Interim report for the first half of 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 the first half of 2004, which we are also web casting. Afterwards a taped audio replay will be available from our IR Web site.

At my side is CFO Tonny Thierry Andersen. We will both be available for questions after the presentation.

Slide 2: Agenda

I will first give a brief summary of our Group accounts for the first half of 2004. Afterwards, I will comment on the performance in our main business areas, and conclude with our expectations for the current year as a whole.

Slide 3: 1. Half 2004 versus 1. Half 2003

Despite the declining top line we are presenting a good earnings report today. In fact, it is the highest core earnings that the Group has ever seen in a six-month period. Our market position has been solidified. Not only in Sweden and Norway – our retail banking operations in Denmark are also developing favourably.

We achieved the results despite a stiff headwind from low interest rates and a rather lackluster Danish economy.

The net profit for the period amounted to 4.4 billion kroner. That is 8 per cent lower than the profit for the first half of 2003. The decline was due to lower investments earnings.

The decline in short-term interest rates causes revenues to fall by 5 per cent. Compared to 2003 we saw a rate fall of 56 basis points and a stronger Danish Krone. The lower interest rate alone cost us 350 million kroner and the currency impact 50 million kroner on the top line and blur the fact that the business developments in our Nordic retail operations were quite encouraging.

On the cost side, things are developing as we planned. Costs were down by 5 per cent.

Provisions for bad and doubtful debts were lower than last year and stood at only 8 basis points of loans and guarantees. These developments caused core earnings to grow by 4 per cent.

Earnings from our investment portfolios showed a sharp decline, reflecting – not only that the first 6 months of 2003 were outstanding – but also that second quarter 2004 was challenging with the steeping of the yield curve and with a very bumpy equities market in the first 6 months. Given the market developments, we find the result acceptable.

Looking at the balance sheet, lending growth to corporate was sluggish compared to June 2003, but volume picked up since the beginning of this year. Lending to private customers was strong as new home finance products took off and we continued our expansion in Norway and Sweden.

Mortgage lending continued to climb, posting a 5 per cent gain, driven by the strong sales of interest-only product and corporate lending.

Our holdings of bonds end equities were largely unchanged.

Slide 4: Key figures and ratios

The Group’s return on equity fell from 15.4 per cent to 14.3 per cent due to the lower investment earnings I just mentioned. But looking at the return from core earnings as a percentage of the shareholders equity the ratio improved, illustrating a continuous progress in the Groups operational performance and capital efficiency.

We continue to cut costs – and despite lower revenues - the cost/income ratio improved slightly.

Earnings per share dropped slightly.

Slide 5: Net interest income

Net interest income was 5 per cent down, as we continued to face low interest rates and only recently saw rising loan demand. On the bottom table of this slide, we have decomposed the changes in the net interest income a little further.

The 56 basis point decline in the money market rate have cost us roughly 350 million kroner in lost revenues. This is due to the adverse effect on deposit margins and the lower cash earnings return on equity.

The appreciation of our currency also reduces the net interest income, when translating our currency interest revenue into kroner.

Naturally, the growth in lending did – and will in the future – help underpin the interest earnings. However, one should keep in mind that the average short interest rate will probably be lower YOY. In addition, we will of course also be subject to an expected continued margin pressure in the European market.

Slide 6: Fee and commission income

Earnings from fees and commissions rose 4 per cent as stronger capital markets more than compensated for the decline we had expected in re-mortgaging activity.

Slide 7: Costs

Costs were in line with expectations and the cost/income ratio improved to 53.7 despite challenging revenue conditions. We continue to trim the organisation and maintain our guidance for reported total cost to decline for the fourth consecutive year.

In order to maintain a cost efficient and cost flexible IT-infrastructure, we have entered into an outsourcing agreement with IBM. There are two key elements in the deal. First, we have sold our 45per cent stake in the IT-operating company Dmdata. The sale gives us a profit of approx. 100 million kroner to be booked in 2004. Secondly, we have made an outsourcing agreement pertaining our de-central IT platform and network administration.

The agreement enables the Group to reduce our IT-costs going forward. The reduction will be approx. 100 million kroner in 2005. The cost savings will be progressively higher over the contract's 10 year duration. As part of the deal, 330 of the Group's employees will be moved to IBM.

Slide 8: Provisions for bad and doubtful debts

Provisions were down to only 8 basis points of total loan exposure. The figure is somewhat lower than the Group’s average expected loss of 19 basis points.

The macro economic environment in Denmark now seems more encouraging. Low interest rates and a fiscal stimulus package that was put in place this past March should boost the economy.

We expect GDP growth in Denmark to be 2.4 per cent for the year and consumer spending to 3.4 percent, which is by far the highest level for many years. Unemployment is unchanged at around 6 per cent. Despite a more expansionary fiscal policy, the Danish economy is healthy with surplus on both the public bugdet and on the trade balance. The same – or maybe even a more positive picture, goes for the other Nordic countries.

As you can see, the quality of our loan portfolio is quite good. Consequently, we expect a lower provisioning ratio for the year compared to 2003.

Slide 9: Status of capitalisation

At the release of our Annual Report, we announced a new capital structure with the inclusion of hybrid capital. In June we issued a 750 million US Dollar Hybrid. The transaction was more than 7 times over subscribed and pricing was quite attractive for us.

We have also completed the planned share-buy back of 3 billion kroner. We will continue our share repurchase programme in the second half of 2004, buying additional shares worth 3 billion kroner in the market.

In June this year, we implemented the use of our internal market risk models, when calculating our regulatory capital requirement. We are now allowed to benefit from correlations between different currency positions and thereby converging regulatory and economic capital. The implementation of internal risk models has reduced the RWA by approximately 10 billion kroner at the end of the second quarter.

From the bottom left chart and the table in the middle you can see the pick-up in lending activity in our banking and mortgage book, since the turn of the year.

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

Slide 10: Banking Activities Danske Bank

Within our Danske Bank brand, core earnings rose by 5 per cent, due to lower loan loss provisions.

This is the business area most strongly affected by the very low level of interest rates. That is why, core earnings before provisions showed a 2 per cent decline. If interest rates had held steady, earnings would have grown by 14 per cent. This gives you a better picture of the encouraging underlying business development

Lending to the retail segment was strong and grew 40 per cent, primarily because of our open plan product called Danske Prioritet. We have now originated new loans worth a total of more than 12 billion since product-launch August 2003. The market share of retail lending keeps improving. Although the rapid expansion of this low-risk product contracts the average lending margin in the banking book, it is still a valuable product-launch.

The loans should be compared with a mortgage product rather than the existing banking book. From this perspective, the expansion of open plan product is advantageous, as the margin is higher compared to a conventional mortgage loan. The margin is higher because it is a more flexible product. We truly believe that this product adds value to both the customer and bank.

On the corporate side, lending contracted YOY. However, since the end of 2003 corporate lending has grown by 5 per cent, reflecting our strong relationship with top-tier Danish companies and an improving economic climate in Denmark.

Our Danske Bank retail brand continues to demonstrate cost discipline and kept total cost unchanged.

Slide 11: Banking Activities BG Bank

At BG Bank, core earnings grew 10 per cent. Adjusted for the interest rate change, the growth would have been 18 per cent. It was a strong performance.

Core income was maintained due to higher loan volume and higher fees and commission.

Cost dropped 2 per cent and the cost/income ratio improved slightly.

There were no loan losses.

BG Bank saw and continues to see strong sales of its open plan product, boosting its YOY lending to private individuals to 21 per cent. The loan growth in this product has, like in our Danske Bank brand, put pressure on the average lending margin, but also here it is a beneficial productlaunch.

Lending to corporates was sluggish YOY, but has improved in the last six months, showing a 4 per cent growth.

Slide 12: Banking Activities, Norway

Banking Activities Norway maintained its core earnings through double-digit lending growth and significantly lower loan loss provisions. The business area was adversely affected by the heavy drop in the Norwegian interest rates. With unchanged interest- and currency rates, core earnings would have risen by 56 per cent.

We continues to use resources to open new branches in the major cities and our market position keeps improving. Since the beginning of 2004 the loan book has grown by 7 per cent.

Slide 13: Banking Activities, Sweden

Sweden is expanding in a profitable manner and core earnings rose 85 per cent as revenues increased and loan losses decreased.

The combination of satisfied customers and a competitive product range gives us good opportunities to continue to take market share, as lending rose 15 per cent YOY.

In May of this year we introduced Duoflex, a Swedish version of our Danish Open Plan product. The product got off to a good start, with roughly 500 million Swedish kroner in new loans being disbursed in just two months. The loan growth in the rest of 2004 will testify as to whether Duoflex in Sweden potentially will be as successful at its Danish counterpart.

On the corporate side lending rose 8 per cent and we continue to take market share in this segment as well.

Slide 14: Mortgage Finance

Our Mortgage Finance division improved its core earnings slightly, despite substantial lower remortgaging activity. Adjusted for lower interest rates, earnings would have grown by 7 per cent.

Our share of the corporate market remained stable, while we saw a weakening in the private market. The reason for the latter development was a large degree of cannibalisation from the property financing, which the Bank offers through the open plan products. We do not mind this development since the new product gives the Group a higher margin.

If we look at the combined retail mortgage market, whether being originated in the bank or in the mortgage division, the market share was maintained with better earnings.

At Realkredit Danmark the sales of interest-only products continues to do well with total disbursement now amounting to 48 billion kroner, just 9 months after the product was introduced.

Costs declined by 10 per cent, enabling the unit to improve its cost/income ratio slightly.

Loan losses continued to stand at a very low level.

Slide 15: Danske Markets

The earnings in Danske Markets dropped 20 per cent compared to its stellar performance in the first half of 2003.

Equities and corporate finance improved and did well. However, second quarter 2004, with a steeping yield curve was challenging for the fixed income area. Given the market conditions, we are reasonably satisfied with the result as the business area kept its commanding position in the Scandinavian FX and bond markets.

Cost were down due to a reduction in performance related bonus.

Slide 16: Danica Pension

Our life and pension business saw core earnings drop 8 per cent in first half of 2004. Declining interest rates obviously gave a lower return on shareholders' equity, but we also had an unsatisfactory result in the health and disability segment and needed an increase in the provisions. The increase was a result of a higher reimbursement rate and resumption of old cases.

Despite increasing competition, regular premiums continued to grow satisfactorily, showing a 12 per cent increase. Total premiums were unchanged as 2003 was positively affected by extraordinary large single premiums.

The investment return was 2.7 per cent for the period and let me give you some guidance on the sensitivity of our ability to book the risk allowance for 2004. If the current interest rate environment does not change, then we can sustain a 15 per cent drop in the equity prices and still book the risk allowance for the year. Put in another way; the investment return for the year needs to be at least 4.5 in order for us to book the entire risk allowance.

In July 2004 we expanded our Norwegian life operations through two small add-on acquisitions that will be integrated with our current life operations this year. The acquisitions will give our Norwegian activities a broader product range and a stronger position within the pension savings area.

Slide 17: Danske Capital

Earnings in our asset management unit rose sharply, reflecting both better market conditions and an improved cost position.

Asset under management rose 5 per cent, with the majority coming from new net inflow of 12 billion kroner. Our market position in the retail market was largely maintained.

Slide 18: Earnings from investment portfolios

Earnings from investment portfolios were 50 per cent down, but is regarded as acceptable given the adverse market conditions in second quarter.

Our risk taking in 2004 – and in particular in the second quarter – was modest.

Slide 19: The outlook for 2004

Now, a few remarks on our expectations regarding the results for 2004 as a whole.

We expect generally stronger economic growth in 2004 compared to 2003

On the business front we expect to continue to capture market shares of the retail lending market in Denmark, Sweden and Norway. You must remember, however, that interest rates will be lower on average in 2004 compared to 2003. We expect unchanged insurance earnings. We maintain our expectations about less favourable market conditions for our trading division. Other income is expected to increase due to higher profit from divestment of properties.

Altogether, we expect our income in 2004 to be at about the same level as in 2003.

Cost will be reduced for the fourth consecutive year.

We expect provisions for bad and doubtful debts to be lower.

Against this background, core earnings should be higher in 2004. We expect core earnings after provisions to be between 11-12 billion kroner.

Earnings from investment portfolios in both banking and insurance, including the ability to book the risk allowance, 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 20: Conclusion

In summary, the Danske Bank Group is on a good trend. Core earnings are increasing and our core business areas are expanding.

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.