

Financial results 2002, Presentation for investors and analysts by Peter Straarup, CEO

Welcome, and thank you for taking the time to attend the presentation of our financial results for 2002.

Today we are announcing financial results for 2002 that show a return on equity of 14 per cent, declining costs, and earnings per share almost in line with the figure from 2001. Considering the conditions under which we had to work, we are quite satisfied with the result, which confirms the Group's competitive strength.

Agenda

I will begin with a brief introduction to the accounts for 2002 and the activities we carried out during the year. Then I will touch upon some of the macroeconomic factors that affected our profit & loss account and balance sheet. I will also spend a little time on Danske Bank's corporate governance policy. Finally, I will sum up our expectations for 2003. There will of course be an opportunity to ask questions after the presentation.

Activities in 2002

Before I go into detail about the accounts, I would like to mention some of the activities we conducted in the course of 2002. We undertook the measures you see described on the slide in order to maintain our earnings and to improve our product offering and customer service.

We reached our objectives with the merger. When we announced the merger, we set forth a number of concrete targets for cost synergies going forward to the end of 2003. We executed the merger more quickly than we had foreseen and reached these targets by the end of 2002.

In our IT operations, we achieved substantial savings by combining the Group's IT functions. Finally, we divested or closed businesses that were not part of the Group's core business areas.

We introduced new retail customer packages that give customers an incentive to gather a larger share of their banking business with us.

We also began to expand in Norway, opening new branches and adding new products at Fokus Bank.

In addition, we pursued measures to reduce the Bank's risk profile. For example, we continued to reduce our credits in the USA, and I am happy to say that Danske Bank was not involved in any of the spectacular American business collapses.

We executed yet another share repurchase, and we reduced our ownership shares of VP Securities Services and the Copenhagen Stock Exchange. These divestments were a condition for the merger with Realkredit Danmark. They were good shares, but selling them was well worth it.

The activities in our investment-banking unit were adjusted to market conditions and integrated in Danske Markets.

In a year when many life and pension companies had difficulty because of the substantial decline in equity prices, Danica Pension had a strong competitive position. The company not only delivered double-digit premium income growth; its financial strength was confirmed when it was assigned an A+ rating by Standard & Pours.

We thus had a busy year at Danske Bank, but we feel that these measures helped to strengthen the Bank so that we can operate profitably in an environment that makes it difficult to increase income.

2002 in brief

But let us turn to the financial results for 2002. The net profit for the year came to about 1.1 billion euros, which was about 5 per cent lower than in 2001. Although we continued to reduce costs as we promised, we were not able to maintain income at quite the same level. The main reason for this was the trend in the capital markets, which reduced our earnings at Danica by more than 108 million euros and reduced net interest income by another 108 million euros. We also have a higher tax expense.

The economic downturn had an adverse effect on our income on several fronts. Lending growth was modest because the economic outlook caused retail customers and businesses to invest and borrow less. The tendency of customers to replace bank loans with less risky and thus less expensive mortgage loans also reduced our result.

In addition, the Danish money market rates continued to decline in 2002. This put pressure on our interest income, since the Bank, as is well known, has a substantial deposit surplus.

Finally, the Bank's income was hurt by the decline in the equity markets. But we can be pleased that Danske Bank had – and still has – much less exposure to the capital markets than many other banks.

The bottom line was also affected by our decision in November to adjust the activities of our investment-banking unit, Danske Securities, to the changed market conditions. We took a charge of 47 million euros for costs related to the restructuring of our investment banking activities.

Our earnings from investment portfolios were reduced by 114 million euros because of insufficient investment returns at Danica.

On the positive side, our losses and provisions remained low, and our core earnings were at roughly the same levels as in 2001. If you do a little calculating and adjust core earnings for the restructuring charges related to Danske Securities, they actually show an advance of 2 per cent.

Our tax charge for 2002 is somewhat higher than in 2001. The reason is that in 2001 we were able to take a tax credit because of prior-year losses at Fokus Bank, giving us an unusually low tax expense for that year.

We repurchased shares worth 400 million euros in the second quarter of 2002 and paid dividends of almost 472 million euros. Danske Bank's shareholders thus received a total of nearly 872 million euros during the year.

Despite this substantial payment to shareholders, the Group's efficiency and earnings capacity caused our tier 1 capital ratio to grow in 2002. We are therefore planning to carry out an additional share buyback for 270 million euros in the first half of this year.

Profit & loss account

As I mentioned in my introduction, we were able to maintain core earnings before provisions at generally the same level as in 2001 because we reduced costs as we had promised.

Provisions for bad and doubtful debts declined and remain at a low level. Our bottom line did not suffer from large unforeseen losses or significant new provisions for individual cases. We have a sound credit book.

On the face of it, our net profit declined by 5 per cent in 2002. But if we exclude the divestitures that we carried out as a condition of the merger between Danske Bank and RealDanmark and the costs of restructuring our investment banking unit, we actually achieved a growth of about 2 per cent.

I will go into detail about the individual items in the profit & loss account a little later.

Balance sheet

As I said, domestic lending growth at Danish banks was very limited in 2002. And at Danske Bank, we also continued to reduce our lending to American corporations and reduced our lending from London Branch. In the other Scandinavian countries, lending volume grew by 2.2 billion euros, or 4 per cent of total bank lending at the end of 2001. In the same period, mortgage lending rose 5 per cent.

Our holdings of bonds and shares rose 22 per cent since year-end 2001. That is because we used our funding programme to buy bonds to a greater extent and also to acquire a short-term holding of bonds in connection with the record auction of interest reset loans in December. The Bank's investment portfolios have been stable over the period.

Shareholders' equity rose 400 million euros, despite our 400 million euro share repurchase and our expected dividend payment for 2002 of 472 million euros.

Key figures

As I mentioned earlier, our results for the year were affected by a couple of extraordinary factors that should be taken into account when one compares the key figures.

Adjusted for the merger-related divestitures and the restructuring costs at our investment-banking unit, we were able to maintain earnings per share at the 2001 level. That's not bad, considering market conditions.

Likewise, the adjusted cost/core income ratio continued to improve, to 55.9, which testifies to our increased efficiency, even in a difficult income environment. The decline in core income of course had an adverse effect on our C/I ratio.

Despite the share repurchase and dividend payments worth a total of 872 million euros, Danske Bank still retained ample capital, with a core (tier 1) capital ratio that rose to 7.6 per cent. This of course affected the trends in the return on equity, the solvency ratio, and book value.

Danske Bank's share price

Of course we are not satisfied that our share price declined 12 per cent in 2002. But Danske Bank's shares have performed much better than the international banking index, which fell 27 per cent.

Interest rate trends

Contrary to the trend in Sweden, Danish money market rates declined steadily throughout 2002, and this had an adverse effect on net interest income in our Danish business. One should be aware of this when making comparative analyses. We estimate that the drop in interest rates reduced our core earnings by 108 million euros in comparison with the level in 2001. Besides putting pressure on our interest margin, it also affected the breakdown of income between net interest income and earnings from investment portfolios. In light of the global and domestic economic situation, we do not expect that the trend in the Danish funding rate will benefit the Bank in 2003.

I am focusing on the relation between the trend in interest rates and income because the level of interest rates of course has great significance for our bottom line. Danske Bank loses about 34 million euros in core earnings whenever interest rates decline 25 basis points.

Net interest income

I showed before the money market rates declined in Denmark. This had a negative effect of 4 per cent on our net interest income in 2002 in comparison with 2001. The reason is that we earn interest on our surplus liquidity and shareholders' equity at Banking Activities, Denmark, and at Realkredit Danmark at the money market rate. Net interest income was lower than in the year before because of the termination of facilities with wholesale customers in Hong Kong, Singapore, the USA and other areas.

Altogether, net interest income was 5 per cent lower than in 2001.

Fee and commission income (net)

Fee income fell 2 per cent, a modest decline considering how volatile the stock markets were in 2002. This performance shows that Danske Bank has relatively little exposure to the capital markets. One effect of the drop in equity market valuations was a decline in custody fees in our asset management activities. Although we had a net inflow of 714 million euros in 2002, total assets under management still fell by 3.4 billion euros.

On the other hand, our fees from remortgaging and loan processing grew, particularly because of strong activity in the first quarter in our mortgage finance business.

Payment services showed a minor decline, which can be attributed mainly to customers' increased use of our Internet bank, Danske Netbank, and the discontinuation of fees for withdrawals from cash dispensers at our branches.

Costs

In recent years we have intensified our efforts to improve the Bank's cost/core income ratio. We still expect to be able to bring the ratio down to 50 within a reasonable number of years – with a little help from the top line.

Charges for the restructuring of the investment-banking unit of course drove costs up – but the C/I ratio was still lower than in 2001.

Expenses relating to pensions, bonuses and severance pay of 20 million euros also affected costs in fourth quarter.

For the time being, we are satisfied that we have improved the cost/core income ratio to just under 56, considering the changes in market conditions that have made it difficult to maintain our income level in the past year.

Breakdown of costs

We were able to reduce costs by 5 per cent because synergy effects more than compensated for the factors that drove costs up.

Since the merger in 2000, synergies have been the main reason we have succeeded in holding costs down.

At the time of the merger, we set up a number of concrete targets for cost-saving synergies that we intended to realise by the end of 2003. We achieved them by the end of 2002, and they will have full effect on our financial accounts in 2003.

Synergies and announced savings

We thus reached our target of 296 million euros in annual cost savings one year ahead of schedule. In addition, in 2002 we also met goals for cost savings totalling 94 million euros that had been set by the two groups before the merger.

Although we have met the merger targets, the Group maintains its ambition to achieve further efficiencies. We plan to do this by such means as the introduction of additional "non-cash" branches as well as an offensive utilisation of straight-through processing in back-office operations and credit approval. The planned conversion of Realkredit Danmark to the Group's central IT platform will also make a positive contribution.

Provisions for bad and doubtful debts

The economic downturn did not have any negative effect on our provisions for bad and doubtful debts. We had no large negative surprises regarding the quality of our loans. In fact our provisions were 19 per cent lower than in 2001.

But there were some exposures we had already considered doubtful that confirmed our pessimistic assessment.

We believe the quality of our loan portfolio is quite good. We do not think that the industries currently under pressure will give us sleepless nights. This is reflected in our loss and provisioning ratio for 2002 of only 14 basis points. But these are of course uncertain times. Nonetheless, we expect to be able to maintain a relatively low provisioning ratio.

Credit policy

We place an emphasis on maintaining long-term relations with our customers. This requires that we have competitive products and also that we have an understanding of our customers' finances. The latter is crucial to our ability to identify any unfavourable developments in customers' finances at an early stage and to initiate a dialogue with them in order to avoid losses later.

Our lending and ongoing follow-up measures therefore take place on the basis of a concrete evaluation of customers and their financial conditions.

Credits can be approved at several organisational levels in the Bank, depending on the size of the loan. Approvals take place in accordance with business procedures that ensure that the Bank maintains its cautious risk profile. As early as two years ago, we stressed to the various areas involved the importance of increased caution in lending to small businesses.

It is possible that our conservative credit policy will mean that we do not achieve the same growth in lending as more aggressive banks. But we believe the approach that has worked for us before is the right one in the long run.

This slide shows the breakdown of the Group's corporate loan and guarantee portfolio into various rating categories. The top four ratings correspond to investment grade ratings from the internationally recognised rating agencies. The ratings of all businesses are reviewed at least once a year.

Around 80 per cent of the corporate portfolio can be classified as investment grade, and that percentage rose from 2001 to 2002. There were several reasons for this. First, all of our exposures have now been rated, and that moved the statistics in a positive direction. Also, as you might recall, we replaced loans and credits in Norway worth 400 million euros because we did not like the risk profile.

On the other hand, we made more downgrades than upgrades during the year.

Tax

The increase in our tax liability is owing especially to the fact that in 2001 we were able to take a tax credit of 94 million euros because of prior-year losses at Fokus Bank and consequently our tax charge for that year was extraordinarily low.

Adjusting for this one-off effect, we actually raised our bottom line by 3 per cent.

Trend in loans and advances

We saw the largest gains in lending in mortgage finance as well as in the other Nordic countries, where we have announced plans to expand. We are of course happy to provide mortgage loans to our customers. But there is no doubt that the conversion of an unsecured bank loan to a mortgage loan entails a loss of income for the Bank in the short term. On the other hand, it produces a satisfied customer, and that is of course the main objective of all our efforts – and the reason we can maintain the Group's earnings.

Sweden and Norway delivered solid growth. Part of the rise in Norway came from the strengthening of the Norwegian krone. The opposite was the case in the USA and the UK, where the currencies depreciated. In the USA, we continued to reduce our exposure to multinational enterprises.

Loans and advances

The reasons that our losses are generally low are that we maintain a wide industry diversification and that mortgage lending accounts for half of our total loan volume. We consider mortgage loans very safe, with an average loan-to-value ratio of 60 per cent.

Solvency ratio

After consolidating the net profit for the year and deducting the proposed dividend of 42 per cent of net profit, the Bank's core (tier 1) capital ratio stands at 7.6 per cent – somewhat above our target level of 6.5 per cent. This high core capital level of course had an adverse effect on the return on equity.

In order to move the ratio in the direction of our target, we will undertake another share repurchase in the first half of 2003, this time worth 270 million euros. The buyback will take place as an open-market transaction.

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

Trends in business areas

Banking Activities continue to show solid growth in core earnings before provisions. Its earnings rose 7 per cent and amounted to 70 per cent of the Group's total earnings before provisions. The advance was especially strong in Denmark and Norway – driven by cost reductions in Denmark and increased income in Norway.

RAROC

We have used the Raroc model for several years to assess value creation. The slide shows the risk-adjusted return for the various areas. It shows that the Group as a whole has a risk-adjusted return that stands well above our cost of capital. The figure for the investment-banking unit, which we have now closed, of course fell below that level. In the case of Danica, its return reflects low earnings from its investment portfolios in 2002. We also had to increase the economic capital at Danica, however.

It is worth noting that mortgage finance is very profitable when one takes into account the low risk.

Banking Activities, Denmark

Banking Activities, Denmark, accounted for half of the Group's earnings in 2002. This business area showed growth in core earnings before provisions of 7 per cent. The increase was driven by a 10 per cent decline in costs that came partly from branch mergers. The number of branches was reduced by 64 in 2002 and has been reduced by a total of 136 since the merger in the autumn of 2000. We still see opportunities to adjust the branch network structure and expect additional branch mergers in 2003.

Since July we have also converted 21 branches to "non-cash" branches. The objective of discontinuing cash disbursements from some of the branches is to avoid robberies. There is large human as well as financial costs involved in robberies. With the introduction of non-cash branches, security has increased greatly for both staff and customers, and our experience with the first non-cash branches has been positive. They have been well received by employees as well as customers. We plan to convert additional branches this year.

Throughout 2002 we introduced several customer packages in the retail segments of both Danish banks. In these packages we gather a number of products and services that are intended for specific customer groups. The sales of customer packages went better than we had expected.

Banking Activities, International

Core earnings at Banking Activities, International, increased 7 per cent in 2002. This growth came from a combination of rising income in individual markets and cost rationalisations across the board. Core earnings advanced especially in Norway and the United Kingdom. Costs were 10 million euros higher because of currency translation effects.

Banking Activities, Norway

In 2002, the IT conversion and other measures we have implemented to turn around the situation in Norway bore fruit. The unit showed a substantial improvement during the year.

Whereas previously we had mainly closed or sold branches in Norway, now we have begun to open new branches in the large cities. We have got a good grip on our strategy and customer mix, and we have begun to expand our activities.

Banking Activities, Sweden

Core earnings continue to show solid growth in Sweden. We are steadily expanding the number of branches. We also place much emphasis on increasing our business with the Bank's existing customers.

The positive developments were confirmed by the fact that, for the second consecutive year, Östgöta Enskilda Bank and Provinsbankerne had the highest customer satisfaction rating in the Swedish banking industry – for both retail and corporate customers. That is a good foundation for continuing the growth of the business.

Costs were in line with our plans, and they clearly reflect the upgrade of our customer account system. In addition, we paid 17 million euros to the Swedish pension fund because of the trend in the stock market.

Banking Activities, UK

Core earnings in the United Kingdom grew 8 per cent in 2002 and 15 per cent when adjusted for currency translation effects. The advance came from a higher margin and increased sales of structured products.

At the same time, the London office was able to reduce costs by 2 per cent.

Banking Activities, USA

As you probably know, we are winding up our activities with multinational customers in the USA. Since the end of 2000, we have reduced our exposure to American companies by 55 per cent. In addition, a drop in the funding rate, at which we earn interest on our allocated capital, affected core income in the USA. Finally, the trend in the dollar exchange rate had a negative effect on core income as measured in Danish kroner. Adjusted for currency translation effects, core earnings actually rose 11 per cent on the strength of cost reductions and increased earnings from fees.

Mortgage Finance

Activities in the Mortgage Finance area are heavily dependent on the trend in yields and interest rates. Both long and short yields were stable at low levels in the first half of 2002. In the second half of the year, yields fell further, especially yields on bonds at the short end of the curve. This development prompted some remortgaging activity, although not at the very high level we saw in the second half of 2001.

Like Banking Activities, Denmark, our mortgage finance unit, Realkredit Danmark, earned a lower return on surplus liquidity and capital than it had the year before.

After some pressure in the first half of 2002, RealDanmark's market shares stabilised in the fourth quarter at 32 per cent of gross lending and 28 per cent of net new lending.

In 2002 Realkredit Danmark also implemented a modification of its distribution network so that it has fewer local offices and makes greater use of call centres. We also began establishing a closer physical proximity between the mortgage finance offices and the bank branches. We expect this to strengthen customer relations, increase synergies and produce higher lending growth.

Lending in Relation to Property Value

Realkredit Danmark has a very low-risk loan portfolio. The average loan-to-value ratio – that is, the our loan volume in relation to the value of the property – remains at about 60.

There was a slight rise because some customers raised supplementary loans, for example in connection with remortgaging. And the declining interest rates caused an increase in the market value of the outstanding principal of the underlying bonds.

Rising property values had the opposite effect on the ratio.

Danske Markets

Danske Markets performed well in 2002 – although not quite at the level of the year before, when its earnings were extraordinarily high. Danske Markets maintained its considerable shares of the Danish money market and foreign exchange market in 2002, and it increased its share of the Danish bond market towards the end of the year.

We also strengthened our position significantly in the Norwegian bond market, where trading in fixed-income and foreign exchange products now takes place under the Fokus Markets brand name. Danske Markets maintained its leading position in the Swedish bond market.

Danica Pension

Things are going well at Danica.

Danica can now lay claim to being Denmark's largest life and pension company on the basis of premium income. It is clear that Danica has a strong position in the competition for pension scheme customers. Danica delivered double-digit growth rates in the markets for employer schemes and health insurance. Sales of unit-linked products are also going very well throughout Scandinavia despite the struggling stock markets.

Danica Pension – Gross premiums

The strong trend in premium income led to a growth in core earnings of 8 per cent, in line with expectations. And just as important during these turbulent times in the capital markets, Standard & Poors gave Danica a rating of A+, which confirms the company's considerable financial strength.

Now I will take a closer look at our profit model and investment profile.

Danica Pension – Profit consolidation

We were required by the Danish Financial Supervisory Authority to change our profit consolidation principles for Danica. The change means that Danske Bank's return from Danica will reflect the actual return on investments for the individual year to a greater degree. The effect in 2002 was that Danica ended up with a profit before tax of 69 million euros. The result reflects losses on equities in the first half of the year.

We have also included a risk allowance in core insurance earnings, although in principle we cannot book the allowance until the return on investments at Danica can sustain it. The return on investments at Danica was 3.7 per cent in 2002. That was not enough for us to let Danica pay the risk allowance. We have therefore included a negative entry in the earnings from investment portfolios that corresponds to the risk allowance in core earnings. Danica will thus pay the risk allowance for 2002 when its earnings from investment portfolios are satisfactory. A satisfactory level is about 5 per cent after the Danish tax on pension returns.

Danica Pension – Investment profile

Danica has had a conservative investment profile for some time. Today equities amount to 9 per cent of the total portfolio. That is a decline of 11 percentage points since year-end 2001. A large portion of the reduction was owing to sales of equities worth about 1.2 billion euros in 2002 in order to reduce market risk.

It is our 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. At the end of 2002, we could withstand a 36 per cent decline.

In addition, we have hedged the risk of a decline in interest rates so that we can withstand a drop in rates by 3 percentage points without any effect on shareholders' equity.

Danske Capital

We had a net inflow of funds to our asset management activities of more than 714 million euros in 2002. Nonetheless, total assets under management declined by 3.4 billion euros, particularly because of the sharp drop in the stock markets. The uncertain equity markets also caused increased interest in fixed-income pooled schemes, which bring the Bank lower earnings than equity pools. These factors had an adverse effect on fee income, and core earnings fell 27 percent in 2002 even though we adjusted the organisation to the changed market conditions during the course of the year.

Danske Securities

Core earnings before provisions at Danske Securities showed a loss 64 million euros in 2002. Restructuring costs accounted for 47 million euros of this amount.

In November, we decided to close Danske Securities and to transfer its corporate finance activities and parts of its equity sales, trading and research activities to Danske Markets. Market conditions simply did not allow us to operate a profitable investment banking operation with expensive research capabilities.

Earnings from investment portfolios

Now we turn to earnings from our investment portfolios. Like 2001, 2002 was a difficult year in the financial markets. Nonetheless, we were able to almost double the Bank's investment earnings to 243 million euros. We can be pleased that listed equity holdings represented a relatively small portion of the investment portfolio and suffered a loss of "only" 57 million euros.

The return on our bond holdings benefited from falling yields, producing a gain of almost 187 million euros. Net interest income also benefited from the steeper yield curve in 2002.

As mentioned earlier, 114 million euros were deducted from earnings from investment portfolios because Danica could not book a risk allowance in 2002.

Corporate governance

Corporate governance is a topic that is much discussed at the moment, and with good reason. At Danske Bank we had worked on our corporate governance programme long before it became fashionable. I will set forth the basic elements of Danske Bank's corporate governance philosophy.

Firstly, I would like to point out that the Board of Directors has no Executive Board members. It also has a number of independent committees dealing with Credit, Auditing, Salary and Bonuses, Realkredit Danmark and Danica Pension.

Danske Bank complies with the great majority of the "best practices" in corporate governance. This is now evident in our Annual Report, which contains a large amount of supplementary information about the Board of Directors and the Executive Board. In addition, the Bank has explained its information and communications policy as well as its investor relations policy. As part of our IR policy, we have implemented a quiet period of four weeks prior to the release of our quarterly financial reports in which we may not comment on our expectations or financial results.

Outlook for 2003

Finally, I will comment on our expectations for the current year.

Last year at this time, we were accused of being pessimistic about the economic outlook. It gives us no great pleasure to point out that we were right – although we were not even pessimistic enough!

The global situation has not changed significantly since then. In 2003, there is still an outlook for weak growth in the world economy and generally lower interest rates as well as much uncertainty about the timing and strength of a real economic recovery in the Group's primary markets in northern Europe.

The low level of interest rates will have an adverse effect on our interest margin and thus on our net interest income.

We expect a small positive contribution from fees and commissions and an improved result from insurance operations, although both depend on market conditions.

For these reasons, we estimate that core income in 2003 will be at roughly the same level as in 2002.

We expect costs to be lower than in 2002.

The quality of our loan portfolio is satisfactory, and we therefore expect the provisioning ratio to remain low. Altogether, we expect core earnings to be at generally the same level as in 2002.

Earnings from investment portfolios remain dependent on the developments in the financial markets, including the price levels at the end of the year.

We estimate that the Group's overall tax rate will be 29 per cent of profit before tax.

But despite the fact that the economic outlook is worrisome, Danske Bank is entering 2003 in top form. We have now completed the merger – one year ahead of schedule. It required an enormous amount of work. We have lost a little of our market shares, but the Group's staff are motivated. They aspire to deliver the best possible customer service, and our customer satisfaction ratings are increasing. Our organisational structure is in place, and the organisation functions better than ever before. In my opinion, the banking organisation has the best products in the country.

Danica is in roughly the same category among life insurance companies. And the level of its administrative functions stands far above many competitors'.

Realkredit Danmark is of course the best mortgage finance company in Denmark – and the one with the widest product offering.

And in Norway and Sweden, we can now see that several years' work in fine-tuning the organisations is bearing fruit. We expect significant growth going forward.

So there is no excuse if the Group is not stronger at the end of 2003 than we were at the end of 2002. Stronger does not mean that we can defeat the business cycle. But we feel that, in comparison with our colleagues and competitors, we have a very favourable position.

That is the conclusion of my presentation. I am sure that, as usual, you have many interesting questions.