Annual Report 2003

February 5, 2004

Peter Straarup, Chairman of the Executive Board

Presentation for investors and analysts (Webcast version)

Slide 1 (welcome to the presentation for investors and analysts)

Thank you for taking the time to attend the presentation of our financial results for 2003. This year we are sending the presentation by Webcast for the first time, and afterwards a taped audio replay will be available from our IR Web site.

At my side is CFO Tonny Thierry Andersen, who will also be ready to answer your questions after the presentation.

When I presented our Annual Report for 2002, I said that Danske Bank should be in a relatively stronger position at the end of 2003.

And we are.

Today we are presenting the best financial results in the Bank's history. We saw an improvement in all the key figures and ratios. Our increased focus on customers is also beginning to bear fruit, as evidenced by our growing market shares. In other words, customers are returning to the Bank.

Slide 2: Agenda

I will first give a brief summary of our accounts for 2003 and the activities that we have carried out during the year. Afterwards, I will survey the trends in our various business areas, and then conclude with our expectations for the current year.

Slide 3: 2003

Before I go into the details of the financial accounts, I will mention some of the activities we have pursued in 2003 to strengthen our competitiveness.

We completed the merger adjustments successfully and fulfilled all of our obligations towards the Danish competition authority. In the autumn, we made a decision to further sharpen the profiles of the Danske Bank and BG Bank brands by creating separate managements and credit departments. And we have intensified our product development efforts throughout the Group.

Now the organisation has found its proper form. Therefore we can concentrate fully on our customers' needs. And that is gradually becoming apparent in the Bank's financial results. Sales of customer packages, property financing products and interest-only mortgage loans greatly exceeded our expectations. Our shares of both the banking and mortgage finance markets in Denmark are showing a strong development.

We also see a positive trend in customer numbers in Norway and Sweden, where we continue to open new branches in the major cities and introduce new products.

The year also brought a regrettable event, however: the breakdown of our IT systems in March. Of course it is crucial for a financial enterprise to maintain confidence in its IT systems. We carried out a substantial reorganisation of our IT infrastructure as planned so that we now duplicate all vital data in two geographically separate operations centres. This increases the security of our operations significantly.

We continue the efforts to realise our vision of “one Group – one system”. During the year, we converted our banking units in Poland and Luxembourg as well as Consensus in Sweden to our central IT platform.

The Bank’s strong financial position was confirmed once again by Standard & Poor’s upgrade of Danica to AA- and its assignment of a triple-A rating to Realkredit Danmark.

Slide 4: 2003 in brief

Let us move on to our results. We are presenting a good earnings report today.

The net profit for the year amounted to 9.3 billion kroner. That is 13 per cent higher than the result for 2002. Our earnings per share and return on equity also rose. The advance in net profit and an increase in the dividend payout ratio together will result in a 38 per cent rise in the dividend per share.

We achieved these results despite sluggish economic conditions, modest activity in the capital markets and, not least, low interest rates. The decline in interest rates had a negative effect on core income of 1.2 billion kroner, since, as you probably know, the Bank has substantial deposits where the rate of interest cannot be reduced in step with declining money market rates. This trend also diminished the return on our investment of shareholders' equity.

Moreover as the sound growth of the Group's bottom line suggests, we also had much to be pleased with during the year.

Falling interest rates, in combination with the introduction of interest-only mortgage loans, resulted in a record number of mortgage refinancings. Earnings at Danske Markets were also very strong. We are pleased that our businesses in Sweden and Norway continue to expand. Both divisions delivered double-digit growth in lending and are steadily gaining stronger positions in their markets.

We work constantly to improve the Bank's cost/core income ratio. Despite the economic conditions in 2003 we were able to reduce the cost/core income ratio to 55 thus far through firm cost containment.

Against this background, the Group's core income was generally unchanged, and that shows the versatility of our diversified enterprise.

We have continued to trim the organisation, reducing costs by 4 per cent.

Provisions for bad and doubtful debts were higher than last year, but at 15 basis points of loans and guarantees, they remain rather low. Altogether, core earnings grew by 3 per cent.

Earnings from our investment portfolios showed a sharp increase, reflecting a strong performance from both equities and bonds and the booking of the deferred risk allowance for Danica in 2002.

We repurchased shares in the Bank worth a total of 5 billion kroner in 2003.

In addition, we decided to increase the dividend payout ratio to 50 per cent, yielding a total dividend payment to shareholders of 4.7 billion kroner. Continuing our focus on capital management, we plan to undertake another share buyback worth 3 billion kroner in the first half of 2004.

Lending growth at the Danish banks was limited in 2003, mainly because of the very low level of business investment. At the same time, Danish retail customers converted bank loans to mortgage loans in large numbers. The weakening of the Norwegian krone, the pound sterling and the US dollar alone reduced our lending volume by 11 billion kroner. Without the strengthening of the Danish krone, lending would have risen 1.5 per cent. This growth came mainly in Norway and Sweden, where we have said we wanted to expand.

Mortgage lending continued to climb, posting a 6 per cent gain. Considering customers’ large appetite for interest-only loans, there is no sign that the trend will let up.

The total distribution of 9.7 billion kroner to shareholders for 2003 is thus larger than the Group’s net profit for the year.

Our holdings of bonds and equities rose 13 per cent over the year. The increase was owing to a substantially larger position in short-maturity bonds, as we took advantage of the Bank’s high credit ratings to raise cheap loans in euros and dollars and place the funds in short bonds, including floating rate notes.

After the share repurchase and the increased dividend payout, shareholders’ equity is around the same level as at the end of 2002.

Slide 5: Key figures and ratios

No matter which key figures and ratios we choose to look at from our accounts, they show a solid advance.

Because of the rise in net profit, the Group's return on equity increased from 14.0 per cent to 15.2 per cent.

We continue to cut costs, and the effect can be seen in our improved cost/core income ratio.

Earnings per share rose 16 per cent, including a contribution of 3 per cent from the share buyback.

Slide 6: Net interest income

Net interest income was slightly below the level from 2002. This was actually quite healthy considering that interest rates fell an average of 105 basis points and this factor alone had a negative effect of about 1.2 billion kroner.

Today the interest rate on a large amount of deposits is already close to zero per cent and cannot be reduced further.

Adjusted for this situation, net interest income actually showed a rise of 6 per cent, which testifies to the positive underlying trend in the Group's business. This growth was owing mainly to developments in Sweden, Norway and Mortgage Finance.

In addition, we were able to increase the interest margin on corporate lending in Denmark through systematic pricing on the basis of risk.

The drop in interest rates came as no surprise to us. In the beginning of the year, we took measures to partially hedge the interest rate sensitivity of our core business. So we recovered some of the lost net interest income in one-off gains that were booked to earnings from investment portfolios. More precisely, the amount was 286 million kroner. We stopped hedging against the drop in rates at mid-year.

Slide 7: Fee and commission income

Earnings from fees and commissions rose 2 per cent. Fees from refinancing and loan processing grew 28 per cent because of record-high remortgaging activity in the first half of the year especially.

Fees from payment services declined slightly. This was because customers made increasing use of our online solutions and no longer pay a fee to withdraw money from cash dispensers. The positive aspects of this trend are that growing Internet usage gives us opportunities to become more efficient and staff at the branch offices have more time to advise customers and thus improve customer satisfaction.

There was also a decline in fees for securities transactions. Although we could see some improvement in the fourth quarter, that did not change the fact that generally in 2003 customers preferred to buy bonds instead of shares.

Slide 8: Costs

We were able to reduce costs for the third consecutive year, and the level now matches what we predicted during the year.

Despite somewhat difficult revenue conditions, the Bank's cost/core income ratio improved to 55. Our objective is still to bring it down towards 50 within a reasonable number of years, but we cannot do this simply by continuing improvements in efficiency. We need a little more favourable conditions for the top line in the form of stronger economic growth and higher interest rates, even if growing market shares also make a contribution.

If we break down total costs and adjust fairly for the positive effect of changes in exchange rates, then, as the bottom table shows, the underlying cost base fell 3 per cent despite ordinary wage drift and inflation.

We reduced our headcount by 7 per cent during the year, and that is one reason we expect to see a decline in costs again this year.

Slide 9: Provisions for bad and doubtful debts

The economic slowdown did not have a significant effect on our provisions for bad and doubtful debts. We did not see any major negative surprises regarding the quality of our loans. Provisions amounted to only 15 basis points of total loan exposure, and this is lower than the Group's newly adjusted average expected loss of 19 basis points. The adjustment is a result of a recalculation in key parameters.

Regarding credit quality in our mortgage finance business, customers' ability to repay their debt remains strong and housing prices are stable. Six months' arrears on mortgage loans represent only 10 basis points of total payments, and this is lower than in 2002. The loan-to-value level in the mortgage lending portfolio also remained stable at about 61.

The bottom chart on the slide shows the Group's credit portfolio broken down into our internal rating categories. More than 70 per cent can be described as investment grade, and that percentage was stable from 2002 to 2003. The quality of our loan portfolio remains quite strong, and we expect to maintain the relatively low provisioning ratio again this year.

I should also mention, for those who are interested, that in the Annual Report we have greatly expanded the information about of our risk management measures, including information on provisions as well as industry and rating breakdowns of our loan portfolio.

Slide 10: Status of capitalisation

Including the net profit for the year, less a dividend payout of 50 per cent, and the share repurchases made in 2003, the core (or tier 1) capital ratio stands at 7.7 per cent, or the same level as the year before.

Looking at our capital structure from a somewhat longer perspective, we can see that over the past four years we have distributed a total of 28 billion kroner to shareholders in the form of dividends and share buybacks.

That is a substantial cash flow to our shareholders.

Barring any unforeseen developments we expect to continue this trend.

Slide 11: Status of capitalisation

The increase in the dividend payout ratio target to 50 per cent is one element of the Group's new capital management objectives. We also plan to replace a small portion of supplementary capital with hybrid capital now that the necessary legislation has finally been adopted in Denmark.

This will give us several advantages.

It will give us a better currency match between risk-weighted assets and capital requirements, and it will enable more efficient capital management, with a view to increasing the return on equity.

We will also continue our share repurchase programme in 2004, buying shares worth 3 billion kroner in the market during the first half of the year.

Now I will turn to the performance of our key individual business areas.

Slide 12: Trends in business areas

The increase in our earnings came primarily from a good result in Danske Markets and the effects of cost management in the whole group.

Earnings from Banking Activities were almost unchanged despite falling interest rates and unfavourable changes in exchange rates.

Slide 13: Banking Activities, Denmark

Banking Activities, Denmark, accounted for almost half of the Group's total earnings. Core earnings before provisions declined 4 per cent in 2003, but please remember that this is the business area most strongly affected by the very low level of interest rates. If interest rates had held steady last year, earnings would have grown by 8 per cent. This figure gives a more accurate indication of the positive developments in the area's business, particularly in the second half of the year. We have much to be pleased about when we look at the trend in market shares and customer satisfaction, which I will come to a little later.

Banking Activities, Denmark, continued to improve its efficiency in 2003, reducing costs by 8 per cent. The total number of branch offices is now 465, and the number of non-cash branches has risen to 54. We evaluate our branch network regularly, of course, but we believe that we now have the appropriate number of branches.

As most of you know, since the merger with RealDanmark in 2000, we have marketed two separate bank brands in Denmark, each with its own customer profile, product range and – some would say – employee culture. This proved to be a sound strategy, so we decided last autumn to sharpen the two brand profiles further by creating separate managements and credit departments. We believe this will give them even stronger positions in the competitive market situation.

In the future, we will report separate financial results for the Danske Bank and BG Bank divisions.

In addition, a survey shows that customer satisfaction with both Danske Bank and BG Bank rose sharply from 2002 to 2003. The banks scored especially high on questions regarding the quality of personal service and ability to meet customers' expectations. That clearly reflects the many innovative new products launched and also the fact that the completion of the merger adjustments enabled the staff to focus their energies more intently on customers.

Slide 14: Market shares, Denmark

As I mentioned earlier, our customer numbers are now moving in the right direction. In fact our market shares of both retail and total customers are at their highest levels since December 2001. In other words, customers are returning to the Bank in earnest.

The demand for loans in the corporate sector is unfortunately weak and Danske Banks high market share among the largest corporations has most likely had an impact on the development in this segment.

As the chart at the bottom shows, we still have good opportunities to increase our market shares further.

Slide 15: Banking Activities, Denmark (New products)

The positive trend in our customer statistics occurred because in 2003 our staff was better able to concentrate on customers' needs and because we have the best products on the market. I am thinking especially of our customer packages and property financing products.

In the customer packages, we gathered together a number of products and services intended for specific customer groups with a simple, transparent fee structure. And customers clearly liked the concept. In 2003 alone, we sold more than 200,000 of these packages.

In property financing, which is often the key to a customer relationship, product sales far exceeded our expectations. Much of the credit goes to the introduction of *Danske Prioritet*. This is a flexible type of mortgage account that some of you might know from Barclay's Open Plan. In only six months, we issued loans totalling more than 7 billion kroner through this product.

From a customer perspective the product is very advantageous because of its flexibility. From a risk/return perspective, this lending growth is especially advantageous because the margin is higher than that of a conventional mortgage loan, while the risk is the same.

Slide 16: Banking Activities, Norway

Although Banking Activities, Norway, posted double-digit growth in lending volume, this could not compensate for the weak capital markets and falling interest rates in the country. Since we also used resources to open new branches in the major cities and needed to make provisions of 45 million kroner for pension obligations, total earnings declined 10 per cent in local currency. But we are actually very pleased with the underlying business trend, which is actually showing a steady increase in the market share in the loan market.

There is no doubt that the Norwegian corporate sector faces substantial competitive challenges and that lending growth must be undertaken carefully. But we have got a good grasp of our strategy and customer mix, and our credit book is healthy. And in the Norwegian context, that is a very big advantage.

We believe we are well positioned to exploit the market opportunities that arise in the wake of the current merger of Den norske Bank and Gjensidige Nord.

Slide 17: Banking Activities, Sweden

We continue to expand in Sweden in a profitable manner, and our earnings in 2003 more than doubled. We have the most satisfied banking customers in the country, and that gives us good opportunities to increase our market shares, especially in mortgage lending.

Costs were in line with our plans, and we no longer have extraordinary expenditures for upgrading the IT systems.

Slide 18: Banking Activities, International

Core earnings before provisions in Banking Activities, International, as a whole grew 5 per cent over the level in 2002. Adjusted for the currency translation effects of a stronger Danish krone, the increase was 11 per cent. The advance came especially from Sweden, while the UK and the USA also made solid contributions.

Slide 19: Mortgage Finance

Our Mortgage Finance division had a good year in 2003. Core earnings before provisions declined 3 per cent, but that was owing directly to lower interest rates; otherwise, earnings would have grown by 7 per cent.

Our share of the corporate market rose, while we saw a slight weakening in the private market. The reason for the latter development, however, was that many customers wanted the extra flexibility in their property financing that the Bank could offer through *Danske Prioritet* – and they chose to borrow from the Bank instead. As mentioned earlier, a more flexible product that also gives the Group a higher margin.

Slide 20: Interest-only mortgage loans

Beginning on October 1, 2003, Danish mortgage finance institutions could offer private homeowners loans with interest-only payments for up to 10 years. Realkredit Danmark used many resources – in IT development, advisory services and marketing – to be ready from Day One. And sales went remarkably well. A total of 26 billion kroner in loans was disbursed in three months, and our division captured a market share of almost 50 per cent for this product.

Although I do not believe such a large market share can be maintained over the long term, that does not change the fact that our product, which in a short time became the market's preferred mortgage loan, is the most flexible solution available.

When we look at how customers use the proceeds from interest-only loans in the chart at the bottom, we see that about one-third is used for consumption, while most of the funds are used to reduce other, more expensive debts. We also note that a smaller portion is used for pension contributions, and that might help to bring Danish households' gearing of assets and liabilities in line with the European average.

Slide 21: Danske Markets

Danske Markets performed well in 2003, delivering growth in all of its business segments. Core earnings were a full 231 per cent higher than in 2002. And the division achieved this result without a significant increase in its level of risk.

The main reasons for the improvement were the continuing decline in interest rates and heavy exchange rate fluctuations as well as the comparison with the result for the fourth quarter of 2002, when we made provisions of 350 million kroner for the restructuring of our investment banking activities. Equity trading and corporate finance saw favourable developments throughout the year, and the streamlined investment banking unit also made a positive contribution to earnings.

In 2003 Danske Markets maintained its dominant position in both the money market and foreign exchange market in Denmark and consolidated its position as the leading player in the Scandinavian bond markets.

Slide 22: Danica Pension

Danica is Denmark's largest life insurance and pension company on the basis of premium income and provisions, and in 2003 it posted double-digit growth in premium income in the employer pension scheme segment.

Despite the positive business trend, core earnings fell 10 per cent. The reasons were declining interest rates, which gave a lower return on shareholders' equity, and an unsatisfactory result in the health insurance segment relating to a one-off increase in provisions for loss-of-earnings-capacity insurance.

During the year, Danica was upgraded by Standard & Poor's from A+ to AA-, confirming the company's financial strength as an important member of our group.

I will now take a closer look at the return on Danica's investments and the company's investment profile.

Slide 23: Danica Pension

The return on investment assets amounted to 6.4 per cent in 2003. That enabled us to book the deferred risk allowance from 2002 of 954 million kroner, including interest, to earnings from investment portfolios.

Danica has a conservative investment profile. Today equities make up only 12 per cent of the total portfolio. It is our strict policy that Danica must at all times be able to withstand a decline in the equity markets of 25 per cent without any effect on shareholders' equity.

Slide 24: Danske Capital

Although we had a net inflow to asset management of 9 billion kroner in 2003, core earnings at Danske Capital fell by 21 per cent.

The uncertain stock markets led to increased interest in bond-based investment pools, which produce lower earnings than equity-based pools. The percentage of assets placed in equities remains low, although we a saw some improvement towards the end of the year. This trend led to a drop in the average margin from 0.21 per cent to 0.19 per cent.

On the positive side, we maintained our market share of 41 per cent of both net sales and asset value in the retail segment in Denmark.

Slide 25: Earnings from investment portfolios

Earnings from investment portfolios in 2003 more than doubled from the level in 2002.

A significant part of the increase came from our being able to book a risk allowance from Danica for both 2003 and 2002. The total contribution from insurance activities thus went from a negative 809 million kroner in 2002 to a gain of 1,076 million kroner in 2003.

As I mentioned in my comments on net interest income, in the beginning of the year we partially hedged the loss of income in domestic banking operations because of declining interest rates. This hedging contributed 286 million kroner.

Our return on equity holdings was 807 million kroner, against 343 million kroner the year before, and this includes a 264 million kroner gain on the sale of PBS Holding A/S. In comparison, in 2002 we had a gain of 103 million kroner from the sale of shares in the Copenhagen Stock Exchange and the Danish VP Securities Services. With this year’s divestments, including the sale of shares in PBS International Holding, the Group has now fulfilled all the commitments made to the Danish competition authority upon the merger with RealDanmark.

Slide 26: The outlook for 2004

Now, in summary, a few remarks on our expectations regarding the results for 2004.

Our earnings guidance is often poorly received even though it also often turns out to be sound. Surely some of you will think that once again we are being too conservative, considering our record earnings in 2003.

Like most economists, we expect generally stronger economic growth in 2004

On the business front we expect to capture market shares in Denmark, Sweden and Norway and to see some growth in lending. We must however remember that interest rates will probably be lower on average in 2004 than in 2003. We think that capital market conditions will be a little more favourable and that our insurance operations will continue to expand. On the other hand, we do not expect our trading division to have the same favourable conditions for income on the fixed-income and foreign exchange markets.

With the current outlook for economic activity, we expect that altogether our income in 2004 will be at about the same level as in 2003.

We expect to see a reduction in costs for the fourth consecutive year, even if we do not include the effect of the change in accounting rules that requires the capitalisation of software we develop ourselves.

We expect provisions for bad and doubtful debts to remain at a relatively low level.

Against this background, core earnings should be slightly higher in 2004.

Earnings from investment portfolios are of course very much dependent on the trend in the financial markets. One must also remember that our result for 2003 benefited from our being able to book the previously deferred risk allowance totalling 954 million kroner.

We expect the Group’s overall tax rate to be 30 per cent.

Slide 27: Conclusion

That concludes my presentation, so I will turn the discussion over to you. Tonny Thierry Andersen and I are ready to answer your questions. Please begin.