Conference call transcript

Interim report – first nine months of 2004

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Investor Relations

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PRESENTATION

Operator

Good morning and good afternoon ladies and gentleman and welcome to the Danske Bank first nine months of 2004 conference call. [Operator Instructions]. I would now like to hand over to your chairperson for today, Mr. Tonny Thierry Andersen. Please go ahead with your meeting sir and I will be standing by.

Tonny Thierry Andersen ***- Danske Bank A/S - CFO***

Thank you operator and welcome to this conference call on our third quarter financial results for Danske Bank. Firstly, I will quickly run through the highlights and then I will drill down into the numbers for the group and individual business units. I will also briefly touch upon the new accounting standards and finally I will address expectations for 2004 as a whole. I would be using the presentation from my investor relation website and afterwards you will have the opportunity to ask questions and with me today is the Head of Investor Relations, Martin Gottlob.

Please go to slide 3. These are the headlines of the report. Nine months net profit of 6.9 billion Kroner, which is in line with 2003. Third quarter net profit of 2.5 billion, which is 24% higher than in the second quarter and the best quarterly results ever for Danske Bank. The strong growth of our Nordic retail lending book continued but so did the lower margins due to changes in the product mix. On the corporate side, demand from large corporate customers was somewhat sluggish. Net interest income is now showing quarterly growth of 2%, which is slightly lower than expected.

Of the business units, Danica shows a better result than we had expected after the second quarter. This led us to upgrade our full-year guidance for this area. Once again, loan losses were very low and Danske Bank booked a net reversal for the first time. Our full-year guidance for 2004 is unchanged. We expect core earnings between 11 and 12 billion Danish Kroner.

Please go to slide number 4. As we look into the numbers, you can see that the core income is still 3% below 2003. Remember it was 5% lower in the half-year report. Operating cost is still 5% lower. This shows that our business is developing well, but we are facing some headwind from low interest rates and product mix changes as well as tough competition in several areas.

Loan losses for the first nine months fell to as low as 4 basis points annualized and that is the main reason for the 10%

growth in core earnings. Investment earnings showed an acceptable result, especially taking market conditions into consideration. There were only half of the amount in 2003, however, due to lower gains on our bond portfolio.

On the balance sheet, you can see that the total bank lending increased by 11%, driven by 31% growth in the regional banking segment. Mortgage lending increased 4%. It's worth noting that risk-weighted assets increased by only 3%, well below lending growth. This is partly because of a new model for calculating market risk and also because much of our lending growth took place within low-risk mortgage products.

Please turn to next slide. All our Q ratios, profitability, cost efficiency and capital management are moving in the right direction. Nine-month earnings per share are oup7% and as the chart shows the main driver is share buybacks which accounts for 6%. Tradings growth accounts for 1%. In our view, this shows a value of active capital management.

Please move on to next slide. The current net interest income has been a key issue since the half-year report. The outcome for the third quarter shows the net interest income has increased by 3% compared with the second quarter level. This means at nine months net interest income is only 3% lower than in 2003, against 5% lower at the half-year point. You can see this graphically in the chart in the bottom left corner.

The underlying trend is the same as in the half-year report. Very strong growth in retail lending in all our Scandinavian operations whereas corporate lending growth is more moderate. The least demand is most pronounced in the large corporate segment while the small and medium sized segment is doing better. It appears that the large corporate segment prefers not only to farm these activities through open markets operations, but also has excess liquidity at the low end.

In the table at the bottom right, you can see that the volume growth has boosted net interest income by almost 700 million. On the other hand, changes in the product mix and I'm here referring to my old plan and some market squeeze in the corporate segment of that to more than 60% of the gains from volume growth. The lower average short-term interest rates had a negative effect of 400 million. In the third quarter this trend was most pronounced in the regional markets.

Next slide please. Fees and commission are up 1% compared to the last year as stronger payment services and guaranteed fees more than compensated for the expected decline in traditional (inaudible) activity. One should remember, however, that Danish investors generally prefer bonds to equities. This means that as expected our income is less volatile than some of our Nordic peers in relation to fees and commission income.

Please turn to slide number 8. Costs are in line with expectations even adjusted for performance related bonuses and severance payments. The cost income ratio improved by 2.2 percentage points to 51.4% for the third quarter and by 1 percentage point to 52.9% for the first nine months.

Please move on to the next slide. The loan loss ratio dropped from 11 basis points in the first quarter to 4 basis points in the second quarter and ended up on a level of 2 basis points in the third quarter. The annualized average is now 4 basis points, which of course is historically low. This positive trend is owed, first of all, to the healthy economic planning in all our core business areas. It should be noted that the provision has been calculated in the same way as the previous periods. The macroeconomic outlook is still fairly bright although high oil prices could possibly (inaudible) an interest rate increase.

Next slide please. We have continued our active capital management. The share buyback program of 3 billion announced in the half-year report is ongoing. For the end of September, we have repurchased shares worth 793 million. We will now continue the buyback and we expect to execute the full 3 billion Kroner by the end of 2004, which brings the total repurchase for the year to 6 billion. On the chart, you can see that the gap between our core capital ratio of 6.5% and our actual ratio has narrowed.

Please turn to slide number 11. In our Danske Bank division, core earnings increased by 10% or 16% when adjusted for the interest rate to plan. The main driver was lower loan losses, which dropped more than 50%. The lending growth remained high 29% year-over-year in the retail segment and the main driver was our open plan product Danske(inaudible). Volume increased again in the third quarter and the total volume of our open plan is now 60 million in the Danske Bank brand.

Lending to the SME segment also showed some growth whereas loss coverage was down more than 10%. As mentioned earlier, this segment tends to use and have acquired a lot of surplus liquidity and also uses open market funding at the moment. In the retail segment, the average margin was lower due to (inaudible), which is the open plan. In the SME segment margins were also a bit lower due to intensified competition.

Please go to the next slide. At BG Bank, earnings rose 15%, once again lower loan losses were the main reason. The annualized lending growth was lower than in Danske Bank, but still a healthy 17% in the retail segment. Lending to the corporate segment, mainly is lease, rose by a modest 1% but it appears the corporate segment in that part of the business area is picking up slightly. The margin showed the same picture as in Danske Bank. The overall margin was lower because of the open plan products BG Bolig Plus and lower corporate margins.

Please move on to the next slide. Bank in Norway has improved its earnings throughout the year with pre-tax return on equity rising from 9.4% in the third quarter to 17.5% in the third quarter. The net reversal of loan loss provision was the main reason for the improvement. The results before provision for the first nine months is 28% lower than last year. We think the bank is quite ready to take advantage of the opportunities in the Norwegian market with (inaudible) a number branches in the near future taking advantage that Norway is already enjoying a lending growth well above from market average.

Please turn to slide number 14. Our operation in Sweden is doing well. Core earnings were up 35% from very strong activity. Year-on-year lending increased by 25% in the retail segment and 14% in the corporate segment. Another good indicator of growth is the 35% increase in the fee income for the first three quarters. Part of our expansion involves opening of new branches and this entails some start-up costs. Total operating cost were therefore up 9% in a year.

Next slide please. Our mortgage finance results from Realkredit Denmark were acceptable given the market conditions. The 5% growth in core earnings was achieved mainly through lower cost. But there were two negative factors. Firstly, the introductions of our new open plan product in our two Danish banking operations shifted a substantial part of new lending from Realkredit Denmark to the banking platform. From a group perspective, this has not been negative since the banking products give the bank a higher margin, but it has tended our mortgage business growth to below the market average. We estimate that some 35% to 40% of the new banking products have been used to repay mortgages.

Secondly, new mortgaging activity has slowed generally and compared with the extraordinary high level we saw in the first half of 2003, the activity in third quarter of 2004 was very low due to the low stable interest rates. Please move to next slide.

Realkredit Denmark is once again the first mover in the market and the owner of a significant product innovation Today, we are launching a new product called Flex Guarantee, which is a combination of a floating and a fixed rate loan. The new product will automatically convert from a floating rate loan to a fixed rate loan if interest rates move above a predetermined level. This means that the borrower will benefit from low interest payment as long as the interest rate is low and at the same time will have a cap on the interest rate if the interest rate increases. The savvy financial analyst will recognize this product as a combination of a floater and swap tool.

We expect to enjoy the benefits of being the first mover and we also expect to benefit from the re-mortgaging activity related to this product. Our focus customer goods studies have shown that the most likely customers for the new product are customers who today have a fixed rate loan exceeding 0.5 million Kroner. We estimate that the potential in the Danish market to be around 30 billion if we only look at our own loan book. If we were to include our competitor's loan book the potential is almost 90 billion. Finally, the margin is 10 basis points higher on this product then on our current floating rate products as long as the loan is floating.

Please move on to next slide. Danske Markets results for the first nine months was 15% lower than in 2003. We expected the decline because the first half of 2003 was unusually strong. The third quarter was weak mostly on the equity side. Fixed income and FX did somewhat better although low volatility and low interest rates in periods have a negative impact on earnings potential.

Next slide please. The result from Danica is one of the more pleasant surprises in this report. I'm quite sure you remember the dilution we had to make in the second quarter to strengthen our health and accidents results business, it made the half-year result 8% lower year-on-year. At that time, we expected a flat full-year result. If you look at the nine months result, you can see that the core earnings are already 5% higher than in the same period last year.

The main reasons are better result in health and accident segments. Less than return for the period of 6.2%. Altogether we can sustain 23% cost and equity prices and still book the risk allowance for the year. Premium growth is still healthy with regular premiums are up 12%; single premiums fell back to a more normal level, although you will find fluctuations from quarter to quarter. Competition in this area has generally intensified.

Please turn to slide number 19. In our asset management business, earnings rose by 24%, mainly because of lower cost as the income was up a modest 1%. Assets under management increased 5% year-on-year mainly from increased sales to clients and sales from our units outside Denmark.

Please move on to the next slide. Earnings from our investment portfolios were acceptable, given the market condition and the chosen risk profile. We have reviewed our interest rate sensitivity throughout the year and it is now negative as you can see from the chart in the bottom left corner. This makes the earnings from our bond portfolio lower than they were last year. Danica equities were the main contributors to third quarter earnings results of125 million. In the fourth quarter, we expect to book the gain of some 100 million from the sale of a stake in (inaudible) which we announced in the half-year report.

Please turn to slide number 23, Oh, I am sorry 21. We have not changed our guidance for core earnings, it is still between a 11 and 12 billion. However, we have made a few changes in the breakdown of this result. Firstly we expect net interest income to be slightly below the 2003 level at the same level, as we guided around our half year report. The main reasons fare slightly short-term interest rates, weaker demand for lending from the corporate sector and the traditionally re-mortgaging activity.

Second thing, we expect earnings from Danica to be a little better than the last year due to the strong result in the third quarter. Remember that the result for the fourth quarter of 2003 was the lowest in 2003 and also lower than results for the second quarter of 2004. Otherwise our expectations have not changed since the half-year report, we do not offer guidance on the earnings from the (inaudible) portfolio, but we would like to note that the interest sensitivity was very low at the end of the third quarter.

Please go to next slide. The year 2005 is getting closer and this means that implementation of the new international accounting standards is approaching as well. Overall, the implementation is moving according to plan and we expect to be able to give you all the necessary information in 2004 annual report. We still have a few outstanding issues related to IF 39 and the mortgage finance business, however.

Please go to the next slide. In summary, Danske Bank is doing well. The retail group is growing nicely and we continue to increase market share. Income is beginning to show some growth, and we are especially pleased to see higher net interest income. Cost as well as loan losses are under control and we are showing progress in all the key financial issues. Our chosen risk-return profile in markets and specialty is also acceptable.

We believe the new mortgage product we are launching Fixed Guarantee is a very interesting initiative with great potential and that should enable Realkredit Denmark to regain some of its strength as traditional re-mortgaging flattens out. To the extent that our lending loan does not consume enough capital, we will keep the turning excess capital through shareholders in the form of share buyback and dividends. This concludes my presentation. Thank you for attention. We are now waiting to take your questions. Please proceed operator.

QUESTION AND ANSWER

Operator

Thank you, sir. [Operator Instructions]. Our first question comes from Denise Holle from Merrill Lynch. Please go ahead with your question.

Denise Holle ***- Merrill Lynch - Analyst***

Hi, it's Denise Holle from Merrill. Congratulations on a great set of results in third quarter. I am surprised given how strong these results were that you have an increase to your guidance for core profit for the full year and I am just wondering if there are some areas where you expect where you see a risk to the first quarter delivery versus the third quarter on the revenue side or if you expect some sort of year end increasing costs or some catch up in provisions, if you might comment further on that.

Tonny Thierry Andersen ***- Danske Bank A/S - CFO***

I think that when you look at our P & L on the revenue side, obviously on certain issues associated with the trading income (inaudible) from quarter to quarter. On the cost side, we have planned some quite heavy marketing campaign in the fourth quarter with this new product that we've been saving up to during the year. We also have some large IT products that will be expensed during Q4 and we will continue to open these branches abroad which also will be expensed in Q4. But this is all planned and I still feel comfortable with my cost guidance, for the year around 14.5 billion for the total year. In regards to loan losses, I don't see any reasons why loan losses should exceed 8 basis points for the full year.

Denise Holle ***- Merrill Lynch - Analyst***

Eight, OK. Thank you.

Tonny Thierry Andersen ***- Danske Bank A/S - CFO***

OK. See you.

Operator

Thank you and next question comes from Daniel King from Deutsche Bank. Please go ahead.

Daniel King ***- Deutsche Bank - Analyst***

Hi, good afternoon. Daniel King from Deutsche Bank. I have two questions, the first which is on the loan loss line. One thing about here is your comment in the report which says there is low loan loss is mainly due to the economic conditions around us. Does the fact that you are writing it back have something to do with the fact that you have a big store of generic provisions, which under IAS you may not hold. What I am suggesting here is that normally a net write back is kind of a very short-term factor. Could it be that it could be a more long-term feature of your results given you have these generic provisions.

The second question is on corporate lending. You talked about how lending loan on large corporate has been very sluggish. So do you think there it's your mix is meeting your lending is slightly weaker may be than rivals or do you think you have a market share issue in corporate lending in Denmark.

Tonny Thierry Andersen ***- Danske Bank A/S - CFO***

In return to the loan losses, I think that as I have said during my conference call we have not changed the methodology in terms of how we provide loan losses even though we know that it International Accounting Standards is just round the corner and which implies that we will have to release some of our excess provisioning. It is the combination of if you look at the macroeconomics in terms of low interest rate, low employment rate and you have the Danish industry in general, is quite resilient and is more service led than heavy industry and as such has them done fairly well in this business environment all around Europe.

And keep in mind also in Danske Bank we have for eight years made anticipatory provisions as the sales and loans actually (inaudible) and we will look at third quarter, look at our business portfolio, credit portfolio, look at the outlook for the industries and the specific facility that we just could not find the cases to make the provision and we were not looking into the IS. That I hope there is a question on the loan losses and the question from you.

On the corporate segment, it is true that they see the (inaudible), which is on the lending. I think it's the general European phenomena, when we look at the large European companies they are more cash rich than they have been for 30 years and they just have such a huge cash generation from their operations that they do not need to lend that much money and combination with the fact that some of our large corporate are doing market funding, just means that this line in the result is Q# were somewhat weak compared to earlier quarters.

Daniel King ***- Deutsche Bank - Analyst***

So you do not think say further down the line in SME, then do you see maintaining market share among the smaller corporates.

Tonny Thierry Andersen ***- Danske Bank A/S - CFO***

Yeah, I think we have a good (inaudible) on that. There maybe some very small SMEs where we do from a risk profile cannot make the profit work and then stay off for another bank they can do so, but I think when we talk about the generic need to have a good grip on these type of clients.

Daniel King ***- Deutsche Bank - Analyst***

Thank you.

Operator

Thank you. Our next question comes from Fred Rither (ph) from Citigroup. Please go ahead.

Fred Rither ***- Citigroup - Analyst***

Hi, it's Fred Rither from Citigroup. I have got a few questions. Just going back to that corporate loan demand question, specifically in Norway and Sweden, if you could discuss what you are doing differently I notice you had about 9% year-on-year growth there, while the rest of your peers are flattish, downish. How does your pricing compare to your competitors in those markets and that is my first question.

Second question relates to your Danish market share, specifically slide number 11. I notice that the retail market shares increasing while the total market share is some sort of stable and my question is if it's safe conclude that the corporate loan market shares declined.

Tonny Thierry Andersen ***- Danske Bank A/S - CFO***

Yeah, if we go to slide number 11, it is true that the total market share is somewhat declined and your right it is on the small SMEs that we are losing some market share. I think you should be careful from quarter to quarter that smaller SMEs that some of the local banks are offering for we have seen some people some companies move there.

In terms of Norway and Sweden, I think it's fair to say when you look at Norway, there is a couple of issues why we have a market growth, a lending growth well above the flattish market growth in general. One that certain companies in Norway are now looking for a second bank two. It is natural sort of core factor (inaudible) Secondly, in terms of the product offering we're at these large corporates. They have benefited from the Danske Bank platform in terms of cash management, in terms of the trade finance capability and so forth and when I look at the customer service, the customer satisfaction along these medium size, large corporates will have a good sort of reputation there.

The final question in terms of the pricing in Norway, I think it's fair to say that when you look at it from a nominal value and nominal perspective, our average lending margin is probably lower than our peers. But you need to ask a second question, what are the risks associated with the loans you have taken on your books compared to the other risks in the market and the risk we are taking on in Norway in the lending book here only what we, from a Danish perspective think, credit are fully acceptable. So from a risk-adjusted perspective, this makes sense for us.

In terms of Sweden, I think our growth there is not on large, it's more on the medium size segment where the combination of there again the Danish bank to bank platform, cash management, reputation in terms of trade finance capability, and the sheer factor (inaudible) expanding, obviously giving our market share there. Again on pricing I don't think we are the lowest price provider in Sweden, we're probably below average, but again it's from the risk-adjusted perspective that the pricing is done.

Fred Rither ***- Citigroup - Analyst***

Thank you.

Tonny Thierry Andersen ***- Danske Bank A/S - CFO***

Thank you.

Operator

Thank you and next question comes from Per Grønborg from ABN, please go ahead.

Per Gronborg ***- ABN - Analyst***

Hello, it's Per Grønborg from ABN in Copenhagen. I have two questions. The first one related to the different trend in net interest income in the BG Bank plan and in the Danske Bank plan where we are seeing quite nice q-on-q, over 4% in Danske Bank (inaudible) small little decline at the BG. Can you elaborate a bit on the differences in those trends in your two Danish brands.

Tonny Thierry Andersen ***- Danske Bank A/S - CFO***

Yeah, just for a moment. As we look at, you are thinking on "I guess" slice.

Per Gronborg ***- ABN - Analyst***

Yes.

Tonny Thierry Andersen ***- Danske Bank A/S - CFO***

And you like that when you look at Danske Bank brand it is growing by 4% where it is sluggish in the BG Bank and when I look into my decomposition of the interest rate, what I call our interest rate, other interest net interest income in BG Bank that is somewhat (inaudible) my third quarter net interest income of BG Bank. So it's more other issues than just sheer margin on the lending or the deposit side, because that relation is pretty much similar in both banks. So it's other net interest income which could be the pull. I do not have these numbers in detail, but it's around 11 million Danish Kroner that is other net interest income that is changing the picture in between the two banks.

Per Grønborg ***- ABN - Analyst***

OK. That's good. The second question is related to the quite strong unit link (inaudible) for the third quarter. As far as I can read it is partly related to the business issue to to lower in Norway. How much of this is a good quarter and how much should we look for going forward, can you give any indication so that part of the business has changed quite dramatically over the summer.

Tonny Thierry Andersen ***- Danske Bank A/S - CFO***

You are right. When you look at the quarter, we have some good results from our Norwegian operations and I think for the full year we expect that the total earnings from insurance will be up and will also forecast 05 that we despite some tough competition, I think that 05 will also show that earnings from the insurance business will be up along 68% or something like that, t least I think. So I think it should be that we expect that we have good grip on the insurance market in and that is paying off in this regard.

Per Grønborg ***- ABN - Analyst***

Can you give an indication of how much of this 70 is coming from Norway.

Tonny Thierry Andersen - ***Danske Bank A/S - CFO***

From Norway.

Per Gronborg - ***ABN - Analyst***

Yes.

Tonny Thierry Andersen - ***Danske Bank A/S - CFO***

I do not have the numbers just on top of my head here.

Per Gronborg - ***ABN - Analyst***

OK fair enough.

Tonny Thierry Andersen - ***Danske Bank A/S - CFO***

Thank you.

Operator

Thank you and next question comes from Anders Hornbak from Carnegie, please go ahead.

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

H, it's Anders Hornbak from Carnegie and the loan loss line was admittedly quite impressing and you have charts upon that, probably you could elaborate a bit how you accumulate it provisions decline by 300 million from the second quarter to the third quarter.

Martin Gottlob - ***Danske Bank A/S - Head Of Investor Relations***

This is Martin Gottlob. I think it's fair to say that we are now in a situation that the macroeconomic climate is improving that you ought to see our loss provision is going down and our (inaudible) accelerating. I think that's natural. Of course, it's very difficult to see if that will continue throughout the next quarter, but as long as the things going as good as this now, I think it's fair to say that we are going that way.

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

OK, thank you.

Operator

Thank you and next question comes from Amit Mehta from Morgan Stanley, please go ahead.

Amit Mehta - ***Morgan Stanley - Analyst***

Hi, this is Amit from Morgan Stanley. I guess I'm touching on the relative franchises of Danske Bank and BG Bank as well. It seems, I was under the impression you injecting life in BG Bank plan would give them faster earnings momentum, but that does not seem to be transpiring as quickly as I anticipate. I was just wondering is the new line of attack that is going to happen through the BG Bank going forward, that's question number one and then the second question was on the cost guidance going forward and you still confident you can keep that flat on the absolute base for going into 2005.

Tonny Thierry Andersen - ***Danske Bank A/S - CFO***

OK. To the last question based on the cost side, we do think the (inaudible) cost, I do think the capacity to bring cost and to absorb inflation, so we still are aiming for flat cost year-on-year 05 compared to 04. In terms of Danske Bank (inaudible) BG bank to bank, I think Amit you should be careful to not just looking one quarter because if you look year-on-year you can see the net interest income in BG Bank grows 1% whereas in the Danske Bank, it actually declined by 2%. So I think looking at one quarter is probably a little bit too short sighted in this regard.

My sense is that the business growth in the SME are quite strong in both brands and in both banks, we have the right concept, we have the right customer satisfaction, we have the right bank structure. So they should be able to compete pretty much head-to-head and progress on what I call the retail and SME side at the same level. What could change the picture is that in Danske Bank branch you know we have the large corporate and depending on how they would develop that could change the total picture when you assess the two banks each other to look at these two banks altogether.

Amit Mehta - ***Morgan Stanley - Analyst***

I think can I follow up on another question, we are just looking at the margin trends on lending and deposits, but again we saw contraction on the deposits spread in the BG Bank franchise stabilizing in the Danske franchise q-on-q ,just wondering what's your outlook for margin compression as we continue to move into these new products. You're seeing that constantly creating more pressure on things here and I think that the sequential decline is almost 10 basis points, where do you think this can head to going forward on your (inaudible) analysis of the new products continue to be taken off.

Tonny Thierry Andersen *- Danske Bank A/S - CFO*

Yeah, I think that one should expect the margin will be down in 05 and view of the average book, I would not be surprised if it's around 25 basis points and it should go down because you know this is a different product, the open plan, in terms of risk profile than the rest of our products that we have on the lending side which maybe unsecured lending, so the margins should go down year-over-year and we anticipate that around 25 basis points next year on average on the loan book, 25 basis points that I wouldn't be surprised if that happened.

Amit Mehta *- Morgan Stanley - Analyst*

OK, and then with the magnitude of let's assume a 25 basis point average rate increase offset this pressure or would it be then net neutral in the net interest margin for the group?

Tonny Thierry Andersen *- Danske Bank A/S - CFO*

Well, (inaudible) I think that the (inaudible) industry will be 25 basis point higher next year, that is roughly 250 million and the (inaudible) at the total non-book in the group and will more or less offset each other, I think.

Amit Mehta *- Morgan Stanley - Analyst*

Thank you.

Operator

Thank you and next question comes from Andreas Hakansson from UBS, please go ahead.

Andreas Hakansson *- UBS - Analyst*

Yes, hi, a follow-up on Amit's question on the margin there just quickly. I'm looking at the margins in Danske Bank in Denmark, and you report that the margin is currently 249 and do you think that on open plan that you're now writing this business. What's the margin on that business and if you say that you write 35% to 40% of your new Danske Bank business within from that product, we should see quite a big drop in margins going forward as well I assume. Second question is you have then re-mortgaging fees, we saw them come down quite significantly in Q3, is that a step change and has the market now stepped re-mortgaging as much or this is a temporary dip, what would you do say.

Tonny Thierry Andersen *- Danske Bank A/S - CFO*

In terms of the open plan product, the margin there is an average around 175 basis point there, that's the year long as I think right now going on and I wouldn't expect that to contract further in 2005. It is a quite competitive product already. In terms of the re-mortgaging activity, it's true that the general (inaudible) are quite low in compared to previous quarter. That's for, in general, the industry I guess you can see that and that is why it's so good that we today launch a new product which can compensate for the slowdown with re-mortgaging activity because the news doesn't generally encourage people to do it re-mortgages. And I think if you spend sometime looking into the features of this new product that we are launching, which we're the only one to have in Denmark, then you will see that there is no excuse at all for the people today who have 6% or 7% fixed rate loans to convert into the new fixed guarantee because the interest rate is capped at the current 6% rate and still the benefit from the time being on the interest rate is low. There is no excuse at all for the current balance loans to convert. I mention this because I think that can sort of mitigate the negative effect on traditional mortgaging, and we are the only one with this product right now, and we are quite curious to see how the market reception will be.

Andreas Hakansson *- UBS - Analyst*

Just to follow up, you said that the open plan is less than around 175 basis points and average margin is now 249. Is it correct that 35% to 40% of that basis is then written upon 175. Could you just tell us what is the duration on average on that book.

Tonny Thierry Andersen *- Danske Bank A/S - CFO*

You should probably expect that, I mean, for the total retail book we expect that between four to six years and that is where you see traditional loans being sort of renewed, but keep in mind it is not all traditional loans that are renewed through the open plans. WE estimate is only around 10% or so or even less that are used from the open plans to repay existing banking loans, right. So, when you talk about renewal be careful we don't confuse that with cannibalization in terms of repaying high net interest and high mortgage loans already. So this open plans are used to repay in our mortgage book for people to use that money for other purposes rather than repay existing banking debt.

Martin Gottlob *- Danske Bank A/S - Head Of Investor Relations*

Maybe I could add to that the volume of our open plan product both in Denmark and Sweden at the end of third quarter is around 23 billion Kroner.

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

Thanks.

Operator

Our next question comes from Kim Bergoe from WestLB please go ahead.

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

Hi, its Kim Bergoe of WestLB, I have number of short questions. My first question is on the duration management like what Nordea (ph) have done. You obviously have, as you mentioned, quite a lot of excess liquidity in especially the two Danish brands. Is that an option for you moving some of that off the yield curve like Nordea has done it.

My second question is on, you sold part of the forced sale from the merger was selling PBS activities. You sold those to Syd Bank (ph). In that was a clause about a payback if they were then sold on. If you could update us on what the situation is there at the moment.

Another thing about your risk-weighted assets and introducing that new model did that only have effect n Q2 or has there been effect of that in Q3 as well and then on all these new products that are definitely driving growth, could you sort of, you know the profile of these better what kind of demand would you estimate. What would it do to that demand if we saw higher interest rates? How resilient would these new products be and then lastly, if you could then touch on I understand that loan loses have been higher in the US, if you could just give us an indication what that is, and I saw last year you issued a number of bonds for Ford if that would have anything to do with that.

Tonny Thierry Andersen ***- Danske Bank A/S - CFO***

OK. In terms of the duration management, obviously it is an option for us to think about that part of the mix that has the longer duration than just takes days. If we were to do it, we would obviously disclose what the impact will, so when you look at the numbers you would not confused as to the historic performance and what the impact has been. We have not made any decision on that but we will obviously give you sufficient disclosure so that you can see that. In terms of selling PBS international, it is true that it is still pending as to how to sell that company. I can't provide you with any update in terms of pricing or - It is still pending.

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

Is there sort of a timeframe, so that the last timeframe as to when that has to be done.

Tonny Thierry Andersen ***- Danske Bank A/S - CFO***

Yeah, and we will manage that within that timeframe.

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

OK.

Tonny Thierry Andersen ***- Danske Bank A/S - CFO***

In terms of the regional risk model effect on the market risk we have, when you look at a like-to-like basis, have reduced our risk-weighted assets by 16 billion Danish Kroner when you look at the end of the year and that was around 10 to 11 billion at half year and that has increased somewhat. So, we did a bit of (inaudible) needed to use correlation between different positions.

In terms of your product, the key is ,I think you are right that if you were to see a sudden surge in the short term interest rate , open plans would be less attractive as to a fixed rate loan, but that is quiet obvious. The interest rate outlook that we see now for this year and next year, and when you look at that I don't think that there's any imminent threat that our sale of open plan whether it be in Denmark, Sweden or Norway where we just a very short time ago have launched the product there that that would have any negative impact on that.

And you could argue that if there were to be sort of discussion, rumors about interest rate hikes that the new product fixed guarantee, we would have maybe a potential, a potential floaters migrating to these three products because they would still benefit from floaters but still have a cap So, I think net,net either way how the interest rates will progress we have different types of products that can deal with that. In terms of US (inaudible) specific loss, you know Kim, that we can't disclose what of clients that we are provisioning on...

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

OK, just trying. thank you.

Tonny Thierry Andersen ***- Danske Bank A/S - CFO***

OK.

Operator

Our next question comes from Jonas Erikson(ph) from Credit Suisse First Boston, please go ahead.

Jonas Erikson *- Credit Suissse First Boston - Analyst*

Thanks. I just have a question in regards to retail market shares. If we look at Danske Group, the total household market share of lending in Denmark. Could you just give us the difference between the stock market share and market share net new lending including both banking activities and mortgages.

Tonny Thierry Andersen *- Danske Bank A/S - CFO*

No, that information is not available from the Danish National Bank. So, I can't provide with you that. I would if I had it , I can't, but I guess, obviously our market share lending is higher than on the average that is taking place in the banking book. When we look at the unit lending in the mortgage business onto retail it's lower and current stock because of the sort of cannibalizing with the banking products to try to fumble with the numbers a little bit and try to do that combined, sort of mortgage market share when you add together get a and the way we have proceeded that our market share in total would be flattish, to maybe slightly increasing, and we have the banking product and the mortgage product all together.

Operator

Our next question comes from Sigmund Haland from ABG please go ahead.

Sigmund Haland *- ABG - Analyst*

Hi, it is Sigmund Haland from ABG. I had a question regarding the risk allowance, which you say that it can brisk if bond markets are not moving too much and the stock market isn't collapsing. Are we here talking about the overall risk allowance or we talking about the risk allowance that you talked when you changed a model for the life insurance?

Tonny Thierry Andersen *- Danske Bank A/S - CFO*

We are talking about the risk allowance for 2004. When it comes to the risk allowance coming from the change a couple of years ago, we have not made any decision on that at this stage and that would be made towards the end of the year. However, we will include any part of that risk allowance in our result.

Sigmund Haland *- ABG - Analyst*

OK. Thank you. Can you just indicate the size of it, last year, I guess, the risk allowance was 954 million, is it fair to expect it to be slightly higher this year because of volume growth.

Tonny Thierry Andersen *- Danske Bank A/S - CFO*

Yes, that's right. You can add some 4% in interest we could take this year in terms of interest.

Sigmund Haland *- ABG - Analyst*

OK. Thanks.

Operator

Our next question comes from (inaudible) from Enskilda Securities, please go ahead.

Jesper Brydensholdt – *Enskilda Securities - Analyst*

Yes, hello Jesper Brydensholdt from Enskilda Securities. I have a couple of questions. One is relating to the new mortgage product flex guarantee, whether you can say that when the product is converted from a floating to a fixed rate whether you will get the same kind of commission fees that you normally get when clients are converting or there is some kind of benefit for the clients there, otherwise you could argue that if the client is monitoring their floating loans very closely then they could do the process by themselves.

Secondly, the margins in Norway and Sweden, could you give a comment on how you see that they developed relative to the margins in the Danish Banking part and finally I can see that the corporate profits is coming little bit down. Is that a just seasonality or is that perhaps the trend that they are drawing on the liquidity and perhaps within couple of quarters to need the money from the banks. Thank you.

Tonny Thierry Andersen *- Danske Bank A/S - CFO*

Let's start with the new flex guarantee products. The conversion will take place automatically without any cost for the customers. So, therefore it should be beneficial for them to join this product because it is cost free. Looking at the margins in Norway or other countries, you can see that we still believe that the highest margin pressure we see in the mortgage business is in Sweden, but also to some extent in Norway. Otherwise I think it is fair to say that the highest margin squeeze is seen in the Danish market, mainly because of the change of product mix. In the normal lending side in

Sweden and Norway, the market pressure not that high as it is in Denmark. What was your final question?

Martin Gottlob ***- Danske Bank A/S - Head Of Investor Relations***

On the deposit side, I think, you're right that it is combination of not only that large (inaudible) recently activities and there are also a combination of seasonality in this one. But you can definitely see that the cash richness among the corporate is higher, and they are drawing on that rather than the lending.

Unidentified Analyst

Thank you.

Operator

There are no further questions at this time. I will hand the conference back to you for any closing comments.

Tonny Thierry Andersen ***- Danske Bank A/S - CFO***

Thank you very much for listening to this conference call and thank you for your question. The relations department will be standing by until 9 o' clock Danish time tonight for you questions if you wish to call us. Thank you very much.

Operator

Ladies and Gentlemen thank you for your participation today. This concludes today's conference. You may now disconnect your lines.