Press conference

Annual Report 2004

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Danske Bank

CORPORATE PARTICIPANTS

Peter Straarup
CEO

Tonny Thierry Andersen
CFO

SPEECH

Peter Straarup - *CEO*

Thank you for taking the time to attend the presentation of our financial results for 2004, which we are also webcasting. In my opinion, there is much for us to be pleased about in the developments of the past year.

We are presenting a strong annual report today, in fact the best in the Bank's history. And both our shareholders and our staff will come to share in our success. We are increasing the share dividend by 14 per cent to a total amount of 5 billion kroner, and we are distributing shares worth 110 million kroner free of charge to all employees.

Our strong results should be seen in light of today's historically low interest rates, which have lowered our result. Unlike in the preceding years, Denmark saw a sharp rise in consumer spending and consumer confidence. This helped to produce substantial growth in our business activities. Our operations in Sweden and Norway continue to post high growth rates.

In 2004 we pursued several measures to strengthen the Group's future position. They include, first of all, our acquisition of two banks in Ireland and Northern Ireland and also the reduction of our international wholesale banking activities in London and New York.

I will first give a summary of the financial results for 2004 for the Group. Next, I will report on the status of the acquisition of the two banks and the downscaling in the UK and the US. Finally, I will say a little about our outlook for 2005.

There will of course be an opportunity to ask questions after my presentation.

2004 in brief

Let me begin with a brief summary of 2004.

The Danske Bank Group's net profit for 2004 was 10.6 billion kroner, or 14 per cent higher than the year before. Although this figure includes some one-off income, for example from the sale of properties, the results were still good. It is worth remembering that our profit for the first six months of 2004 showed a decline of 8 per cent. We thus saw a large improvement in the second half of the year.

Core earnings rose 1 per cent, and costs declined again; so we had positive contributions from both sides of the ledger.

The single most important factor in our improved result, however, was lower losses and provisions for bad and doubtful debts. In fact, for the first time in the Group's history, reversals of loan-loss provisions enabled us to book income on this account. This was owing to the generally favourable economic climate and a sound credit portfolio.

Earnings from investment portfolios declined 27 per cent from the level in 2003, but in light of the relatively low risk profile we maintained during the year, we consider this result satisfactory.

Lending

Lending growth was strong, with bank lending 15 per cent higher than in 2003 and mortgage lending up 4 per cent.

The advance was driven mainly by the retail segment and property financing products. The corporate segment saw only modest demand from large companies, while borrowing activity among small and medium-sized enterprises picked up in the second half of the year.

The effect of higher earnings and growth in the balance sheet items is also apparent in our key ratios.

Key figures and ratios

We saw improvement literally across the board.

The return on equity rose from 15.2 per cent to 17.4 per cent, and measured by core earnings before tax, the return rose from 17.1 per cent to 20.9 per cent.

The cost/core income ratio, which shows our costs as a percentage of total core income, improved from 55 per cent to 53.5 per cent in 2004. The advance came not only from slightly higher income but also because we were able to trim our costs again last year.

We are pleased that earnings per share rose by a full 21 per cent. The increase came primarily from solid earnings growth, but our share repurchase for 5 billion kroner also contributed because it reduced the number of shares outstanding.

I will now review a couple of the key items in the profit and loss account. The first is net interest income, which remains by far the largest single source of the Bank's income.

Net interest income

Altogether, net interest income fell by 2 per cent despite the strong lending growth I mentioned. But there is actually much to be pleased about in the result, although the low interest rate level is challenging and competition has not become less intense.

In 2004, short interest rates were stable, but they were lower on average than in 2003, and that cost us an estimated 400 million kroner in income.

It is therefore positive that net interest income benefited from the strong lending growth I mentioned. It is true that the increase occurred primarily in products with relatively low margins – low-risk property financing products. But these are what customers want most, and they usually lead to additional business for the Group.

In addition, the structural shift in the loan portfolio towards a larger percentage of home financing products has led us to lower our estimate of future losses and provisions. And of course achieving savings is just as good as generating earnings.

This principle applies to the next P&L item as well, costs.

Costs

Total costs fell for the fourth consecutive year, this time by 2 per cent to 14.6 billion kroner. This figure includes the 350 million kroner in provisions we made for downscaling our activities in New York and London.

During the year we reduced our headcount by 4 per cent. We do not plan further cuts in the Danish branch network; in fact we have hired new bank trainees and economists for our Danish branch operations.

We intend to maintain our disciplined approach to cost containment, trimming in certain areas when possible. But we cannot expect costs to decline in the future, since we have just invested in two Irish banks and we plan to continue to expand in both Norway and Sweden.

Any expansion we undertake, however, should not only generate growth but also do so profitably. This means that in the future the trends in the return on equity and the cost/income ratio will be more crucial than the absolute level of costs.

Now to an accounting entry that is usually an expense but in 2004 became the source of a small amount of income: loan-loss provisions.

Provisions for bad and doubtful debts

Provisions for bad and doubtful debts declined throughout 2004 and actually ended the year showing a slight income of 18 million kroner. In relation to total loans, the loss percentage was therefore zero.

Underlying credit quality remains high, in the banking business as well as mortgage finance.

The Danish economy is strong, and house prices are still rising; the same is true of Sweden and Norway.

Another important factor in the slightly positive result was the reversal of provisions when we wound up some of our international wholesale banking business. Combined with a steadily increasing share of low-risk property financing products in our loan portfolio, this led to the reduction of our average annual expected loss percentage over a business cycle from 19 to 14 basis points.

Capital structure

As you may know, we have set targets of 9.5 per cent for our solvency ratio and 7 per cent for our core capital ratio. At the end of 2004, the solvency ratio was 10.2 per cent, and the core capital ratio was 7.7 per cent. Both figures are somewhat above our targets, even though we are again distributing almost all our profits to shareholders in the form of dividends of 5 billion kroner and share repurchases for the same amount.

This does not mean that we have too much capital at present, however. We cannot consolidate the two banks in Ireland and Northern Ireland that we have agreed to buy until we have received approval from the authorities.

Regarding the acquisition, we are pleased that all three of the major rating agencies maintained their high ratings of the Bank.

Now we turn from the Group's financial highlights to the results for the largest individual units, beginning with Danske Bank division in Denmark.

Banking Activities, Danske Bank

The Danske Bank division accounted for 28 per cent of the Group's earnings. There are many things to be happy about in our flagship division's results. Core earnings rose 22 per cent, mainly because of lower loan-loss provisions.

Lending growth was especially strong in the retail segment, as our property financing product *Danske Prioritet* was a big success throughout the year. Loan volume for this product rose from 5 billion kroner at the end of 2003 to about 22 billion. *Danske Prioritet* is also the main reason that our share of the retail market rose from 21 per cent to 26 per cent.

The increase in corporate lending was more modest. Especially large Danish corporates continued to exhibit limited demand because of good liquidity and some reluctance to make investments. Lending to SMEs began to grow, particularly in the second half of the year, and there are grounds for expecting this trend to continue. Our share of the corporate market was fairly unchanged.

We are pleased with the solid sales of customer packages to both the retail and corporate segments, as they helped boost our overall fee income. And in case anyone is in doubt, our fee income did not rise because of Dankort fees.

Banking Activities, BG Bank

Core earnings at BG Bank rose 25 per cent

Many of the developments at the Danske Bank division that I mentioned also apply to BG Bank, especially the low loan-loss provisions and strong sales of the property financing product, which at BG Bank is called *BG Bolig Plus*.

The trend in lending to SMEs was more modest, and tougher competition also put some pressure on margins in this segment.

Employee satisfaction surveys

Let me also mention our annual employee satisfaction surveys. At both BG Bank and Danske Bank, the index for satisfied customers rose about 2 point during 2004. In the same period, there was an even larger increase in our staff's satisfaction level. I think there is some correlation between the results of the two studies, and I would like to emphasise that we consider them both very important.

I take it as a sign that our strategy of being a local universal bank that is coming closer to customers with a broad product offering is the right one for both our retail customers and our small and medium-sized business customers.

Banking Activities Norway

Fokus Bank in Norway posted strong growth in business volume and increasing market shares, but it is also seeing heavy pressure on income because of the sharp drop in interest rates that took place until the beginning of 2004. Despite this challenge, core earnings rose 46 per cent.

Lending increased 24 per cent in the retail segment and 15 per cent in the corporate segment, which is clearly above the market trend. This growth was the result of a targeted effort in Norway that included opening new branches in attractive locations and expanding the product offering.

We will continue to open new branch offices in the coming years, so we expect the Bank's growth in Norway to remain above the market average.

A similar expansion took place in Sweden.

Banking Activities Sweden

Core earnings in Sweden showed strong growth of 42 per cent. As in Norway, we saw significant gains in both loans and deposits, which increased 21 per cent and 17 per cent respectively. The main reason for rising earnings was extensive reversals of provisions.

The trend in the retail segment was especially impressive. The introduction of a Swedish version of *Danske Prioritet*, which the Swedes call *DuoFlex*, led to new loans of almost 2 billion Swedish kroner in only seven months.

Total income rose 8 per cent, owing to slightly higher net interest income and a full 37 per cent growth in fee income from increased equity trading, rising business volume and the introduction of a new retail programme.

Like the Danske Bank division in Denmark, Danske Bank in Sweden is now divided into with own finance centres. We have also decided to add about 20 new branch offices in the coming years.

I 2004 Danske Bank in Sweden was named "*Bank of the year*" by the Swedish newspaper *Privata Affärer*. One of the reasons given for the choice of Danske Bank over the four large Swedish banks was that we combine the offerings of a major bank with local experience. *DuoFlex* was also mentioned as an appealing new product.

There is no doubt that mortgage lending is one of the most competitive areas in the financial sector. And Realkredit Danmark used this to advantage in 2004.

Mortgage Finance

Our mortgage finance division turned in a good performance in the last quarter of the year. Core earnings for the whole of 2004 rose 8 per cent to 2.3 billion kroner.

The advance was owing mainly to lower costs. But the introduction of *FlexGaranti®* in November made a strong contribution to the 19 billion kroner rise in total lending, and increasing market share. By year-end, we had disbursed a total of 12 billion kroner in *FlexGaranti®* loans, which was more than all the other mortgage banks combined issued of this type of loan, and four times as much as the second-largest issuer.
Realkredit Danmark's total market share has declined in recent years, not least because we have seen a substitution by bank-based property financing products, Altogether, we estimate that the Group's share of home financing – whether it takes the form of bank loans or mortgage loans – increased slightly throughout 2004.

Interest-only loans remain popular in Denmark, and the percentage of floating rate loans is also on the rise. Interest-only loans now account for 13 per cent of total lending, and a large portion of them takes the form of floating rate loans, which represented 49 per cent of the loan portfolio at year-end.

Danske Markets

As we had expected, Danske Markets' earnings declined last year. After achieving record-high business volume in 2003, the division saw its activity return to a more normal level. Despite this, the result was satisfactory.

It was especially pleasing that our positions and earnings in equity trading and corporate finance were further strengthened. This shows that the effort we made in the investment banking area in 2002 was worthwhile. In Denmark, we held our position as the largest trader on the Copenhagen Stock Exchange, while we maintained our market share in Sweden.

We are also pleased that Danske Markets maintained its leading position in bond, derivative and currency trading in both Denmark and Sweden and strengthened its position in Norway after making a targeted effort.

Danica Pension

Core earnings at Danica Pension increased 18 per cent, which was satisfactory.

It was positive that we maintained our leading position in the Danish L&P industry. Regular premiums rose 13 per cent, which we believe exceeded the market trend. The gains came especially from company pension schemes and units outside of Denmark.

The return on investments for the year was 10.3 per cent, against 6.4 per cent in 2003, and with more than 80 per cent of assets placed in bonds, this was a satisfactory return.

Danske Capital

Danske Capital's core earnings rose 29 per cent to 364 million kroner. The advance was driven mainly by lower costs, while income was generally unchanged.

Total assets under management increased 8 per cent – 5 percentage points from net inflows and the rest from market value appreciation.

The main reason that income was flat despite this rise in assets was that the increase took place in the institutional segment, where the margins are lower than in the retail segment. Also, the largest growth occurred in bonds, which have lower margins than equities.

As you can see, it has been a good year for the Bank, and many people have worked hard to achieve these results. They will also be compensated for their efforts.

Employee shares

For several years, the group has had a qualification model for the allocation of employee shares. Currently it is based not only hard financial targets, but also on so-called soft targets such as customer satisfaction, customer loyalty and market share.

In 2004 82 million kroner were generated. There was a small amount in the pool from previous years, so the total amount designated for employee shares for 2004 was 110 million kroner.

We decided that, instead of the shares being made available at a 50 per cent discount as originally planned, they will be distributed free of charge. With a staff of about 16,000, this means that each employee will be allocated 42 so-called free shares at a value of some 6,900 kroner.

For the record, I should add that the expense for the distribution is included in our 2004 profit and loss account.

In the coming years, the Bank will consider allotment of employee shares, based on a discretionary model.

Status of the NB and NIB acquisition

Shortly before Christmas, we announced an agreement with National Australia Bank to acquire Northern Bank in Northern Ireland and National Irish Bank in the Republic of Ireland. We paid a total price of 967 million pounds, or 10.4 billion kroner.

Although I was in contact with most of you, we did not hold a formal press conference on that occasion. We have therefore shown some key figures for the two banks on this slide. On our IR Web site, you can find detailed information if you need it.

Today, let me simply summarise the acquisition by saying it should be seen as a logical extension of our previously announced strategy to expand our retail banking model to other countries in northern Europe. We actually spent a good deal of time analysing this issue in the summer of 2004.

We asked ourselves questions like these:

- What banking markets are most attractive in the retail segment?
- What are the competitive parameters, and how do Danske Bank's competencies fit in with them?
- Will an expansion create value for our shareholders, and if so, how?

The conclusion of the analysis was clear: Ireland is the most attractive growth market in Europe, and it has a product mix that matches the Danske Bank Group's very well.

And of course there happened to be two banks for sale in this very region.

We are currently awaiting approval from the authorities so that we can carry out the transaction. In the EU, the acquisition has been placed on the "fast track", which means that the response should come in mid-February. We expect to receive the other approvals from the UK and Ireland by the end of the first quarter.

Here in Copenhagen we have already begun planning the coming integration, which will not be a simple task. We expect that the process will extend into 2006, with the IT conversion in the second quarter of that year as the central milestone.

You will surely come to hear more about our Irish investments.

Banking Activities UK and US

As a step in the Group's increased efforts in retail banking, we announced in November that we would close our branch in New York and sharply reduce our activities in London. Both branches are involved in international wholesale banking.

We made this decision because earnings in a several areas had been declining in recent years, and I think it is likely that competition will intensify further and continue to squeeze earnings.

We did not have outright losses, but it was clear that profitability was falling and had become too low in some areas.

At present we have signed agreements to sell loans from our British portfolio for almost 25 billion kroner, at prices of par or higher.

The winding up of US activities is proceeding as planned, and we expect to close the branch office at the end of the third quarter. Altogether the downscaling is progressing a little better than we had expected.

The outlook for 2005

Finally, I would like to comment on our outlook for 2005. I will first mention that beginning this year, Danske Bank, like all other listed companies, will change its accounting practices. For Danske Bank, this means that from now on we will present our financial statements according to International Financial Reporting Standards, or IFRS.

Although there are prospects of only moderate growth in Europe, we expect strong activity in all three Scandinavian countries. We predict that both interest rates and inflation will remain low in 2005. We expect our total interest and fee income to rise. We also expect that growth in Scandinavia will offset the decline in wholesale activities in London and New York and also that the banks in Ireland and Northern Ireland will be consolidated on the first of April.

We plan to maintain our disciplined approach to cost containment. Furthermore, lower IT costs and lower severance payments, among other things, will offset ordinary inflation and our expansion in Sweden and Norway. Costs at the two newly acquired banks, however, will outweigh the reduction of costs in international wholesale banking. In addition, we estimate that restructuring costs will exceed 500 million kroner in 2005. Altogether, this means an increase in costs and also an increase in the cost/income ratio. We have not changed our objective for the cost/income ratio, however; it remains 50 per cent.

The year's loan-loss provisions are always difficult to predict, but if the good economic conditions continue, we believe that the provisioning ratio will remain low and below average.

In summary, we expect pre-tax profit to be at generally the same level as in 2004, according to the new financial reporting rules. This is mainly because we had substantial one-off income in 2004. We should also note that the result will depend on developments in the financial markets, including the level of securities prices at the end of the year.

Q&A

Let me conclude by saying that 2004 was a good year for the Danske Bank Group. We have seen a solid increase in business volume after a couple of years of moderate growth rates.

On the basis of our results for 2004 and the Bank's new international reach and increased focus on retail banking, I am convinced that 2005 will also be a good year for the Group.

Our foundation for creating growth is stronger than ever. And it should be, because our business goals are ambitious.

I will now turn the discussion over to you. I am certain that, as always, you have many interesting questions. Please use the microphones that are located between your seats. Also note that we are now terminating our webcast.

Please begin.