

IFRS White paper



Preface

With effect from the accounting year beginning on January 1, 2005, Danske Bank will present its consolidated accounts in accordance with the International Financial Accounting Standards (IFRS).

This White paper describes the changes in valuation and presentation after the transition to IFRS. The changes affect only the valuation and presentation of the accounts. The Danske Bank Group's shareholders' equity will change, but the Group's cash flows will not.

The transition to IFRS will entail a net increase of DKr2,618m in the Group's shareholders' equity at January 1, 2004 and a net increase of DKr1,179m at December 31, 2004. If the 2004 Annual Report had been presented according to the IFRS accounting policies, the Group's net profit would have been DKr1,241m lower. Net profit for the year per share would have decreased by DKr1.7 to DKr14.4. Total assets would have decreased by DKr26,504m and risk weighted asset increased by DKr3,337m. The solvency ratio would have increased by 0.35 percentage points to 10.59%

This White paper supplements the financial information given in the management's report and the notes in Danske Bank's Annual Report for 2004 and the IR presentation at www.danskebank.com/ir under the menu item IFRS.

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1.1. The effect of the transition to IFRS

With effect from the accounting year beginning on January 1, 2005, the Danske Bank Group will present its accounts in accordance with the International Financial Reporting Standards (IFRS) that were approved by the EU Commission with effect from January 1, 2005. Consequently, the valuation of some assets and liabilities and the presentation of the profit and loss account and the balance sheet will be changed.

New accounting policies

The Group's opening balance sheet at January 1, 2004, the balance sheet at December 31, 2004, and the profit and loss account for 2004 will be presented in accordance with IFRS 1, "First-time adoption of IFRS".

The Group has decided to restate all accounting figures for 2004 in accordance with its IFRS accounting policies.

Please note that the total change in profits, shareholders' equity and other items of the Danske Bank Group resulting from the transition to IFRS is relatively modest, since the 2004 accounting policies (based on the rules of the Danish Financial Supervisory Authority) acknowledge most of the main IFRS principles (e.g. fair value accounting on derivatives and securities).

Section 1.2 describes the effect of the transition on shareholders' equity at January 1, 2004, and December 31, 2004, and on the net profit for 2004. We proceed to describe the difference between the 2004 accounting policies and the new, IFRS-based accounting policies.

Section 1.3 shows the effect on the financial highlights of the profit and loss account for 2004, and section 1.4 the effect on the balance sheet highlights. In both cases, the effect of the transition to IFRS is presented in summary form as the changes in valuation and in presentation. Section 2.1 shows the individual effects on the financial highlights for 2004 broken down by valuation and presentation. You can download the spreadsheet from www.danskebank.com/ir under the menu item IFRS. We have included additional comments in the cells of the spreadsheet. The same site provides additional IR presentations on the effect of the transition to IFRS.

Section 1.5 shows the effect on the Danske Bank Group's financial ratios for 2004 and section 1.6 shows the effect on core capital, capital base and solvency ratio for 2004

Additional presentations

At the release of the Danske Bank Group's report for the first quarter of 2005, comparative 2004 IFRS figures for the individual segments (broken down by quarter) will be presented.

1.2. Effect on shareholders' equity at January 1, 2004, and December 31, 2004, and on the net profit for 2004

On the transition to IFRS with effect from the accounting year beginning on January 1, 2005, comparative figures for 2004 are restated according to the new IFRS-based accounting policies.

Had Danske Bank's Annual Report for 2004 been presented according to the new, IFRS-based accounting policies, shareholders' equity at January 1, 2004, would have increased by Dkr2,618m to Dkr67,274m, and at December 31, 2004, by Dkr1,179m to Dkr66,995m. The net profit for the year would have decreased by Dkr1,241m to Dkr9,317m.

(DKr m)	Shareholders' equity at January 1, 2004	Net profit for 2004	Shareholders' equity at December 31, 2004
2004 practice	60,451	10,558	60,806
Transition to IFRS, beg. of 2004 (fees)	-198	-	0
Dividends	4,403	-	5,010
Adjustments of 2004 practice	64,656	10,558	65,816
Write-downs of loans and advances (IAS 39)	5,451	-797	4,654
Origination fees (IAS 39)	-415	-34	-449
Staff commitments (IAS 19)	-398	3	-395
Pension commitments (IAS 19)	-213	-90	-303
Elimination of own shares (IAS 32)	-1,241	-387	-1,762
Share-based payment (IFRS 2)	133	115	296
Properties (IAS 16 and IAS 40)	470	-234	248
Leasehold improvements (IAS 16)	175	-47	128
Reserves subject to a reimbursement obligation (IAS 37)	146	-63	83
Outstanding claims provisions, insurance contracts (IFRS 4)	-27	-3	-30
Unit-linked schemes (IAS 39)	-24	-18	-42
Hedge accounting, operating leases (IAS 39)	-140	-35	-175
Foreign currency translation (IAS 21)	-	32	-
Minority interests (IAS 27)	256	28	267
Deferred tax (IAS 12)	-231	-66	-297
Other tax effect (IAS 12)	-1,324	355	-1,044
Total change	2,618	-1,241	1,179
IFRS	67,274	9,317	66,995

We proceed to describe the differences between the accounting policies before the transition and the new IFRS-based accounting policies. The changes affecting shareholders' equity and the net profit for 2004 appear in the table above. Changes that do not affect shareholders' equity or the net profit for the year are described at the end of the section, beginning at page 10.

Dividends

According to IAS 1, "Presentation of Financial Statements", the proposed dividend for the accounting year must be recognised in shareholders' equity until adopted by the general meeting. Under the 2004 accounting policies, the proposed dividend was recognised as a liability. Core capital and the solvency ratio are not affected, since the rules of the Danish Financial Supervisory Authority still provide that the proposed dividend be deducted before calculating capital adequacy in the individual accounting year.

Write-downs of loans and advances

In accordance with IAS 39, "Financial Instruments", the Group must review its loans and advances to determine objective indication of impairment of the individual loans. In case objective indication of impairment affects the size of expected cash flows from the loan, the loan will be written down to the present value of expected future cash flows.

Objective evidence of impairment exists if one or more of the following events have occurred:

- the borrower is in significant financial difficulty
- actual breach of contract, such as a default or delinquency in interest or principal payments
- the lender grants the borrower, for reasons relating to the borrower's financial difficulty, more favourable conditions than the lender would otherwise consider
- a high probability that the borrower will undergo bankruptcy or other financial reorganisation

Loans and advances that are not written down individually will be included in a portfolio to be assessed for impairment on a collective basis. The collective assessment comprises groups of loans with similar credit risk characteristics. Objective evidence of impairment of a group of loans exists if objective data indicate a decrease in expected future cash flows from a portfolio of loans and the decrease can be measured reliably but cannot be identified with the individual loans in the portfolio. Collective write-down must cover, among other things, deterioration in the pattern of cash flows from the portfolio in question or changes that normally affect the size of defaults and delinquency in payments in a portfolio of loans similar to the portfolio under review.

Collective write-downs are calculated as the difference between the carrying amount of the loans and advances in the portfolio before impairment and the present value of estimated future cash flows from the loans. Expected future cash flows from a portfolio of loans are estimated on the basis of historical loss trends for loans in a similar portfolio adjusted to reflect current circumstances. The discount rate used is the weighted average of the effective interest rate of the individual loans in the portfolio.

Loans that are considered uncollectable are written off against accumulated provisions. Write-offs are made after the usual debt collection procedures have been completed and it is possible to calculate the loss. Recognition of accrued interest on a loan is discontinued at the time the loan is written down (individual write-down). Instead, the increase in the present value of expected cash flows as a result of the shortening of maturity is carried under "Net interest income". Under the 2004 accounting policies, if interest on non-performing loans was considered irrecoverable, no interest was carried in the profit and loss account.

As a result of the change, write-downs of impaired loans will, as a general rule, be recognised later than under the 2004 accounting policies. Consequently, the Group's accumulated provisions will decrease after the transition to IFRS. This is the reason why shareholders' equity at January 1, 2004, increases by Dkr5,451m. Net profit for 2004 decreases by Dkr797m due to the lower level of reversals of prior-year provisions.

Origination fees

According to IAS 39, "Financial Instruments", fees and commissions that are an integral part of the effective interest rate of a financial instrument must be included in the calculation of the amortised cost of the financial instrument. As a result, origination fees received will be accrued as an integral part of the loan. Under the 2004 accounting policies, origination fees were recognised at the time of payment. Under the 2004 accounting policies, fees are accrued over the term of the loan.

The opening balance sheet is restated to reflect the average term to maturity of the underlying loans. Shareholders' equity at January 1, 2004, decreases by Dkr415m, and net profit for 2004 decreases by Dkr34m. Assuming an unchanged level of activity, the change will have no effect on future profits.

Staff commitments

IAS 19, "Employee Benefits" prescribes that salaries and other employee benefits be expensed over the period in which the benefit is earned. This applies to jubilee benefits, for instance. Under the 2004 accounting policies, jubilee benefits were expensed at the time of pay-out. In addition, amounts to cover holiday pay commitments will be set aside on the basis of the actual holiday entitlements and holidays taken rather than on the basis of a statistical model.

Shareholders' equity at January 1, 2004, decreases by Dkr398m, and net profit for 2004 increases only marginally. On the assumption of unchanged staff composition and interest rate and salary trends, the change will result in volatility from one quarter to the next owing to timing differences between the earning and the taking of holidays, but this will only have a marginal effect on the net profit for the year.

Pension commitments

IAS 19, "Employee Benefits", provides for an increase in the number of pension schemes to be recognised in the accounts.

Under the 2004 accounting policies, the Danish company pension funds related to the Group were treated as defined-contribution funds, and payments to these funds were expensed at the time of payment. Under the IFRS accounting policies, some of these pension funds will be treated as defined-benefit funds.

The Group has decided to apply the IAS 19 "corridor method". This affects both the recognition of the Danish company pension funds and the method employed for recognising the Group's defined-benefit schemes outside Denmark.

Defined-benefit schemes will still be subject to an actuarial estimate of the present value of future benefits. The present value is determined on the basis of assumptions about the future development in factors such as salary levels, interest rates, inflation and mortality.

The actuarial present value less the fair value of any scheme assets is recognised in the balance sheet as pension commitments. Any difference between the estimated development in scheme assets and the defined-benefit commitments and actual amounts will result in actuarial gains or losses.

If the cumulative actuarial gains or losses exceed the greater of 10% of the defined-benefit commitments and 10% of the fair value of the scheme assets, the gain or loss will be recognised in the profit and loss account over the employees' expected remaining working lives with the Group. Actuarial gains or losses not exceeding these limits are not recognised in the profit and loss account.

The 2004 policy of expensing the contributions made to defined-contribution pension schemes will continue unchanged under the IFRS-based policies. This applies to most of the Group's pension schemes, including contributions to Danish employees' pension schemes with Danica.

Shareholders' equity at January 1, 2004, decreases by Dkr213m since IAS 19 uses a more conservative discount rate than the discount rate prescribed under 2004 accounting policies. Net profit for 2004 decreases by Dkr90m, when actuarial gains due to favourable developments in the capital markets are reversed. On the assumption of unchanged staff composition and interest rate and salary trends, IFRS accounting policies will have no material effect on future profits.

Elimination of own shares

Under the 2004 policies, own shares were recognised at their fair value. Market value adjustments and dividends were recognised in the profit and loss account. Own shares acquired with a view to reducing the share capital were stated at nil, and the cost of acquisition, Dkr1,241m, was charged directly to shareholders' equity.

Under IFRS, own shares do not qualify as an asset. Consequently, assets will be reduced by the total value of own shares, both the shares acquired on behalf of holders of pooled schemes (Dkr438m) and insurance policyholders (Dkr367m) and those acquired by the Group's trading department (Dkr957m). Purchases of own shares will be considered as a reduction and sales as an increase in shareholders' equity. Trading in own shares will not affect the net profit of the Group. The net profit for 2004 is reduced by Dkr387m when dividends and gains/losses from holdings of own shares is reversed.

Under the 2004 accounting policies, all derivatives were recognised at their fair value. Equity-settled derivatives on own shares must according to IAS 32, "Financial Instruments: Disclosure and Presentation", be treated as equity instruments. The premium at the time of establishment must be treated as a change in shareholders' equity. Cash-settled derivatives on own shares continue to be recognised at their fair value with value adjustment carried in the profit and loss account. The recognised fair value of equity-settled derivatives on own shares will be transferred to shareholders' equity.

Share-based payment

The Group's share-based incentive programmes consist of equity-settled share options, conditional shares and employee shares. Under the 2004 accounting policies, the difference was expensed as salary costs at the time of allotment if the stock price exceeded the allotment price. Subsequent adjustment of the Group's obligations was made under earnings from investment portfolios. The Group's liabilities are secured on its holding of own shares, which are valued at their fair value. Value adjustment of own shares was included in earnings from investment portfolios.

According to IFRS 2, "Share-based Payment", the fair value of equity-settled payment must be reported as an expense accrued over the period during which the services that make the employee unconditionally eligible to receive the payment are performed. The expense will be charged to shareholders' equity. Subsequent fluctuations in the fair value will therefore have no effect on the net profit or on shareholders' equity.

Under the 2004 accounting policies, the entire allotment was expensed in the year of allotment.

Shareholders' equity at January 1, 2004, increases by Dkr133m, as a consequence of reversal of the current liability into shareholders' equity. Net profit for 2004 increases by Dkr115m when the market value adjustment of the liability is reversed.

Properties

Under the 2004 accounting policies, the Group (excl. Danica) measured the value of its investment and domicile properties at cost less depreciation and write-downs. Before 1994, properties whose fair value, at a conservative estimate, was considerably higher than the cost price were revalued at the higher value, although not higher than the public valuation.

Investment properties are properties that the Group owns to earn rentals, for capital appreciation or both, including properties leased out under an operating lease. Domicile properties are properties that the Group itself uses for administration, branch or other service activities. Properties held for both investment and domicile purposes are divided into the two types if the holdings can be sold separately.

In other cases such properties are classified as domicile properties, unless the Group uses less than 10% of the total area of a property for its own use. Classifications are reviewed on an ongoing basis.

In connection with the transition to IFRS, the Group has decided to use the option provided in IAS 40, "Investment property", to value its investment properties at fair value.

The fair value is calculated using a systematic assessment of the individual properties based on the expected return on the properties. Domicile property will continue to be stated at cost less any depreciation and write-downs. The option of revaluing the cost to fair value in the opening balance sheet with subsequent depreciation and write-downs will not be used.

Fair value adjustments of investment properties results in a Dkr520m increase in shareholders' equity at January 1, 2004. Net profit for 2004 decreases by Dkr234m when one-off gains on sales of investment properties is reversed. Fair value adjustments of investment properties will result in volatility in the profit and loss account in future. Prior-year revaluations of domicile property of Dkr50m is reversed at January 1, 2004.

Leasehold improvements

Leasehold improvements are recognised at cost less depreciation and write-downs under both the 2004 accounting policies and IFRS. Depreciation is made over the term of the lease, using the straight-line method with a maximum of 10 years. Leasehold improvements before 2003 were not capitalised under the 2004 policies.

Shareholders' equity at January 1, 2004, increases by Dkr175m and net profit for 2004 decreases by Dkr47m. The change will lead to more stable costs in the future, but at a slightly higher level.

Reserves subject to a reimbursement obligation

As a general rule, the Group's accounting policy regarding provisions for obligations will not change. The subsidiary Realkredit Danmark has a number of loans established before 1972 according to which the borrower is entitled to receive his or her deposit when the loan is redeemed. Under the 2004 accounting policies, the provision was carried at par. Under IAS 37, "Provisions", the provision must be recognised at its present value. Consequently, liabilities decreased and shareholders' equity at January, 2004, increases by Dkr146m. Net profit for 2004 decreases by Dkr63m, due to the shortening of time to maturity and a faster repayment than expected. The effect on net profit is expected to be modest in the future.

Outstanding claims provisions, insurance contracts

Under the 2004 accounting policies, outstanding claims provisions (health and accident policies) were valued using an estimate of expected future unreported insurance events at the balance sheet date and insurance benefits due but not yet paid. Under IFRS 4 "Insurance Contracts", outstanding claims provisions will also include amounts to cover all direct and indirect expenses that the company expects to pay to fulfil its obligations to settle claims arising from insurance events that have taken place.

The overall effect is a decrease of Dkr27m in shareholders' equity at January 1, 2004 and a marginal decrease in net profit for 2004. The effect on future profits is expected to be modest.

Unit-linked schemes

Under the 2004 accounting policies, unit-linked schemes were valued on the basis of the share of the linked unit trusts held by the individual policies less the present value of expected future administrative results.

According to IFRS, each individual unit-linked scheme must be classified either as an insurance contract or as an investment contract. Investment contracts must be treated in accordance with IAS 39, "Financial Instruments", and the present value of expected future administrative results is not deductible from provisions. Sales commissions will be accrued according to IAS 18, "Revenue". For insurance contracts, which are treated in accordance with IFRS 4, "Insurance Contracts", the present value of future administrative results will continue to be deducted from provisions.

The overall effect is a decrease of Dkr24m in shareholders' equity at January 1, 2004 and a decrease in net profit for 2004 of Dkr18m. The effect on future profits is expected to be modest.

Hedge accounting

Under the 2004 accounting policies, the Group did not value-adjust derivatives hedging the interest rate risk on its portfolio of fixed-rate assets and fixed-rate liabilities. Under IAS 39, "Financial Instruments", both the derivatives used for hedging and the hedged interest rate risk on fixed-term assets and liabilities are recognised at fair value, and value adjustments are carried in the profit and loss account. The fair value of the interest rate risk on the hedged assets and liabilities will be recognised under the hedged items. Value adjustments of the derivatives employed for hedging and of the hedged assets and liabilities will be carried in the profit and loss account under "Net trading income".

The Group's 2004 method for hedging fixed-rate financial instruments complies with the hedge accounting rules of IAS 39, "Financial Instruments". Consequently, the main effect of the transition to IFRS is that the market value adjustment of both the hedged assets and liabilities and the derivatives employed for hedging must be recognised on the balance sheet and in the profit and loss account. The change will not affect shareholders' equity at January 1, 2004, and December 31, 2004.

Under the 2004 accounting policies, the Group also employed derivatives to hedge the interest rate risk on fixed-rate operating leases. Under IFRS, hedge accounting for operating leases is not permitted. Derivatives that hedge the interest rate risk on operating leases must after the transition to IFRS be recognised at their fair value, but adjustment of the hedged interest rate risk to fair value is not permitted. Shareholders' equity at January 1, 2004, decreases by Dkr140m as a result of the change. Net profit for 2004 decreases by Dkr35m due to market value adjustments of the derivatives. The decrease will be offset by increasing earnings in the coming years.

Foreign currency translation

Under the 2004 accounting policies, income and expenses in foreign currency were translated into Danish kroner using the exchange rates prevailing at the time of recognition.

The income and expenses of Danske Bank's non-Danish branches and subsidiaries were translated at average exchange rates, while balance-sheet items were translated at the rates prevailing at the end of the year. All exchange rate differences were included in the profit and loss account under "Trading income".

Under IAS 21, "The Effects of Changes in Foreign Exchange Rates", all translation differences must be recognised directly in shareholders' equity as a separate reserve. Assets and liabilities in non-Danish branches and subsidiaries are translated into Danish kroner at the exchange rates prevailing on the balance sheet date. Income and expenses are translated at the exchange rates prevailing at the time of the transaction. Exchange rate gains and losses on outstandings with non-Danish units that are considered part of the total net investment in the non-Danish units are recognised directly against shareholders' equity. Exchange rate adjustments of liabilities used to hedge net investments are also recognised directly against shareholders' equity.

The change has no effect on shareholders' equity. Net profit 2004 increases by DKr32m. The effect on future profits is expected to be modest.

Minority interests

Under the 2004 accounting policies, minority interests were presented as a separate item outside shareholders' equity. According to IAS 27, "Consolidated and Separate Financial Statements", minority interest shall be presented within equity, separately from the parent shareholders' equity. Furthermore, minority interests increases due to the consolidation of insurance and other activities.

Shareholders' equity at January 1, 2004, increases by DKr256m and net profit for 2004 increases by DKr28 m.

Deferred tax

Under the 2004 accounting policies, deferred tax at Danica was discounted using the prevailing accounting standards for insurance companies. According to IAS 12, "Income Taxes", discounting of deferred tax is not permitted. As a result of the change, shareholders' equity decreases by DKr231m at January 1, 2004, and net profit for 2004 decreases by DKr66m. The effect on net profits in the future is expected to be modest.

Other tax effects

At January 1, 2004, the total of tax effect of the changes is DKr1,324m. This amount comprises an increase in tax liabilities of DKr1,538m attributable primarily to the tax effect of write-downs of loans and advances, and increase deferred tax assets of DKr214m. Both current tax and deferred tax are calculated using the tax rate applicable to the Group.

Other changes that do not affect shareholders' equity and the net profit for the year

Mortgage loans, issued mortgage bonds and elimination of own bonds

According to IFRS, the Group must eliminate its holding of own mortgage bonds (assets) from its issued mortgage bonds (liabilities). IFRS treat purchases of own mortgage bonds as redemptions of issued bonds and sales of bonds as new issues. The Group acquires own mortgage bonds as part of its mortgage finance operations, ordinary liquidity management and long-term investments.

According to the version of IAS 39, "Financial Instruments", approved by the EU Commission, issued mortgage bonds must be carried at amortised cost, whereas holdings of own mortgage bonds must be recognised at fair value. Accordingly, the assets and liabilities to be eliminated would not be carried at the same value, and elimination would therefore have an inappropriate and unintelligible effect on the Group's net profit.

To give a true and fair view, the Group has therefore decided to use the option given in IAS 1, "Presentation of Financial Statements", to deviate from the IAS 39 approved by the EU. Consequently, issued mortgage bonds will be valued not at amortised cost but at fair value. The following example makes the rationale of this decision clear.

The effect of the elimination on net profits depends on movements in interest rates from the time the bonds are issued to the time they are acquired and on interest rate movements in the accounting period. The difference between amortised cost and the fair value of the bonds will affect net profits at the time of acquisition. In addition, market value adjustments of the bonds will be eliminated in the accounting period.

The table below shows the interest rate sensitivity of the Group's portfolio of own issued bonds at December 31, 2004, expressed as the expected capital loss at a general rise in interest rates of 1 percentage point:

DKr bn]	Market value	Interest-rate sensitivity
Trading income/liquidity management portfolios*	200	1.2
Pooled assets and insurance business	33	2.8
Total	233	4.0

*Including own mortgage bonds acquired as part of the Group's mortgage finance operations.

Consequently, an interest rate increase of 1 percentage point will, other things being equal, entail a capital loss of about DKr4bn in the portfolio of own bonds.

The returns on pooled assets and investment assets in the insurance business are allocated to the customers through value adjustment of the underlying liabilities. Trading portfolios and portfolios held to manage liquidity are included in the Group's general position management and are therefore normally hedged by derivatives that are market value adjusted. Consequently, market value adjustments of portfolios of own bonds do not, in general, have any material effect on net profits, since the effect of these adjustments is offset by the market value adjustments of the derivatives employed for hedging and of the liabilities to customers.

If the issued bonds had been recognised at amortised cost, the Group would, other things being equal, eliminate the capital loss of DKr4bn resulting from a general rise in interest rates of 1 percentage point. The loss would instead be carried as a change in the amortised cost of the issued bonds at the time the bonds were sold. The resultant increase in net profits would be compensated by a fall in interest margins in the coming accounting years.

As bond prices are volatile and trading portfolios, in particular, change daily, elimination would have unintelligible effects on both market value adjustments and net interest income. Consequently, it would not be possible to give a true and fair view of the Group's net profit and shareholders' equity.

To give a true and fair view, the Group has therefore decided to use the option given in IAS 1, "Presentation of Financial Statements", to deviate from the IAS 39 approved by the EU. Consequently, issued mortgage bonds will be valued not at amortised cost but at fair value.

Mortgage loans, whose terms correspond to the terms of the underlying mortgage bonds, will also be carried at fair value. This method, which will give a true and fair view of the Group's net profit and shareholders' equity, is in accordance with IAS 39 and the rules issued by the Danish Financial Supervisory Authority.

As a general rule, the fair value of issued mortgage bonds will be the current market price. An insignificant part of the illiquid mortgage bonds will be carried at a value calculated by discounting cash flows. The fair value of mortgage loans will be based on the fair value of the underlying mortgage bonds, written down by the credit risk.

Consequently, the elimination of holdings of own mortgage bonds will not affect the Group's net profit.

Under the 2004 accounting policies, issued mortgage bonds were valued at nominal value and mortgage loans at nominal value less write-downs to cover the credit risk.

The change will not affect shareholders' equity at January 1, 2004, and December 31, 2004, or the Group's net profit for 2004. Total assets will increase by DKr7,707m at December 31, 2004.

Consolidation of insurance and other activities

Under the 2004 accounting policies, Danica was consolidated according to the equity method (one-line consolidation), and securitisation activities were not recognised in the consolidated accounts.

In accordance with IAS 27, "Consolidated and Separate Financial Statements", Danica and the Group's securitisation activities will be consolidated fully in the Group accounts on a line-by-line basis. The Group's financial highlights will, however, continue to show earnings from insurance activities after deduction of funding costs on one line.

Total assets will increase by DKr205,412m at December 31, 2004.

Goodwill

Under the 2004 accounting policies, goodwill was capitalised and amortised over the expected useful life of the asset, with a maximum of 20 years. However, goodwill on acquisitions made before 2002 was written off against equity in the year of acquisition.

Under IFRS 3, "Business Combinations", goodwill may no longer be amortised but must be tested for impairment. In accordance with the transitional provisions of IFRS 1, "First-time Adoption of IFRS", the Group has decided not to apply IFRS 3 to acquisitions made before January 1, 2004. Consequently, goodwill on acquisitions made before 2002 will not be restated. The Group did not make material acquisitions in the period from 2002 to 2004. Consequently, the transition to IFRS will not affect shareholders' equity at January 1, 2004, and December 31, 2004, or the Group's net profit for 2004.

The Group's acquisition of Northern Bank in Northern Ireland and National Irish Bank in the Republic of Ireland will be recognised in the balance sheet at the time of the expected approval by the EU Commission in the first quarter of 2005.

Operating leases

The Group is a lessor under operating leases. Under the 2004 accounting policies, the Group recognised operating leases as loans and advances and carried them at amortised cost. Net income (lease payments less depreciation) was recognised under "Net interest income".

Under IAS 17, "Leases", lease assets leased out under an operating lease must be recognised as tangible assets and treated in accordance with the Group's policies for similar tangible assets. Consequently, property leased out under operating leases will be carried as investment property at its fair value. Other lease assets, such as vehicles, machinery and equipment, will be recognised under tangible assets and measured at cost less depreciation and write-downs. Lease income will be recognised under "Other income".

The change will not affect shareholders' equity at January 1, 2004, and at December 31, 2004, or the Group's net profit for 2004.

Pooled schemes and unit-linked schemes

Under the 2004 policies, pooled assets and deposits and the return on pooled assets and interest on pooled deposits were recognised on a line-by-line basis, whereas unit-linked schemes were included as part of the book value of Danica.

The total return on pooled assets and assets in unit-linked schemes that are investment contracts accrues to the customers, who also bear the full risk. Consequently, total pooled assets and assets in unit-linked investment contracts will be recognised at their fair value separately from other assets under "Assets held in pooled schemes and unit-linked schemes". Similarly, the underlying deposits in pooled schemes and unit-linked schemes will be presented separately from other deposits, as "Deposits in pooled schemes and unit-linked schemes". Deposits will be recognised at the value of the savings.

The two items will appear under "Other assets" and "Other liabilities" in the Group's financial highlights. Interest on pooled assets and deposits will no longer be recognised under "Net interest income" but under "Net trading income", which includes all other returns on pooled schemes.

Unit-linked schemes that are insurance contracts will be recognised as insurance contracts.

The change will not affect shareholders' equity at January 1, 2004, and December 31, 2004, or the Group's net profit for 2004.

The parent company's accounts

With effect from the accounting year beginning on January 1, 2005, Danske Bank A/S (the parent company) will present its annual report in accordance with the new rules of the Danish Financial Supervisory Authority. In the majority of areas, these rules are identical to the IFRS rules. However, the parent company will recognise domicile properties at their estimated fair value and subsidiaries according to the equity method.

Upon the transition to the new rules, shareholders' equity at December 31, 2004, will increase by Dkr6,775m to Dkr67,581m, including dividend for 2004. Had the annual report for 2004 been presented in accordance with the new rules, the net profit for the year would have been reduced by Dkr1,509m to Dkr9,049m.

1.3 Effect on the profit and loss account for 2004 (financial highlights)

The implementation of IFRS will entail a number of changes in the presentation of the profit and loss account. Core earnings and earnings from investment portfolios will no longer be presented, since the return on a main item on the balance sheet will, as a general rule, be included in one item in the profit and loss account. Earnings from investment portfolios will be included in "Net trading income" with the following exceptions:

The risk allowances from insurance activities that were included in earnings from investment portfolios under the 2004 accounting policies will be carried under "Net income from insurance business", which will show total earnings after deduction of funding costs.

Costs that were associated with earnings from investment portfolios in 2004 will be transferred to "Operating expenses".

An overview of the effect of the transition to IFRS is shown below. Section 2.1 shows the individual changes in greater detail broken down by valuation and presentation.

(DKr m) 2004 practice		Change in valuation	Change in presentation		IFRS practice, 2004
Net interest income from banking activities	15,226	173	-23	15,376	Net interest income
Fee and commission income, net	6,151	-	-32	6,119	Net fee income
Trading income	3,061	-565	1,519	4,015	Net trading income
Other core income	1,631	-241	656	2,046	Other income
Core insurance earnings	1,188	-21	464	1,631	Net income from insurance business
Total core income	27,257	-654	2,584	29,187	Total income
Operating expenses and depreciation	-14,593	-127	-673	-15,393	Operating expenses
Provisions for bad and doubtful debts	18	-777	-	-759	Credit loss expenses
Earnings from investment portfolios	1,883	-	-1,883	-	-
Profit before tax	14,565	-1,558	28	13,035	Profit before tax
Tax	-4,007	289	-	-3,718	Tax

1.4 Effect on the balance sheet at December 31, 2004 (financial highlights)

In accordance with IFRS, the balance sheet financial highlights will be presented using an intention-based approach rather than a product-based approach.

The main change in the balance sheet presentation is the introduction of a trading portfolio (under both assets and liabilities). The trading portfolio will consist of the financial assets acquired and liabilities incurred with a view to sale or repurchase within a short period of time. The item will include portfolios of financial assets or liabilities that are managed together and for which there is a recent actual pattern of short-term profit-taking. All derivatives are included in the trading portfolio.

The Group's insurance activities will be included in the balance sheet under two new items: "Assets under insurance contracts" and "Liabilities under insurance contracts". The assets comprise assets where the main part of the return belongs to policyholders. The liabilities consist of liabilities arising under insurance contracts. As own shares and bonds may no longer be recognised on the balance sheet, "Liabilities under insurance contracts" will exceed "Assets under insurance contracts".

In addition, a new item for 'Available for sale financial assets', "Investment securities", is included. It will consist mainly of that portion of the Group's holding of securities that is not carried under "Trading portfolio assets" or "Assets under insurance contracts". These securities will continue to be carried at their fair value with value adjustments in the profit and loss account.

See the table below for an overview of the effect of the transition to IFRS broken down by valuation and presentation. See section 2.1 for an overview of changes broken down by the individual IFRS effects.

(DKr m) 2004 practice		Change in valuation	Change in presentation		IFRS practice, 2004
Bank loans and advances including repo transactions	602,912	6,107	6,249	615,268	Loans and advances to customers
Mortgage loans	517,134	7,828	-534	524,428	Mortgage loans
Bonds and shares, etc.	515,650	-213,054	83,575	386,171	Trading portfolio assets
-	-	-	67,881	67,881	Investment securities
-	-	-	160,084	160,084	Assets under insurance contracts
Other assets	442,801	-32,729	-111,911	298,161	Other assets
Total assets	2,078,497	-231,848	205,344	2,051,993	Total assets
Due to credit institutions and central banks	353,369	-	-	353,369	Due to other credit institutions and central banks
Deposits, including repo transactions	520,040	819	-32,996	487,863	Due to customers
Issued bonds	840,300	-230,137	-177,764	432,399	Issued mortgage bonds
-	-	-	215,807	215,807	Trading portfolio liabilities
-	-	-	189,168	189,168	Liabilities under insurance contracts
Other liabilities	270,284	-3,176	5,861	272,969	Other liabilities
Subordinated debt	33,696	-266	-7	33,423	Subordinated debt
Minority interests	2	-	265	267	Minority interests
Shareholders' equity	60,806	912	5,010	66,728	Shareholders' equity
Total liabilities and equity	2,078,497	-231,848	205,344	2,051,993	Total liabilities and equity

Effect of IFRS on total assets and weighted items	Total assets December 31, 2004	Total weighted items December 31, 2004
(DKr m)		
Total assets, 2004 practice	2,078,497	808,329
Consolidation of Danica	194,305	-
Elimination of own bonds and shares	-248,161	-
Consolidation of securitisation activities	11,107	-
Mortgage loans and issued bonds at fair value	7,707	3,984
Hedge accounting	3,720	1,904
Write-down of loans and advances	4,654	3,560
Operating leases	-	4,157
Other IFRS-based changes	164	201
Domicile properties	-	977
Assets under pooled schemes	-	-11,446
Total assets according to IFRS and total weighted items	2,051,993	811,666

1.5. Effect on the financial ratios for 2004

(DKr m)	2004 practice	IFRS practice, 2004
Net profit for the year, 2004	10,558	9,317
Shareholders' equity at December 31, 2004	60,806	66,995
Total assets at December 31, 2004	2,078,497	2,051,993
Net profit for the year per share	16.1	14.4
Diluted profit for the year per share	16.1	14.4
Net profit for the year as % of average shareholders' equity	17.4	14.0
Book value per share	95.3	106.3
Core (tier 1) capital ratio	7.73	7.98
Solvency ratio	10.24	10.59

After the transition, the average number of shares outstanding will also be reduced by the holding of own shares in the trading portfolio and by holdings of own shares at Danica, in pooled schemes, and so on. Under the 2004 accounting policies, the average number of shares outstanding was reduced only by the holding of shares to be cancelled.

No. of shares	2004 practice	IFRS practice, 2004
Issued shares, beg. of 2004	711,675,849	711,675,849
Share buybacks, 2003	39,410,097	39,410,097
Issued shares, end of 2004	672,265,752	672,265,752
Shares outstanding, beg. of 2004	672,265,752	672,265,752
Share buybacks, 2004	33,961,476	33,961,476
The Group's trading portfolio of own shares	-	5,711,861
The Group's investments in own shares on customers' behalf	-	4,801,894
Shares outstanding, end of 2004	638,304,276	627,790,521
Average number of shares outstanding, 2004	656,352,965	645,642,650

1.6. Effect on core capital, capital base and solvency ratio

The capital adequacy rules of the Danish Financial Supervisory Authority were changed with effect from the accounting year beginning on January 1, 2005, in part as a result of the International Financial Reporting Standards.

The rules affecting consolidation were not changed. Consequently, insurance subsidiaries and holdings of own bonds will be treated in accordance with the 2004 capital adequacy rules despite the change in accounting rules. The net profit for the year after deduction of dividends will continue to be included in core capital at the time when the Board of Directors approves the annual accounts. Other changes to accounting valuations will affect the calculation of capital adequacy as well.

According to the new capital adequacy rules, the corridor method must be reversed in core capital and domicile property must be revalued at market value and the revaluation recognised as supplementary capital. Finally, assets in pooled schemes are not to be included in risk-weighted assets.

Effect at December 31, 2004 (DKr m)	2004 practice	Future practice
Shareholders' equity	60,806	66,995
Expected dividends	-	-5,010
Revaluation reserve	-25	-
Minority interests	2	-265
Own shares	-1,396	367
Reversal, corridor	-	-178
Intangible assets	-351	-351
Capitalised tax assets	-618	-897
Core capital, less statutory deductions	58,418	60,661
Hybrid core capital	4,101	4,101
Core capital (including hybrid core capital), less statutory deductions	62,519	64,762
Subordinated loan capital	27,953	27,953
Revaluation reserve	25	977
Statutory deduction for insurance subsidiaries	-7,622	-7,622
Other statutory deductions	-135	-135
Supplementary capital, less statutory deductions	20,221	21,173
Capital base, less statutory deductions	82,740	85,935
Core (tier 1) capital ratio, %	7.73	7.98
Core (tier 1) capital ratio, excluding hybrid core capital	7.23	7.47
Solvency ratio	10.24	10.59

2.1. Change in valuation and presentation of the financial highlights of the profit and loss account and the balance sheet for 2004

The following tables show in detail the transformation of the financial highlights under the IFRS-based policies. The purpose is to show the effect on both the profit and loss account and the balance sheet of the individual changes broken down by valuation and presentation.

The first table shows the effect of the valuation changes on the current financial highlights. The next table shows the effect of the changes on the presentation highlights.

The tables can be downloaded from www.danskebank.com/ir under the menu item IFRS. A brief explanation of the individual figures is given in each cell.

2004 practice (DKr m)	Change in valuation																	Carried forward		
	Write-downs of loans and advances (IAS 39)	Origination fees (IAS 39)	Mortgage loans and issued mortgage bonds at fair value (IAS 39)	Staff commitments (IAS 19)	Pension commitments (IAS 19)	Elimination of own shares (IAS 32)	Elimination of own bonds (IAS 39)	Share-based payment (IFRS 2)	Investment properties (IAS 40)	Domestic properties (IAS 16)	Leasehold improvements (IAS 16)	Reserves subject to a reimbursement obligation (IAS 37)	Outstanding claims, insurance contracts (IFRS 4)	Unit-linked schemes (IAS 39)	Foreign currency/translation, non-Danish units (IAS 21)	Hedge accounting (IAS 39)	Deferred tax and tax of transition to IFRS (IAS 12)		Total	
Net interest income from banking activities, etc.	15,226	-20	-34	-	-	-	246	-	-	-	-	-20	-	-	-	1	-	173	15,399	
Fee and commission income, net	6,151	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,151	
Trading income	3,061	-	-	-	-	-387	-246	115	-	-	-	-43	-	-	32	-36	-	-565	2,496	
Other core income	1,631	-	-	-	-	-	-	-	-241	-	-	-	-	-	-	-	-	-241	1,390	
Core insurance earnings	1,188	-	-	-	-	-	-	-	-	-	-	-3	-18	-	-	-	-	-21	1,167	
Operating expenses and depreciation	-14,593	-	-	-	3	-90	-	-	7	-	-47	-	-	-	-	-	-	-127	-14,720	
Provisions for bad and doubtful debts	18	-777	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-777	-759	
Earnings from investment portfolios	1,883	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,883	
Tax	-4,007	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	289	289	-3,718	
Net profit for the year	10,558	-797	-34	0	3	-90	-387	-	115	-234	-47	-63	-3	-18	32	-35	289	-1,269	9,289	
Portion attributable to minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	
Bank loans and advances	602,912	4,533	-449	-	-	-	-	-	-	-	-	-	-	-	-	2,023	-	6,107	609,019	
Mortgage credit loans	517,134	121	-	7,707	-	-	-	-	-	-	-	-	-	-	-	-	-	7,828	524,962	
Bonds and shares	515,650	-	-	-	-	-1,395	-211,659	-	-	-	-	-	-	-	-	-	-	-213,054	302,596	
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other assets	442,801	-	-	-	-	218	-367	-34,740	158	290	-42	128	-30	-42	-	1,697	1	-32,729	410,072	
Total assets	2,078,497	4,654	-449	7,707	-	218	-1,762	-246,399	158	290	-42	128	-30	-42	-	3,720	1	-231,848	1,846,649	
Due to credit institutions and central banks	353,369	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	353,369	
Deposits	520,040	-	-	-	-	-	-	-	-	-	-	-	-	-	-	819	-	819	520,859	
Issued bonds	840,300	-	-	7,707	-	-	-237,950	-	-	-	-	-	-	-	-	106	-	-230,137	610,163	
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other liabilities	270,284	-	-	-	395	521	-7,406	-138	-	-	-	-83	-	-	-	2,193	1,342	-3,176	267,108	
Subordinated debt	33,696	-	-	-	-	-	-1,043	-	-	-	-	-	-	-	-	777	-	-266	33,430	
Minority interests	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2	
Shareholders' equity	60,806	4,654	-449	-	-395	-303	-1,762	-	296	290	-42	128	83	-30	-42	-	-175	-1,341	912	61,718
Total liabilities and equity	2,078,497	4,654	-449	7,707	-	218	-1,762	-246,399	158	290	-42	128	-30	-42	-	3,720	1	-231,848	1,846,649	

		IFRS practice, 2004										(DKr m)		
	Brought forward from previous page	Change in presentation										Total		
		Discontinuing of presentation of core earnings and earnings from investment portfolios	Reclassification to trading and investment securities (IAS 39)	Consolidation of Danica (IAS 27)	Consolidation of securitisation activities (IAS 27)	Reclassification of pooled schemes (IAS 39)	Operating leases (IAS 17)	Issued bonds carried at amortised cost (IAS 39)	Reclassification of bank and mortgage loans (IAS 39)	Elimination of internal rent (IAS 1)	Net earnings from properties, gross (IAS 1)			Reclassification of dividends (IAS 10)
Net interest income from banking activities, etc.	15,399	-	-	-	101	180	-304	-	-	-	-	-23	15,376	Net interest income
Fee and commission income, net	6,151	-	-	-9	-23	-	-	-	-	-	-	-32	6,119	Net fee and commission income
Trading income	2,496	1,571	188	9	-69	-180	-	-	-	-	-	1,519	4,015	Net trading income
Other core income	1,390	-	-188	-	-	-	1,072	-	-454	226	-	656	2,046	Other income
Core insurance earnings	1,167	445	-	19	-	-	-	-	-	-	-	464	1,631	Net income from insurance business
Operating expenses and depreciation	-14,720	-133	-	-	-	-	-768	-	454	-226	-	-673	-15,393	Operating expenses
Provisions for bad and doubtful debts	-759	-	-	-	-	-	-	-	-	-	-	-	-759	Credit loss expenses
Earnings from investment portfolios	1,883	-1,883	-	-	-	-	-	-	-	-	-	-1,883	-	-
Tax	-3,718	-	-	-	-	-	-	-	-	-	-	-	-3,718	Tax
Net profit for the year	9,289	-	-	19	9	-	-	-	-	-	-	28	9,317	Net profit
Portion attributable to minority interests	0	-	-	19	9	-	-	-	-	-	-	28	28	Attributable to minority interest
Bank loans and advances	609,019	-	-	-444	10,316	-	-4,157	-	534	-	-	6,249	615,268	Loans and advances to customers
Mortgage credit loans	524,962	-	-	-	-	-	-	-	-534	-	-	-534	524,428	Mortgage loans
Bonds and shares	302,596	-	109,931	-	-441	-25,915	-	-	-	-	-	83,575	386,171	Trading portfolio assets
-	-	-	53,927	12,950	1,004	-	-	-	-	-	-	67,881	67,881	Investment securities
-	-	-	-	160,084	-	-	-	-	-	-	-	-160,084	160,084	Assets under insurance contracts
Other assets	410,072	-	-163,858	21,715	228	25,915	4,157	-48	-20	-	-	-111,911	298,161	Other assets
Total assets	1,846,649	-	-	194,305	11,107	-	-	-48	-20	-	-	-205,344	2,051,993	Total assets
Due to credit institutions and central banks	353,369	-	-	-	-	-	-	-	-	-	-	-	353,369	Due to other credit institutions and central banks
Deposits	520,859	-	-	-143	-	-32,853	-	-	-	-	-	-32,996	487,863	Due to customers
Issued bonds	610,163	-	-	-	-	-	-179,508	1,744	-	-	-	-177,764	432,399	Issued Mortgage bonds
-	-	-	216,194	-387	-	-	-	-	-	-	-	215,807	215,807	Trading portfolio liabilities
-	-	-	-	189,168	-	-	-	-	-	-	-	-189,168	189,168	Liabilities under insurance contracts
Other liabilities	267,108	-	-216,194	5,453	11,056	32,853	-179,467	-1,764	-	-	-5,010	5,861	272,969	Other liabilities
Subordinated debt	33,430	-	-	-	-	-	-	-7	-	-	-	-7	33,423	Subordinated debt
Minority interests	2	-	-	214	51	-	-	-	-	-	-	265	267	Minority interest
Shareholders' equity	61,718	-	-	-	-	-	-	-	-	-	5,010	5,010	66,728	Shareholders' equity
Total liabilities and equity	1,846,649	-	-	194,305	11,107	-	-	-48	-20	-	-	-205,344	2,051,993	Total equity and liabilities

2.2. The financial highlights of the profit and loss account for 2004 (broken down by quarter)

IFRS practice, 2004					
(DKr m)	Q1	Q2	Q3	Q4	2004
Net interest income	3,788	3,888	3,827	3,873	15,376
Net fee income	1,549	1,532	1,407	1,631	6,119
Net trading income	1,218	625	747	1,425	4,015
Other income	450	406	369	821	2,046
Net income from insurance business	312	192	366	761	1,631
Total income	7,317	6,643	6,716	8,511	29,187
Operating expenses	-3,793	-3,744	-3,486	-4,370	-15,393
Credit loss expenses	-330	-291	-213	75	-759
Profit before tax	3,194	2,608	3,017	4,216	13,035
Tax	-956	-786	-804	-1,172	-3,718
IFRS	2,238	1,822	2,213	3,044	9,317
Result under 2004 accounting policies	2,440	1,983	2,456	3,679	10,558
Write-downs of loans and advances	-14	-165	-265	-353	-797
Origination fees	-9	-8	-9	-8	-34
Staff commitments	-84	44	79	-36	3
Pension commitments	-1	4	-14	-79	-90
Elimination of own shares	-53	-83	-141	-110	-387
Share-based payment	-3	15	48	55	115
Properties	-47	-70	-13	-104	-234
Leasehold improvements	-12	-11	-12	-12	-47
Reserves subject to a reimbursement obligation	-2	-8	-1	-52	-63
Outstanding claims provisions, insurance contracts	0	0	0	-3	-3
Unit-linked schemes	-4	-2	-3	-9	-18
Hedge accounting, operating leases	-43	68	-31	-29	-35
Foreign currency translation	-5	3	7	27	32
Minority interests	9	9	2	8	28
Deferred tax	0	0	0	-66	-66
Other tax effect	66	43	110	136	355
Total change	-202	-161	-243	-635	-1,241
IFRS	2,238	1,822	2,213	3,044	9,317