income from banking activities to rise as a result of growth in home financing and corporate lending. In this context, we will recognise income from the banking activities in Northern Ireland and the Republic of Ireland for the full year as opposed to ten months in 2005. However, we do not expect that the strong mortgage finance and securities trading activity is likely to continue at the same pace in 2006.

Net trading income is expected to be lower in 2006 due to the one-off income and extraordinarily high level of activity recorded in 2005. Furthermore, income will continue to depend greatly on financial market trends and securities prices at year-end.

Net income from insurance business is also expected to be lower than in 2005 as a result of the booking of the risk allowance from previous years in 2005 and new accounting rules. However, we expect to see a positive trend in insurance activities in 2006.

Overall, we expect the Danske Bank Group to generate total income at the same level as in 2005 despite one-off income in 2005 of Dkr1.6bn generated by the sale of real property, HandelsFinans, unlisted shares and the loan portfolios of the New York and London operations, and the risk allowance in Danica I referred to previously.

The Group's costs are expected to increase by some 5%, with expenses from the operations in Northern Ireland and the Republic of Ireland accounting for just over half of the increase. In addition to integration costs at these two banks, the increase reflects the continuation of strong activity in the Danish, Norwegian and Swedish banking operations as well as the general trend in costs.

Assuming favourable economic trends and a satisfactory loan portfolio quality, the Group expects to record modest credit loss expenses in 2006.

For 2006, we expect the pre-tax profit to be lower than in 2005 due to the considerable one-off income in 2005 that I mentioned previously. However, the final results will continue to

depend on a number of factors, including the level of business activity, economic trends and the direction of prices in the financial markets.

The Group expects its tax rate to be 28%.

With a solvency ratio of 10.3 at the end of 2005 and a core (tier 1) capital ratio of 7.3 including hybrid core capital, the Group remains extremely strong financially. The Group's decision to focus on the retail banking market had the desired effect of reducing our risk exposure and improving the basis for future growth.

**Slide: New capital management targets**

Consequently, we have adjusted our capital targets, which in future will be expressed as a range and not a single percentage. The core (tier 1) capital target was lowered from 6.5% to the range of 6.0%–6.5%, and the Group's future payout ratio is expected to be in the range of 30%–50% depending on business performance. We expect a payout ratio of 40% for 2006.

We maintain our target for the return on equity, and we will continue to distribute any excess capital to shareholders in the form of dividends and share buybacks, if relevant. However, we do not expect to buy back shares in 2006 and 2007.

**Slide: Proposed profit allocation**

The amount available to the shareholders for allocation from 2005 is Danske Bank A/S's net profit for the year of Dkr12,346m.

The Board of Directors recommends to the shareholders that a dividend be paid out of Dkr10 per share of Dkr10 nominal value, or a total amount of Dkr6,383m. Last year's dividend was Dkr7.85 per share, totalling Dkr5,277m.

The Board of Directors proposes that the balance of Dkr5,963m be transferred to equity.

The Group's total shareholders' equity stood at DKr74,510m at December 31, 2005. If the shareholders approve the proposed dividend, shareholders' equity will be reduced by the amount of the dividend distribution and subsequently amount to DKr68,127m.

I would like to conclude my report by expressing the Board of Directors' gratitude to our shareholders for the support you have shown Danske Bank by investing in our shares. We intend to continue our efforts to reward your confidence in the best possible manner. I would like to thank our customers for your patronage and partnership. I would also thank our employees, who have put in a significant and competent effort again in 2005, and not least the Executive Board for the excellent manner in which they have performed their duties.

With these remarks I recommend, on behalf of the Board of Directors, that the shareholders approve the Annual Report 2005.