Conference call speech and Q&A transcript

Annual Report 2004

February 10, 2005

Investor Relations

Danske Bank

CORPORATE PARTICIPANTS

Peter Straarup
Danske Bank - CEO

Tonny Thierry Andersen
Danske Bank – CFO

QUESTIONS ASKED BY

Jesper Brydensholt - Enskilda Securities - Analyst

Andreas Hakansson - UBS Warburg - Analyst

Kim Bergoe - WestLB Panmure - Analyst

Denise Holle - Merrill Lynch - Analyst

Per Grønborg - Alfred Berg - Analyst

Anders Hornbak - Carnegie - Analyst

SPEECH

Peter Straarup ***- Danske Bank - CEO***

Thank you for taking the time to attend the presentation of our financial results for 2004, which we are also webcasting. Afterwards, it will be possible to listen to a taped audio replay from our IR Web site.

At my side is CFO Tonny Thierry Andersen, who will help me answer your questions after the presentation.

Please go to the next slide.

I will first give a summary of the financial results for 2004 for the Group, then review the performance of our various business units. Next, I will report on the status of our acquisition of the two banks in Ireland and Northern Ireland and the reduction of our activities in the UK and the US. I will also comment on the effects of the transition to International Financial Reporting Standards in the Bank's future accounts. Finally, I will describe our outlook for 2005 from the perspective of the IFRS.

Now to the highlights on the next slide.

The Danske Bank Group's net profit for 2004 was 10.6 billion kroner, which is our best result ever. The figure includes extraordinary income from the sale of properties and income from the reversal of loan-loss provisions. Excluding these items, the results were still good.

We had a substantial increase in activity in Denmark, particularly from product development in our two retail banks and Mortgage Finance. In Sweden and Norway, we saw a continuation of strong growth and increasing market shares. The combination of competitive products, the right service programmes and satisfied employees is working more and more effectively throughout the Group.

Since the merger with RealDanmark in 2001, we have focused on making our retail banking model increasingly efficient, scaleable and exportable. The acquisition of National Irish Bank and Northern Bank is a large investment that should be seen as a logical extension of our core activities, since it builds upon our competencies in conventional retail banking.

In November we announced that we would significantly reduce the Group's activities in London and close our branch in New York. We made this decision mainly because the conditions for profitability in international wholesale banking have gradually deteriorated – and we expect the trend to continue in the coming years. We are pleased that the downscaling is progressing more quickly than we had expected.

For the first time, the entry for loan-loss provisions was not an expense but rather an income item. It is of course gratifying that the quality of our loan portfolio is so high, but we cannot expect this trend to continue forever.

Please go to slide 4.

The Group's net profit rose 14 per cent to the 10.6 billion kroner I mentioned. It is worth remembering that our result 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.

The key individual factors were sales of properties and lower loan-loss provisions. But that does not diminish the fact that throughout the year we saw our underlying business develop favourably and strengthened our market positions in almost all areas.

Earnings from investment portfolios declined 27 per cent from the level in 2003, mainly because we booked a smaller amount from the shadow account at Danica and saw slightly lower income from our bond holdings. In light of the risk profile we maintained during the year, we consider this result satisfactory.

The favourable business developments I mentioned are evident in our balance sheet. Bank lending rose 15 per cent, with most of the advance coming from the retail segment. The rise in corporate lending was more modest. Mortgage lending in Denmark increased only 4 per cent because of strong sales of *Danske Prioritet* and *BG Bolig Plus* at the two banks. Let me add that the introduction of *FlexGaranti*® in November gave Realkredit Danmark a significant boost at the end of the year.

Shareholders' equity increased by 350 million kroner. The reason the rise was modest in comparison with our strong result was that we chose again to distribute almost all of our profits in the form of dividends and share repurchases. Each of these amounted to 5 billion kroner.

Next slide, please.

It is one thing to increase the bottom line, but all of our key ratios improved as well.

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. As I mentioned, the unusually positive trend in loan-loss provisions was the most important factor. The improvement of the cost/core income ratio from 55 per cent to 53.5 per cent shows that enhanced efficiency also played a role. Please remember that the figures include 350 million kroner in restructuring provisions for the downscaling of activities in the UK and the US.

The Group's overall solvency ratio declined from 11.0 per cent to 10.2 per cent. The core capital ratio was unchanged at 7.7 per cent, but in contrast to last year, the figure includes hybrid capital accounting for about 0.6 of a percentage point. And note also that these ratios do not include the full effect of the purchase of the Irish and Northern Irish banks since the deal is still awaiting the approval of the authorities.

Earnings per share rose 21 per cent to 16.1 per cent. The chart on the bottom right shows that about two-thirds of the rise was owing to increased earnings and the rest came from the share repurchase.

The share buyback is also evident in the change in book value, which rose 6 per cent on generally flat shareholders' equity.

Please go to slide 6.

Net interest income remained our main source of income despite the sharp decline in interest rates in recent years. In 2004, it represented 56 per cent of total income, against 58 per cent in the year 2000.

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.

On the other hand, net interest income benefited from strong lending growth in our three main markets in Scandinavia. Lending to both the corporate and retail segments in Sweden and Norway as well as to the retail segment in Denmark saw growth rates well over 10 per cent.

Despite this growth, net interest income, adjusted for the drop in interest rates, rose only modestly. This was owing first of all to a decline in average margins because lending growth occurred primarily in low-risk products, particularly our bank-based property financing products, which in Denmark are called *Danske Prioritet* and *BG Bolig Plus*. A positive derivative effect of this structural change in the credit portfolio is that we are now lowering the Group's average expected loss over a business cycle from 19 basis points to 14 basis points. In the current loan portfolio, 5 basis points represent about 600 million kroner.

Besides the modified product mix, there is no doubt that competition remains intense and it put pressure on our margins. The table on the bottom right shows a breakdown of net interest income in 2004. We think that in 2005 the shift towards lower-margin products will continue, while changes in interest rate levels will probably have only a modest effect.

Please go to the next slide.

Total fees and commissions rose 4 per cent to 6.2 billion kroner because of a strong fourth quarter.

Over the entire year, fee income was hurt by the lower activity we had expected in conventional mortgage refinancing, but we also saw increases in equity trading and sales of customer packages. Rising business volume brought solid growth in Sweden especially. These trends demonstrate the Group's fundamentally sound diversification of income sources as well as the increasing significance of retail activities outside of Denmark.

The charts at the bottom of the slide show that fee income rebounded in the fourth quarter after a relatively weak third quarter, hitting a peak for the year on rising business volume, especially in mortgage finance and trading.

Please go to slide 8.

Total costs fell for the fourth consecutive year, this time by 2 per cent to 14.6 billion kroner. Assuming an annual inflation rate of 2.5 per cent, the cost level in 2004 is about 20 per cent lower than in the year 2000 on a comparable basis – that is, excluding restructuring costs.

The cost figure includes 344 million kroner in severance payments, and we estimate that the restructuring costs for downscaling New York and London will be 350 million kroner.

In 2004, the underlying cost base declined 3 per cent, the same amount as our headcount.

Next slide, please.

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 provisioning ratio was therefore zero.

Underlying credit quality remains high, in the banking business as well as mortgage finance, and macroeconomic conditions have generally been favourable.

The Danish economy is strong, and house prices are still rising; the same is true of Sweden and Norway. Combined with a slightly modified portfolio composition including a larger share of property loans, this led to the reduction of our average annual expected loss percentage over a business cycle that I mentioned – from 19 to 14 basis points.

Another important factor in the favourable trend was the reversal of provisions when we wound up some of our international wholesale banking business.

It is difficult to predict the amount of provisions we will make in 2005, partly because they will be calculated according to IFRS, but since the economic outlook is generally favourable, we expect a relatively low level.

Please note, however, that we expect the definitions of bad and doubtful debts in the new IFRS regime to make the provisions item more volatile in the future. The surplus provisions built up under the Danish GAAP were transferred to shareholders' equity at the beginning of the year.

Please go to slide 10.

In 2004, risk-weighted assets and core capital both rose 6 per cent. This meant that the core capital ratio was unchanged at 7.7 per cent.

It is important to remember that the core capital ratio at the end of 2004 does not reflect the IFRS, the downscaling of UK and US operations or the full effect of the acquisition of the two banks in Ireland and Northern Ireland. If these factors were fully incorporated in the closing balance sheet, along with the 1.5 billion kroner increase in core capital that we have announced, the core capital ratio would decline to 7.1 per cent. You can see the details in the table at the bottom of the slide.

We expect this year's earnings to bring the core capital ratio close to our goal at year-end, with slight deviations during the period.

In 2004, we repurchased shares for 5 billion kroner, bringing total buybacks in the past three years to 13 billion kroner. Because of our growth expectations and the acquisition of the two Irish banks, we do not expect to undertake share repurchases in 2005.

But let me emphasise that we have not altered the Bank's strategy for capital management. To the extent that we do not need capital to cover the Group's growth – either organic or by acquisition – we will return it to shareholders, mainly by dividends of up to half of our profits and also by share buybacks.

Please go to the next slide.

I will now review the developments in the individual business units. The slide shows core earnings broken down by business area. As you can see, with only one exception, all units posted solid gains. It is particularly pleasing that banking activities overall grew by 24 per cent.

Danske Markets was the only division that showed a decline, as we had expected after its unusually strong performance in 2003.

The increase in the category “Other” was owing mainly to a rise in total gains on property sales from 145 million kroner in 2003 to 725 million.

Next slide, please.

The Danske Bank division in Denmark 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 *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 continued to rise and now stands at 26 per cent. But this advance could not fully offset declining net interest income because of lower interest rates.

The increase in corporate lending was more modest. Especially large Danish corporates continued to exhibit limited demand because of good liquidity and solvency.

Lending to SMEs began to grow, particularly in the second half of the year, in line with the general market trend. 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.

Please go to the next slide.

At BG Bank, core earnings rose 25 per cent, and with earnings at 43 per cent of allocated capital, this division delivered the best performance of our banking activities.

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

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

Fee income declined slightly because of increasing use of self-service solutions for payments.

At the end of 2004, total loan volume for *BG Bolig Plus* and *Danske Prioritet* stood at 30 billion kroner, against 7 billion one year before. About 30 per cent of this amount is placed in the associated deposit accounts. Of the total loan volume, about one-third is used to repay conventional mortgage loans from the Group, while only 5 per cent is used to repay other consumer loans. The remainder is new borrowing.

Please go to slide 14.

Fokus Bank in Norway continues to post 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. Driven by a reduction of loan-loss provisions, 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 increasing the product offering.

The trend in costs was positive, but it could not fully offset the drop in income because of lower interest rates. In the fourth quarter Fokus Bank began a rationalisation process that will bring additional improvements in 2005, mainly in back office functions.

We will also continue to open new branch offices this year.

Next slide, please.

Core earnings in Sweden showed strong growth of 42 per cent. 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 loan-loss provisions.

The trend in the retail segment was especially impressive. The introduction of a Swedish version of our bank-based property financing product led to 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 a new retail programme.

And our success in Sweden is also apparent to customers, who ranked Danske Bank the best bank in the country for the fourth consecutive year.

Like the Danske Bank division in Denmark, Danske Bank in Sweden is now divided into regions that each have their own finance centre. We plan to continue to expand the branch network in 2005 and subsequent years.

Please go to the next slide.

Our mortgage finance division turned in a good performance in the second half of the year. Core earnings for the whole of 2004 rose 8 per cent to 2.3 billion kroner despite a large drop in conventional refinancing activity and lower interest rates.

A prime reason was the introduction of *FlexGaranti*®, which in the last two months of the year made a strong contribution to the 19 billion kroner rise in total lending. At year-end, we had disbursed a total of 12 billion kroner in *FlexGaranti*® loans, which was more than all the other mortgage banks combined. And it is also significant that 20 per cent of the new loans went to people who previously had not been Realkredit Danmark customers.

Realkredit Danmark's total market share declined slightly, from 34.9 per cent to 34.2 per cent. The drop should be seen in light of the strong sales of our bank-based property financing products, which to some extent cannibalised conventional mortgage loans. Altogether, we estimate that the Group's share of home financing increased in 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.

Another key factor in earnings growth was a reduction of costs by a full 13 per cent, mainly because of lower IT costs.

Please go to slide 17.

Danske Markets was the only division that could not post an increase in core earnings, which fell 16 per cent to 1 billion kroner. We had expected this decline, however; in fact, the result was better than we had expected after the first half of the year, when earnings fell by 20 per cent.

It was especially pleasing that our positions and earnings in equity trading and corporate finance were further strengthened. This shows that our focused business model is succeeding.

Danske Market 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.

But lower trading volume always hurts the largest player, so core earnings declined 10 per cent.

Please go to the next slide.

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

It was positive that we maintained our leading position in the Danish Life and Pension 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. Total premiums were generally unchanged because the number of employer schemes we took over from other companies declined to a more normal level in 2004.

We are also pleased that sales of unit-linked policies continued to grow, accounting for 18 per cent of total premiums in 2004. 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.

The solid result enabled us to half of the amount in Danica's shadow account as income. Total earnings for Danica were thus around 1.8 billion kroner, against 2.1 billion in 2003, when we booked a larger amount of income from the shadow account.

Please go to the next slide.

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 lower earnings margins, partly because 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.

Next slide, please.

Earnings from investment portfolios totalled 1.9 billion kroner. Although this was a decline from the level in 2003, the return is quite satisfactory in light of our conservative risk profile.

Earnings from the banking business of 1.3 billion kroner consisted mainly of 900 million in gains from unlisted shares; almost half of this amount, in turn, came from the sale of DMdata and financial infrastructure companies and an adjustment of the payment for the sale of PBS International. The rest came primarily from gains on investments in equity funds.

The return on the Bank's holdings of listed equities was in line with 2003 earnings despite a smaller portfolio, mainly because of the strong performance of the Danish stock market.

Investment earnings at Danica declined by half to about 600 million kroner. The reason was that the amount from the shadow account booked to income was reduced from 950 million kroner to 445 million. As I mentioned earlier, the solid return on investments at Danica enabled us to book this amount to income. Some 430 million kroner now remain in the shadow account.

Please go to the next slide.

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.

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 all the necessary approvals by the end of the first quarter and therefore expect the two banks to be consolidated at that time.

Until then, we are working on our plans for the coming integration. After the transaction has been completed, we can begin the practical aspects of the process. We have not changed our estimate that the process will extend into 2006, with the IT conversion in the second quarter of that year as the central milestone. We still estimate that restructuring costs will total 1.5 billion kroner, but we now expect to use only one-third of this amount in 2005 and the rest in 2006 and 2007.

The much-discussed robbery of Northern Bank shortly after the acquisition was announced will have no financial consequences for Danske Bank. The purchase price will be adjusted so that it reflects earnings up until the date of the transfer of ownership.

Please go to slide 22.

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. We expected to reduce risk-weighted assets by 25 to 30 billion kroner in 2005.

At present we have signed agreements to sell loans from our British portfolio for almost 25 billion kroner. In December, we completed the transfer of loans worth 5 billion and signed a risk participation agreement on the remainder of the loans. So we are winding up our UK business faster than we had expected, and that is of course a positive development. We sold the loans at par or higher.

This caused core earnings in the UK to rise sharply, from almost 400 million kroner to 835 million, on substantial one-off income, particularly reversals of provisions on the divested loans.

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.

We made the final determination of restructuring costs at 350 million kroner and expensed the amount in the fourth quarter.

Please go to the next slide.

One of the year's major tasks in the accounting department was preparing for the transition to International Financial Reporting Standards, or IFRS.

These rules will bring significant changes in valuation and in the presentation of future financial statements – both the profit and loss account and the balance sheet. The large majority of the changes have no real economic significance in the valuation of Danske Bank, they are merely formal changes.

In contrast to the practice in many other European countries, many of these new principles have already been incorporated in Danish reporting rules. This is the case for the extensive use of fair value in Danish accounting legislation, for example, as well as for the capitalisation of software developed in-house.

We have chosen to present the Group's opening and closing balance sheets for 2004 as well as the profit and loss account for 2004 according to IFRS. This restatement will give you a good foundation for evaluating our 2005 guidance, which is based on IFRS. The net profit for 2004 thus becomes 9.3 billion kroner, against 10.6 billion according to 2004 accounting practices. The major reason for the difference in net profit is due to the fact that the 2004 accounts contain certain unusual items that are removed in the IFRS regime. In the top chart we have shown the changes that lead to this result. They are divided into two sets, the first of which concerns one-off items.

The first one-off item is provisions. This entry reduces the profit mainly because many of the provision reversals that were made in 2004 concerned loans whose provisions were considered to be subjectively determined. If the Group had determined provisions according to IFRS, most of these provisions would never have been made. A portion of last year's reversals would thus not have occurred. In the future we will not be able to make provisions for facilities until we judge that the probability of loss exceeds 50 per cent, which is somewhat later than in our previous practice. From this perspective, we should expect that provisions will be more volatile under IFRS.

Of course the change will not cause the Bank's losses over the cycle to be greater or smaller.

The other one-off item is the profits booked on many property sales in 2004. In the IFRS regime, 234 million kroner in profits would not have been booked to income because, under their rules, investment properties must be booked at market value. These properties would thus have been booked at a higher value at the beginning of 2004. Shareholders' equity would be proportionately higher.

Together these two one-off items reduce the profit after tax by 8 per cent. The other changes combined reduce the net profit by a more modest 4 per cent.

Of the other changes, the Bank's holding of its own shares according to Danish practice becomes a sort of curiosity in relation to IFRS. Under IFRS, own shares are not an asset, since the acquisition of own shares is considered a reduction of shareholders' equity and their sale is considered an increase of shareholders' equity. This means that in the future the profit and loss account will not contain gains and losses on the Bank's own shares. On the other hand, shareholders' equity will show the changes upon realisation. This in itself is not a problem.

But where IFRS goes somewhat off track is in the treatment of Danske Bank shares in the Group's pooled investment schemes and Danica's pension custody accounts. The Bank does not actually own these shares, and their returns belong to customers. Although it is not exactly logical, in the future the value of these shares will be adjusted in shareholders' equity and customers' returns will be included in the profit and loss account. The discrepancy is not reconciled until the shares are sold, and then as a change in shareholders' equity. Assuming a long-term appreciation of the Bank's share price, this rule will understate the profit. For 2004, when the share price rose sharply, it would cause a reduction in earnings of almost 400 million kroner, including 170 million from Danske Bank shares in pooled schemes and at Danica. Over the long term, however, the effect of the new rules on shareholders' equity is neutral.

As I hope this survey shows, the largest changes in the 2004 result are one-off effects, while normal income and expenses are only slightly affected, and we believe that will also be the case in the future.

In the table at the bottom of the slide we have shown several key figures according to the old accounting practices and the new ones. The most striking change is of course that the return on equity is lower. It is important to understand that this is owing to both the one-off income I explained and the higher shareholders' equity resulting from the release of funds in the provisions account.

Note also that the cost/income ratio decreases from 53.5 per cent to 52.7 per cent. This is owing partly to a change in the presentation of the accounts, including the new way of presenting earnings from investment portfolios.

Please go to the next slide.

This slide presents tables showing the most important changes in shareholders' equity on 31 December 2004 and the net profit for 2004. I have already discussed the latter. I will add a couple of comments on the changes in shareholders' equity.

First, I would like to return to provisions. The transition to IFRS means that accumulated provisions of more than 11 billion kroner on 31 December 2004 are reduced by 4.7 billion. The amount is transferred to shareholders' equity after deducting tax of 30 per cent.

The second-largest change concerns holdings of our own shares; this entails a 1.8 billion kroner reduction in shareholders' equity. The equity holdings represent real value for the Group, but they are not booked as such. This effect is partially offset, however, when we calculate book value per share, since these holdings are also deducted from the number of shares outstanding.

Finally, I will mention a change that has no effect on either shareholders' equity or profits. It concerns the valuation of issued mortgage bonds, which in the future will be valued at fair value and not at amortised cost as required by the version of IAS 39 approved by the EU. The method we are using, however, is in accordance with the version of IAS 39 issued by the IASB.

We have chosen to deviate from the EU's version of the rule in order to give a true and fair view of our accounts. The reason is that the Group usually owns a block of its own mortgage bonds, which must be booked at market value and also must be eliminated against issued bonds. Using the same valuation method for own bonds and issued bonds ensures that unintelligible market price gains or losses do not occur.

One consequence of the introduction of IFRS is that in the future we will change our presentation of financial highlights and segment accounts so that earnings are no longer broken down into core earnings and earnings from investment portfolios. The return on the Group's own investment holdings will thus become part of net trading income, and related costs will be included in ordinary costs. Danica's earnings on its investment holdings will become part of net income from insurance business. I would also like to stress that we will continue to monitor the Group's overall risk carefully, and our investment policy will remain conservative.

For a detailed presentation of the effects of the implementation of IFRS, please visit the Group's IR Web site. From there you can download a comprehensive white paper on IFRS as well as spreadsheets showing the various changes in detail.

Next slide, please.

Finally, I would like to comment on our outlook for 2005. And please note that it is based on the new IFRS regime. Our guidance should be compared with our 2004 results converted to the IFRS figures we have presented today.

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 the UK and the US and also that the banks in Ireland and Northern Ireland will be consolidated on the first of April.

We cannot expect net trading income – which in the future will include the return on investment portfolios – to reach the same level as in 2004, which saw large one-off income from unlisted shares.

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 the integration costs I mentioned will exceed 500 million kroner in 2005. Altogether, this means an increase in costs and also a temporary increase in the cost/income ratio.

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.

We expect that the Group's taxation rate will remain close to the current corporation tax level.

Please go to the next slide.

Let me conclude by saying that 2004 was a good year for the Danske Bank Group, which is presenting its best financial results ever. 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.

That is the end of my presentation. I will now turn the discussion over to you. I am certain that, as always, you have many interesting questions, and Tonny Thierry Andersen and I will both attempt to answer them.

Thank you for your attention.

Q & A SESSION

Operator

Thank you sir.

[Operator Instructions]

First question today, comes from the line of Jesper Brydensholt. Please go ahead, stating your company name.

Jesper Brydensholt ***- Enskilda Securities - Analyst***

Hi, Jesper Brydensholt from Enskilda Securities. The questions I have relate to loan volumes and margins, primarily. Eventually in the fourth quarter we saw that loan growth was very, very strong, 10% up from the third quarter. Whether there is any particular strong reason for that and if that is it supposed to continue.

And also if you could comment little bit about the margins, it seems on some of your slides, all show your numbers that margins in the Danish area more is compensated for that kind of growth but the margins in Norway and Sweden seem to be unchanged with very healthy volume growth.

Also in the international activities, it seems that the margins are also quite stable and I believe that you were saying something about tougher competition and the declining margins, whether you could comment on that.

And then finally, all the issues about the Dancard in Denmark, in your guidance, have you included any kind of fees from that or have you assumed that the fee of half the Kroner will go away. Thank you.

Tonny Thierry Andersen ***- Danske Bank - CFO***

I should start off with on the volume side. Jesper, I think, what you saw on the fourth quarter in Denmark, Sweden and Norway is that the growth is predominantly on the retail side on the mortgage related product, and growth rate for plus 10%, I think, it is something that we see that we get better momentum in all of these countries. I wouldn't foresee that in '05, we would have 45% growth on the retail side in Danske Bank brand, but still, it would obviously as we see it exceed 10% lending growth.

It also seems that on the corporate side that some of the smaller and mid-sized companies are getting a little more in to speed but it is still in the modest area.

On the margin side, it's true that when you look at Sweden and Norway the margins are sort of stable. Whereas in Denmark, due to the very high selling of these mortgage products, that is where we receive the margin contractions going on.

And I think it is important, when we look at margin contraction that you need to keep an eye on the reduction we made on the expected losses. So you get a balance between what are the margin compression and what are the positive impact on the future loan losses.

On the corporate margin side the large corporates, I would say that the margins there are quite slim and there's increasing competition on the very large corporates segment and I think that really solidifies the decision we made on the wholesale banking business last year.

The last question deals with the Dancard. This is a very insignificant amount in comparison to what we are guiding around. I think if you look at the total market in Denmark, fees would've probably made the cost around 120 million and you know we have a third of that in market share. But roughly 40 million that is really insignificant to the guidance that we have been giving.

Jesper Brydensholt ***- Enskilda Securities - Analyst***

OK. Just on follow up question on loan losses, even looking at the IFRS. You still had a reversal, it seems in fourth quarter, of 75 million, meaning that the loan loss risk is significantly lower in the year than the during 2004. How do you see that goes on into 2005?

Peter Straarup - ***Danske Bank - CEO***

I don't think we can expect to continue to have reversals in 2005. But we would have lower charges than the expected average losses that we have brought down to 14 basis points. But we should expect to see, negative positions as normally in 2005.

Jesper Brydensholt - ***Enskilda Securities - Analyst***

Thank you.

Operator

Thank you. Our next question comes from the line of Andreas Håkansson. Please go ahead stating your company name.

Andreas Hakansson - ***UBS Warburg - Analyst***

Yes, hi it is Andreas Håkansson from UBS. A few questions, just following up on the margin and volume side. I see it is quite interesting that of that area, I think you have be losing some market in the first 3 quarters of the year, if you add mortgage and retail lending together you seem to be growing faster in the market in the fourth quarter, which is of course positive. I just wonder, have you increased the pricing or reduced the pricing in order to regain some of the clients and could you tell us a little bit, how the competitive margin pressure looks like?

Second question is on restructuring charge for Ireland, I see that you lowered rate in 2005 and bring it a little bit further up. Does that have any impact on when we should expect the synergies being delivered? Thanks.

Peter Straarup - ***Danske Bank - CEO***

First on the lending side, in the fourth quarter saw the introduction of the new product in Realkredit Danmark, *FlexGaranti*® which sold very, very strongly. And that have effect on it. There were no specific pricing initiatives undertaken during the year as far as the mortgage products were concerned, but we saw some margin compression on mortgages which is supplied from the bank brand.

As far as the Irish side is concerned, we are putting up the restructuring charge to 350. That is in connection with the US and UK reductions and that has more influence on the incremental synergies in the Irish case.

Tonny Thierry Andersen - ***Danske Bank - CFO***

And just Andreas to build on the market share. I have read your analysis on the market share, perceived loss of market share in Denmark, I actually, don't think that the numbers are telling you. When you look into the retail market, it is quite evident on the banking side, that we are gaining market share every month, and have done that the entire year. And when you add the banking products and the mortgage products, together on the retail side, we are actually having a marginal improvement on the market share during the year. I could take you through the numbers afterwards, this conference call, if you want to.

Andreas Hakansson - ***UBS Warburg - Analyst***

Yes, that sounds good Tonny. Yet, back to Ireland again, I don't mean, their restructuring charge for the UK and US, the restructuring charge you take for Ireland and you said, you are talking only one-third now, I think before you said you are going to take two-third.

Peter Straarup - ***Danske Bank - CEO***

OK. The plan is still that the implementation of the IT system which is the major portion of the rationalization and bringing them up to date, is going to take place in the Easter 2006. There are no changes there.

Andreas Hakansson - ***UBS Warburg - Analyst***

OK. Thanks.

Operator

Thank you our next question today, comes from the line of Kim Bergoe. Please go ahead stating your company name.

Kim Bergoe - ***WestLB Panmure - Analyst***

Hi, it is Kim Bergoe from WestLB. Just two short questions. One, is about you sort of have indicated that the mortgage loans are not longer sort of used to repay other loans which seems, sort of, a year ago to -- or may be more to have been the case. Could you sort of elaborate on that? Now people take out these but they don't use them to repay and then also if you could just, I didn't quite catch that. How many of the people who bought the *FlexGaranti*® were not Real Denmark customers, if you could just repeat that for me. Thanks.

Peter Straarup *- Danske Bank - CEO*

The later question, about 20% had nearly been with Real Denmark before. As far as the reason for the do not repay is there has been an introduction of new products. We were allowed in last quarter of 2003, to start selling under the Danish mortgage law, a mortgage product called Interest Only. And that saw very strong take from customers. So the reason for that is that we got a new product introduced by the fourth quarter of last year.

Additionally, we've started introducing mortgages in the bank, *Danske Prioritet, BG Bolig Plus*, and *DuoFlex* in Sweden, which also are not with repayment. And that keeps a more stable outstanding if you like. The other thing is that many customers are starting to use these as a liquidity generating vehicle to finance payments into pension schemes. So, balances are coming up and it is a benefit to both the customer and the bank.

Kim Bergoe *- WestLB Panmure - Analyst*

OK. Thank you very much.

Operator

Thank you.

[Operator Instructions]

The next question today, comes from the line of Denise Holle. Please go ahead, stating your company name.

Denise Holle *- Merrill Lynch - Analyst*

Hi, it is Denise Holle from Merrill Lynch. And I have a few questions if I could. On the cost line, I am wondering if you might be able to elaborate a bit on your outlook for the business units which would appear to be fairly stable, the Danish banking and mortgage banking, I guess, as well as the smaller cost-based units Markets and the asset management business.

And then secondly my reading our your outlook statement, it looks to me like your not assuming that you take the remaining or even any part, may be of the remaining 430 million insurance guarantee fund in '05. Is that correct?

Tonny Thierry Andersen *- Danske Bank - CFO*

OK. On the last question, it is true that we are have not, in our guidance, taken into account the remaining shadow account, that is what on the Danica, that is what you are talking about. That is not included in the outlook statement.

Denise Holle *- Merrill Lynch - Analyst*

OK.

Tonny Thierry Andersen *- Danske Bank - CFO*

And when you look into the specific on the cost side, we can take different the business units, if you take Banking Activities Denmark, Danske Bank brand, you would see that cost would probably be flattish year on year. And that is -- the reason for that is that the reduction we made in '04, will be able to more or less compensate from the up drifting in cost, and when you look at BG Bank that is probably going to be the same case too flattish cost and may be one take up. And look at Real Denmark, you will probably see cost being also around flattish area, may be slightly down. And Markets would expect cost also to be somewhat flattish.

Obviously depending on what is going to happen on the performance and the bonus related payment. But that would be flattish also. And I think that Danske Capital the last one would probably see a little bit increase in cost but not any significant.

Denise Holle *- Merrill Lynch - Analyst*

Thank you.

Operator

Thank you.

[Operators Instructions].

The next question today comes from the line of Per Grønborg, please go ahead, stating your company name.

Per Grønborg - ***Alfred Berg - Analyst***

Yes, thank you it is Per Grønborg from Alfred Berg, ABN. I have a question related the guidance. Now you have started to guide on pre-tax profit which is a more uncertain line to guide on compared to what you have been doing previously.

Can you say anything about why you expect profit before loan losses to be in '05. It is basically if we exclude to the one-off items that were in '04. From my point of view, mainly is the property gain and the restructuring charges that both impact '04 and '05.

Tonny Thierry Andersen - ***Danske Bank - CFO***

I think, when you look, first of all, keep in mind that in '05, we are not taking into account the amount of the shadow account that we had in '04 and also that we cautious on the earnings from treasury that has some one-offs in '04. I think that when you look at the restated 2004, IAS account, that suggest that earnings before provision would be around 13.4 billion in '04. That is the restated '04 account. And I think that is probably going to be somewhat the same case in '05.

Per Gronborg - ***Alfred Berg - Analyst***

OK. Thank you.

Operator

Thank you. Our next question today comes from line of Anders Hornbak. Please go ahead stating your company name.

Anders Hornbak - ***Carnegie - Analyst***

Hi, it is Anders Hornbak from Carnegie. One question relates to your interest rates risk in Danske Markets, where I can see you have increased your negative interest rate exposure. And I wonder the reason behind this if it is some kind of hedging activity or just your bet on the market.

Tonny Thierry Andersen - ***Danske Bank - CFO***

I think when you look at this interest rate risk, it is important to say that is it on a 1 percentage point rise and that is not a true picture of the risk because this entails options that we have sort of bought. So when you look into a 10%, 10 basis points change, then you would see that the interest risk is not that negative at all. So it is really attributed to option positions which as you know we can decide to use or not if interest rates were to change.

Anders Hornbak - ***Carnegie - Analyst***

OK. And my second question relates to your risk weighted assets. You mentioned that we should look for these 10% growth in lending volumes. But we also note that is to high degree mortgage related. Could you give some flair on the very low growth and risk weighted assets in '04 and if you see further improvements to the risk and the trading weighted assets in '05?

Tonny Thierry Andersen - ***Danske Bank - CFO***

I think that when I am saying the loan would increase plus 10%, I think, when you look at risk weighted assets including the Irish operations, you will probably see that risk weighted assets should go between 8% to 10% in '05 compared to '04.

Anders Hornbak - ***Carnegie - Analyst***

OK. Thank you.

Operator

Thank you. At this time, there are not further questions. I will now turn the presentation back to your self for any closing or final remarks.

Peter Straarup - ***Danske Bank - CEO***

Well, thank you very much. Thank you for the interest in the company. If you develop any subsequent questions, you are very welcome to contact us. Thank you for being with us today.

Operator

Thank you ladies and gentlemen. That concludes today's presentation. Thank you for your participation. You may now disconnect all lines.