Risk Management 2014

Danske Bank Group

Contents

The objective of Risk Management 2014 is to inform shareholders and other stakeholders of Danske Bank Group's risk management, including policies, methodologies and practices.

Additional Pillar III disclosures required under Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 (CRR) and the Danish Executive Order on Calculation of Risk Exposure, Own Funds and Solvency Need can be downloaded from www.danskebank.com/ir.

2014 in brief

1.

In 2014 the macroeconomic developments in Danske Bank's home markets gave rise to cautious optimism as observers awaited indications of a sustained return to economic growth. Although the global economy became healthier, regional indicators wavered as the recovery remained frail, particularly in light of recurrent geopolitical unrest. Still, 2014 saw a slow pick-up in credit demand and a further improvement in credit quality and impairment levels. Danske Bank Group's liquidity and capital remained strong even after the redemption of the hybrid capital borrowed from the Danish state.

Danske Bank took part in the asset quality review (AQR) conducted by the Danish Financial Supervisory Authority (FSA) concurrently with the AQR of other European banks. Danske Bank also took part in the European Banking Authority (EBA) stress test. The results from the AQR and stress test were released in October 2014, and the stress test confirmed that Danske Bank Group has a substantial capital buffer to withstand future losses.

Interest rates, which were already at record-low levels, fell even further in 2014. Throughout the year there was much uncertainty about the underlying risk drivers, including a macroeconomic recovery and geopolitics. The financial markets saw increasing volatility in the second half of the year. While Danske Bank kept its risk limits largely unchanged, the actual position taking was influenced by the prevailing uncertainties.

Danske Bank had ample access to funding markets throughout the year. Credit spreads narrowed further, and all three rating agencies assigned an A rating to the Group after positive adjustments during the year. The Group followed its funding plan and maintained a large liquidity reserve. Key events in the funding plan were the redemption of the DKK 24 billion hybrid capital from the Danish state and the issuance of a total of DKK 9.3 billion additional tier 1 and tier 2 instruments.

With a substantial capital buffer, adequate liquidity reserves and profitability on track to return to a satisfactory level, Danske Bank is prepared to meet an increased demand for borrowing as economic growth picks up.

Upon the appointment of Peter Rostrup-Nielsen as interim chief risk officer on 1 December 2014, the credit organisation was adjusted slightly to strengthen alignment of credit risk management across the business units. While each business unit will continue to have a dedicated credit risk manager on its management team, on 1 January 2015 these credit risk managers began reporting primarily to the Group's chief risk officer. The Group will continue its extensive efforts to enhance the risk management framework and to prepare for the regulatory changes in the financial services industry in the years ahead.

Danske Bank Group is a Nordic universal bank and one of the leading financial enterprises in northern Europe. We are headquartered in Copenhagen and operate in 15 countries, offering a full range of banking services in the international financial markets. Besides the banking activities, which all operate under the Danske Bank brand name, we offer services in the fields of life insurance and pensions (Danica Pension), mortgage finance (Realkredit Danmark), asset management (Danske Capital), real estate (home), and leasing (Nordania Leasing).

The Group has 18,478 full-time employees and serves about 3.7 million customers, including a significant share of institutional customers.

The Group's banking activities are organised in three business units – Personal Banking, Business Banking and Corporates & Institutions – that span all of the Group's geographical markets. We have a market-leading position in Denmark; we are one of the largest banks in Northern Ireland and Finland; and we have challenger positions in Sweden, Norway, Estonia, Lithuania and Latvia. The Group also has branches in London, Hamburg, Dublin and Warsaw and an office in New York. A subsidiary in Luxembourg caters to private banking customers, and another in St. Petersburg serves corporate banking customers.

Risk organisation

2.

2.1 RISK ORGANISATION

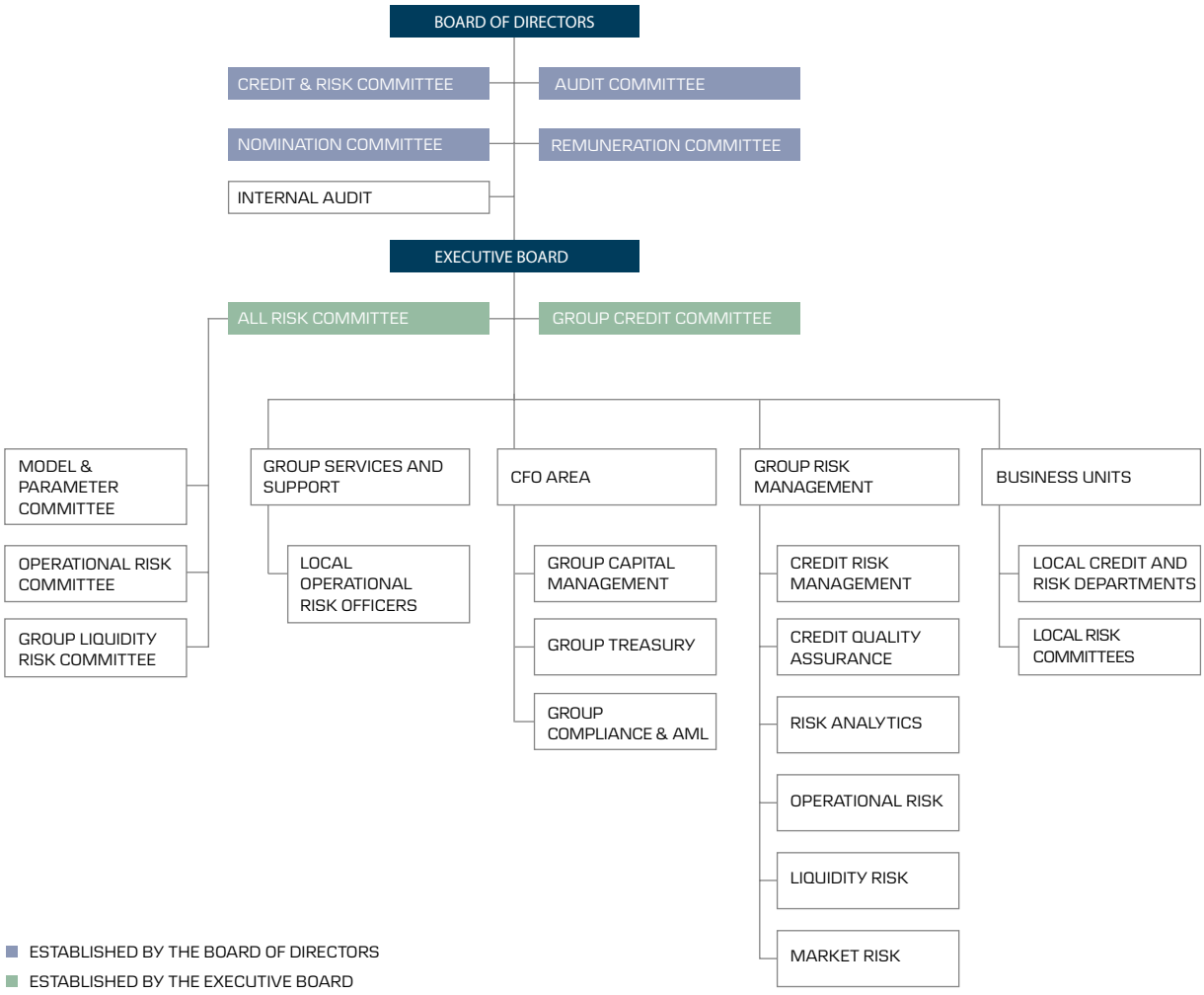
Danske Bank's rules of procedure for the Board of Directors and the Executive Board (the "Rules of Procedure") specify the responsibilities of the two boards and the division of responsibilities between them. The Rules of Procedure and the two-tier management structure, which were developed in accordance with Danish law, are central to the organisation of risk management and the delegation of authorities in the Group.

The Board of Directors lays down overall policies, while the Executive Board is in charge of the Group's day-to-day management. The risk and capital management functions are separate from the credit assessment and credit-granting functions.

The Group's management structure reflects the statutory requirements governing listed Danish companies in general and financial institutions in particular, including the Executive Order on Management and Control of Banks etc. issued by the Danish FSA. The executive order specifies the obligations of boards of directors as presented in the Danish Financial Business Act and sets forth requirements for effective corporate governance.

The heads of the business units and the heads of the operations and service areas are responsible for all business-related risks. The segment-based organisation allows risk management processes to be better tailored to the various customer segments and to be aligned across borders.

RISK ORGANISATION OF DANSKE BANK GROUP



2.1.1 BOARD OF DIRECTORS

The Board of Directors ensures that the Group is organised properly. As part of this duty, it appoints the members of the Executive Board, the Group chief auditor and the secretary to the Board of Directors.

In accordance with Danske Bank's Rules of Procedure, the Board of Directors sets out the overall risk policies and key delegated risk mandates. In addition, the largest credit facilities are submitted to the Board of Directors for approval. The Board also decides on general principles for managing and monitoring risk, and it reconsiders risk policies and delegated risk mandates once a year.

Regular reporting enables the Board of Directors to monitor whether the overall risk policies and mandates are being complied with and whether they are appropriate to the Group's business model. In addition, the Board regularly reviews reports analysing the Group's portfolio, including information on industry concentrations.

The Board of Directors consists of six to ten members elected by the general meeting and a number of employee representatives as stipulated by Danish statutory rules. At the end of 2014, the Board consisted of 12 members, including four employee representatives.

The Board meets about 12 times a year according to a schedule that is set for each calendar year. Once or twice a year, the Board holds an extended meeting to discuss the Group's strategy.

The Group chief auditor, who is the head of the Group's Internal Audit department, reports directly to the Board of Directors. Internal Audit is responsible for determining whether the Group's administrative and accounting policies are satisfactory, whether there are written business procedures for all areas of activity, whether adequate internal control procedures are in place, and whether IT use is controlled and secure in accordance with the Group's control policies.

2.1.2 Executive Board

The Executive Board is responsible for the day-to-day management of the Group as stated in the Rules of Procedure. The Executive Board sets forth specific risk instructions, supervises the Group's risk management practices, approves credit applications up to a defined limit, and ensures that bookkeeping and asset management are sound. It reports to the Board of Directors on the Group's risk exposure.

Three Executive Board members are the heads of the three banking business units. The risk, financial and services/IT areas are also represented on the Executive Board.

2.2 RISK MONITORING

On the basis of the general risk policies and mandates defined by the Board of Directors, specific risk instructions are prepared for each business unit. These instructions lay the foundation for the business and control procedures for the units and for the Group's system development.

The Board of Directors sets forth explicit risk appetite frameworks for credit risk, market risk, operational risk and liquidity risk. Each of them specifies the amount and types of risk that the Board of Directors is willing to accept in pursuit of the Group's strategic goals. Relevant KPIs are incorporated in the regular risk reporting so that the Group can monitor that its risk profile stays in line with the risk appetite. Please refer to the sections on these risk types for further details.

Every quarter, the Board of Directors assesses the Group's risk profile to ensure that it matches the risk instructions. Risk monitoring is based on the following central risk types:

- Credit risk, including counterparty credit risk
- Market risk
- Liquidity risk
- Operational risk
- Insurance risk

2.3 RISK COMMITTEES

The Board of Directors has set up four committees to supervise specific areas and to prepare cases for consideration by the full Board. Under Danish law, board committees have no independent decision-making authority but solely a consulting role. The role of each committee is described in the following table.

COMMITTEES ESTABLISHED BY THE BOARD OF DIRECTORS	
Credit & Risk Committee	The Credit & Risk Committee serves in a consulting capacity regarding significant credit exposures and also reviews the credit quality of the Group's loan portfolio as well as special renewal applications and facilities. The Committee also plays a consultative role on risk management and reviews the Group's risk management practices. It convenes at least four times per year.
Remuneration Committee	The Remuneration Committee monitors trends in the Group's salary and bonus policies and practices. It monitors the incentive programmes to ensure that they promote ongoing, long-term shareholder value creation. It convenes at least twice per year.
Nomination Committee	The Nomination Committee identifies possible candidates for membership on the Executive Board and the Board of Directors and has overall responsibility for evaluating the two boards. It convenes at least twice per year.
Audit Committee	The Audit Committee examines accounting, auditing and security issues. These are issues that the Board, the Committee itself, the Group chief auditor or the external auditor thinks deserve attention before they are brought before the full Board. It convenes at least four times per year.

The Executive Board has set up the All Risk Committee, which has overall responsibility for risk management within the framework determined by the Board of Directors. The committee's role is described in the following table.

RISK COMMITTEES ESTABLISHED BY THE EXECUTIVE BOARD	
All Risk Committee	Danske Bank's All Risk Committee consists of the members of the Executive Board and senior staff from selected business areas. It convenes once per month. Within the framework determined by the Board of Directors, the All Risk Committee has overall responsibility for a number of matters: • Managing the overall balance sheet structure and setting the balance sheet development policy • Defining the overall funding structure • Setting the general principles for measuring, managing and reporting the Group's risks, including market, credit, liquidity, and operational risks • Monitoring the effects of new regulation on the Group's activities and risks • Ensuring that the Group's risk management structure is robust and well functioning
Sub-committees	Model & Parameter Committee Operational Risk Committee Group Liquidity Risk Committee Each sub-committee convenes at least four times per year (eight times for the Group Liquidity Risk Committee)
Group Credit Committee	The Group Credit Committee consists of members of the Executive Board. It convenes on a weekly basis to discuss credit applications referred by business units for approval.

The All Risk Committee has set up three sub-committees to ensure that adequate time and attention are given to various risk management areas. The sub-committees consist of representatives from the All Risk Committee and senior staff from relevant risk management functions.

The Group Credit Committee was set up in 2014 to establish a venue and allocate time for the review of credit applications referred by business units to the Executive Board for approval. The committee consists of Executive Board members.

The committees assist the Board of Directors and the Executive Board in ensuring strict risk management in the Group and in ensuring that risk management and risk reporting always comply with statutory regulations and the Group's general principles for such practices.

The former Product Risk Review sub-committee was disbanded in 2014 and replaced by procedures at the business unit level for product approval based on instructions issued by the Executive Board to the heads of business units. Materiality criteria determine whether the approval of new products is to be escalated to the Group's Chief Risk Officer and possibly to the Executive Board and the Board of Directors.

2.4 RISK MANAGEMENT

The Group's risk management practices are organised in three lines of defence. This organisation ensures a segregation of duties between (1) units that enter into business transactions with customers or otherwise expose the Group to risk, (2) units in charge of risk oversight and control and (3) the internal audit function.

The first line of defence is represented by the business units and the operations and service organisations. Each unit operates in accordance with risk policies and delegated mandates and has its own independent risk function. The units are responsible for having adequate skills, operating procedures, systems and controls in place to comply with policies and mandates and to exercise sound risk management.

The second line of defence is represented by group-wide functions that monitor whether the business units and the operations and service organisations adhere to the general policies and mandates. These functions are located in Group Risk Management.

The third line of defence is represented by Internal Audit, as described above in the section on the Board of Directors.

On 1 January 2015, the credit organisation was adjusted so that the heads of credit at the business units report to the chief risk officer, who heads Group Risk Management, while remaining part of the management teams at their business units. The sub-departments under Group Risk Management were adjusted to enhance execution and to maintain the principle of three lines of defence.

2.4.1 Business units

Each business unit is headed by a member of the Executive Board.

The business units' mandate to originate and accumulate risk exposure for the Group in their daily work is regulated by risk policies, instructions and limits. The Group strives to cultivate a corporate culture that supports and enforces the organisation's objective to undertake selected risks according to guidelines that have been agreed upon.

Responsibility for all business-related risks is placed with the heads of the business units and the heads of the operations and services areas. Their responsibilities extend across national borders. Lending authorities for specific customer segments and products are granted to the individual business units. Credit decisions exceeding the delegated authorities are submitted to the Group Credit Committee and to the Board of Directors as required.

The business units carry out all the fundamental tasks required for sound risk management and controls. These tasks include updating the information about customers that is used in risk management tools and models as well as maintaining and following up on customer relationships.

Each business unit is responsible for preparing documentation before undertaking business transactions and for recording the transactions properly. Each unit is also required to update information on customer relationships and other issues as necessary.

The business units must also ensure that all risk exposures comply with specific risk limits as well as the Group's other guidelines.

Certain risk areas, such as market risk and liquidity risk, are managed centrally at the group level.

Country managers and local risk officers are responsible for ensuring compliance with local rules and regulations. Local risk committees as well as asset and liability management committees have also been set up where they are relevant.

2.4.2 Group Risk Management

Group Risk Management is headed by the Group's chief risk officer (CRO), who is a member of the Executive Board.

The department serves as the Group's second line of defence. It has overall responsibility for setting and monitoring the Group's risk appetite and policies and for following up and reporting on risk issues across risk types and organisational units. Group Risk Management also serves as a resource for referrals from local risk committees.

Group Risk Management oversees the risk management framework and practices across the organisation. It serves as secretariat for the All Risk Committee and the Group Credit Committee. Senior staff from the department also chair the Group Liquidity Risk Committee, which oversees liquidity management and funding activities; the Model & Parameter Committee, which monitors the Group's use of risk models and the results of parameter validation; and the Operational Risk Committee, which evaluates the management of the Group's key operational risks.

Within Group Risk Management, various sub-departments are dedicated to the Group's main risk types.

Specific departments handle credit risk management by setting the group-wide credit risk appetite and policies, reviewing the approval and follow-up processes in the business units' lending books, facilitating the quarterly process of calculating and consolidating the impairment of credit exposures, and monitoring and reporting on the Group's consolidated credit portfolio, including the determination of portfolio limits for specific industries and countries. Other departments develop credit rating and valuation models and ensure that they are available for day-to-day credit processing at the business units and that they meet statutory requirements. A separate unit is responsible for validating credit risk parameters in collaboration with the business units.

Risk appetite, policy setting, monitoring, controlling and reporting for market risk, liquidity risk and operational risk are also performed by dedicated departments within Group Risk Management. In 2014, Group Risk Management began conducting an internal liquidity adequacy assessment (ILAA) in line with forthcoming regulation from the European Banking Authority.

2.4.3 CFO Area

CFO Area is headed by the Group's chief financial officer (CFO), who is a member of the Executive Board. The department oversees the Group's financial reporting, budgeting and strategic business analysis, including the tools used by the business units for performance follow-up.

The department is also in charge of the Group's investor relations; relations with international rating agencies; legal, regulatory and corporate matters; and compliance and anti-money laundering activities.

It is responsible for the Group's capital management, including the compilation of the total risk exposure amount (REA), the Group's internal capital adequacy assessment process (ICAAP) and the internal capital allocation to business units.

Within CFO Area, Group Treasury is responsible for executing the funding plan, managing the Group's liquidity plan and monitoring liquidity needs. Group Treasury also ensures that the Group's structural liquidity profile enables the Group to comply with the limits and meet the targets set by the Board of Directors and the All Risk Committee as well as regulatory and prudential requirements. Furthermore, Group Treasury is responsible for asset liability management, private equity activities and long-term funding activities.

2.5 REPORTING

The Group allocates considerable resources to risk monitoring and to ensuring ongoing compliance with the approved risk limits. It has procedures for reporting to relevant management bodies and committees, including the Board of Directors and the Executive Board, on developments in risk measures, liquidity, the credit portfolio, non-performing loans and the like.

The Board of Directors receives risk reports at regular intervals (see the tables below). The Group's ICAAP report is submitted to the Board of Directors quarterly and in an expanded annual version that is supplemented with a detailed analysis of the Group's risk profile. In 2014, the Group compiled its first ILAA report.

ANNUAL REPORTING	
Risk policies	Review of the risk policies, risk instructions and risk appetite, including a consideration of whether the business model gives occasion for any revisions.
ICAAP report	Review of the adequacy of the Group's capital on the basis of an evaluation of the Group's risk profile. It reports conclusions drawn from stress testing, including the effect of various scenarios on expected losses and capital needs. This is the full version of the report, which is also submitted quarterly in an abbreviated form.
Annual Risk Review	Analysis of the Group's risk profile, including an identification and description of the Group's risks and an update on the use of risk management models and parameters. The report covers all the risk types to which the Group is exposed.
ILAA	Evaluation of the liquidity situation and liquidity management, including the funding profile and plan. The report also assesses liquidity risk by liquidity stress testing and similar analyses and presents a conclusion on the minimum amount of liquidity reserves required.
Contingency planning	Contingency plans describing options available to the Group to improve its capital and liquidity under stressed conditions.
Risk profile reports	Analyses of selected credit portfolios (industries and customer segments)

QUARTERLY REPORTING	
ICAAP report and capital placement requirements	Quarterly review of the adequacy of the Group's capital. Separate report on the Group's compliance with capital and placement requirements (including the Supervisory Diamond) in the Danish Financial Business Act.
Credit portfolio report	Analysis of the current credit risk profile and the trends in the credit risk profile in the business units, selected sub-portfolios, industries and products. Overview of exposures equal to or exceeding 10% of the Group's total capital and the sum of these exposures, including the percentage of the total capital it represents.
Market risk	Analysis of the Group's current risk of losses caused by changes in the market value of the Group's assets, liabilities and derivatives resulting from changes in market prices or rates as well as follow-up on delegated risk mandates.
Impairment overview	Report on the trends in collective and individual loan impairment charges.
Liquidity risk	Report on the limits for operational liquidity risk, LCR, 12-month liquidity risk, structural liquidity risk and stress testing.

The All Risk Committee (or in some cases, the Executive Board) evaluates risk reports to be submitted to the Board of Directors or one of the Board's committees. It also receives periodic reports on the Group's liquidity and solvency and monitors risk trends at the group level and at the business units.

Capital management

3.

SUMMARY

The main purposes of the Group's capital management policies and practices are to support its business strategy and to ensure that it is sufficiently capitalised to withstand even severe macroeconomic downturns.

With substantial capital in excess of the regulatory requirements, the Group considers itself well capitalised. In accordance with its business strategy, the Group has set capital targets: a total capital ratio of at least 17% and a common equity tier 1 (CET1) capital ratio of at least 13%. It is the Group's objective to maintain a level of capital sufficient to support its business strategy and to meet the regulatory capital requirements at all times. It is also the Group's ambition to have a capital level that rating agencies and investors consider robust. In the current low-growth environment, which entails macroeconomic and regulatory uncertainty, the Group considers a CET1 capital ratio of around 14% and a total capital ratio well above 17% as appropriate levels. The capital policy is revised at least once a year.

In 2014, the Group strengthened its capital position through retained earnings and an optimisation of the capital structure. Some of the main achievements during the year were the issuance of a total of DKK 9.3 billion additional tier 1 and tier 2 instruments, the redemption of the hybrid capital from the Danish state and the implementation of CRR/CRD IV.

The results of both internal and regulatory stress tests confirmed the Group's substantial capitalisation. Stress tests are performed to verify that the Group is sufficiently capitalised to withstand adverse events caused by material risks arising from its business strategy at present and in the future.

The Group passed the 2014 European Banking Authority (EBA) stress test with excess capital of DKK 57 billion, resulting in a CET1 capital ratio of 11.7% at the end of 2016 in the adverse scenario. This was more than twice the threshold value of 5.5% set by the EBA.

3.1 TOTAL CAPITAL

At 31 December 2014, CET1 capital amounted to DKK 131.1 billion, or 15.1% of the total risk exposure amount (REA), and tier 1 capital amounted to DKK 144.9 billion, or 16.7% of the total REA. On the same date, the total capital amounted to DKK 167.5 billion, and the total capital ratio was 19.3%. The REA was previously referred to as risk-weighted assets (RWA).

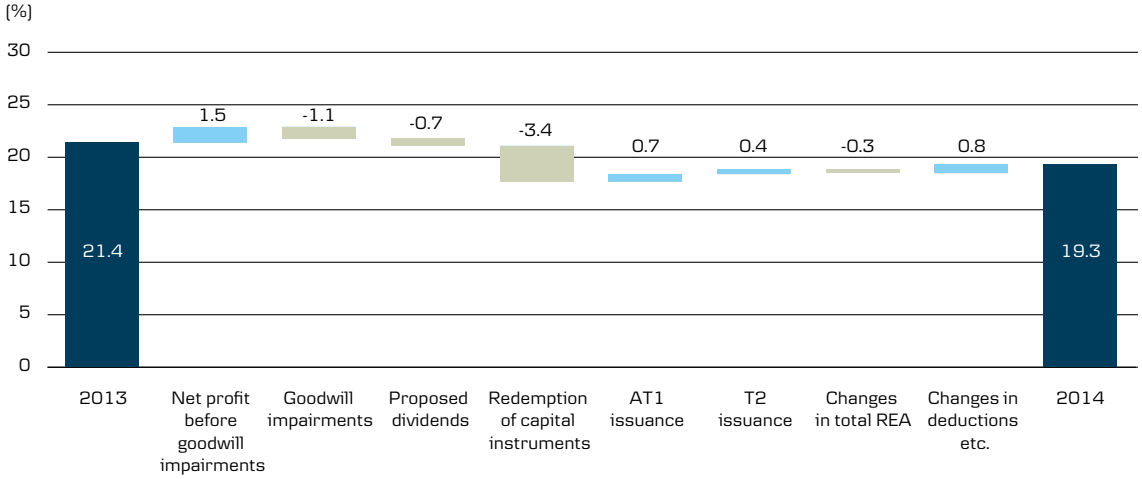
The high-level components of total capital are shown below (a more detailed breakdown can be found in Danske Bank's Annual Report 2014). The figures reflect the capital subject to the transitional rules according to the CRR on 31 December 2014.

DANSKE BANK GROUP'S TOTAL CAPITAL AND RATIOS

(DKK millions)	31 Dec. 2014	31 Dec. 2013
Total equity	153,120	145,657
Adjustment to total equity	3,806	3,938
Total equity calculated according to the rules of the Danish FSA	156,926	149,595
Additional tier 1 (AT1) instruments included in total equity	-5,597	-
Adjustments for AT1 capital	-60	-
Common equity tier 1 (CET1) instruments	151,269	149,595
Deductions from CET1	-20,130	-24,086
Portion from goodwill	-11,169	-20,763
Portion from statutory deductions for insurance subsidiaries	-1,850	-
CET1 capital	131,139	125,509
AT1 capital	17,434	39,953
Deductions from AT1	-3,711	-3,948
Portion from statutory deductions for insurance subsidiaries	-3,701	-3,930
Tier 1 capital	144,862	161,514
Tier 2 instruments	26,310	23,823
Deductions from tier 2	-3,711	-3,352
Portion from statutory deductions for insurance subsidiaries	-3,701	-3,930
Total capital	167,461	181,985
Total risk exposure amount	865,822	852,250
Common equity tier 1 capital ratio	15.1%	14.7%
Tier 1 capital ratio	16.7%	19.0%
Total capital ratio	19.3%	21.4%

The Group's total capital ratio decreased in 2014, mainly because of the redemption of the state hybrid capital. To partially offset the redemption, the Group raised DKK 5.6 billion of additional tier 1 capital and DKK 3.7 billion of tier 2 capital.

CHANGE IN TOTAL CAPITAL RATIO, 2013 TO 2014



3.1.1 Consolidation methods

Danske Bank Group uses two distinct approaches to consolidation. In the accounting according to IFRSs, Danske Bank A/S's subsidiaries are the companies in which it has direct or indirect control over financial and operating policy decisions. Danica Pension is consolidated in the Group's financial statements according to IFRSs.

In its solvency calculations, the Group consolidates Danmarks Skibskredit A/S and LR Realkredit A/S on a pro rata basis, whereas, in its accounting according to IFRSs, it treats the two companies as associates in accordance with the equity method. The Group has holdings of 24% and 31%, respectively, in the companies. Danmarks Skibskredit A/S offers loans to ship-owners and other shipping companies secured by mortgages on vessels. At the end of June 2014, the company had total assets of DKK 67.2 billion and a total capital ratio of 17.0%. LR Realkredit A/S provides mortgage loans primarily for subsidised housing and other subsidised properties. On the same date, the company had total assets of DKK 13.0 billion and a total capital ratio of 19.8%.

In December 2013, the Danish FSA designated the Group as a financial conglomerate because of its ownership of Danica Pension. The Group is therefore subject to supplementary supervision as a financial conglomerate (at the group level). For this reason, the Group's solvency calculations are consolidated according to the deduction method described in section 3.1.3.

In rare circumstances, companies taken over by the Group because of defaulted obligations are consolidated in the financial statements and are sold as soon as they are marketable. They are not included in the calculation of the total capital, but the holdings are included in the calculation of the total REA. The table below shows the differences between the ordinary consolidation principles used in the financial statements and those used in solvency calculations for subsidiaries and associated credit institutions.

CONSOLIDATION PRINCIPLES FOR SUBSIDIARIES AND OTHER HOLDINGS OF DANSKE BANK A/S

	Consolidation of solvency calculations			Consolidation in IFRS accounts	
Subsidiaries and other holdings of Danske Bank A/S	Full	Pro rata	Capital deduction	Full	One line
Credit institutions	•			•	
Associated credit institutions		•			•
Insurance operations (consolidated according to capital deduction method)			•	•	
Investment and real property operations etc.	•			•	
Foreclosed companies (risk-weighted)				•	

3.1.2 Common equity tier 1 capital

Starting with the Group's shareholders' equity calculated according to IFRSs, the Group makes a number of adjustments in order to determine its CET1 capital.

First, total IFRS equity is subject to the following adjustments in accordance with the Danish FSA's accounting rules:

- Revaluation of domicile property is recognised at estimated fair value. Revaluation to a value above the cost of acquisition is recognised as CET1 capital.
- The Group's total equity also includes special reserve funds totalling DKK 3.0 billion stemming from LR Realkredit A/S and Danmarks Skibskredit A/S. These reserve funds cannot be distributed but can be used to cover any losses at the companies after their other reserves.
- The new additional tier 1 capital issued in March 2014 counts as equity according to accounting rules, but does not qualify as equity according to solvency rules. The issue is therefore excluded from common equity tier 1 instruments and included as additional tier 1.

In accordance with the CRR and the Danish Executive Order on Calculation of Risk Exposure, Own Funds and Solvency Need, the calculation of shareholders' equity is subject to certain deductions. These are the main deductions:

- Proposed dividend
- Carrying amounts of intangible assets, including goodwill
- Deferred tax assets
- Defined benefit pension fund assets
- Statutory deduction for insurance subsidiaries (see also the section below)
- Prudential filters

The gradual phase-in of the CRR increases the level of deductions from CET1 capital until 2018. The increase comes mainly from the transfer of current deduction elements from tier 1 and tier 2 capital to CET1 capital.

The Group estimates that the CET1 capital ratio will decline by around 1.3 percentage points from the level on 31 December 2014 (15.1%) when it is calculated on the basis of the CRR with fully loaded capital deductions (fully phased-in rules by 2018).

The Group estimates that 1.0 percentage point of the decline in the CET1 capital ratio after the rules are fully phased in will derive from deductions for Danica Pension.

3.1.3 Statutory deductions for insurance companies and significant investments

The statutory deductions for insurance companies were previously divided equally between tier 1 and tier 2 capital. According to the transitional rules of the CRR, these deductions will gradually be phased out.

As a financial conglomerate, Danske Bank has obtained approval to use the Danish FSA's deduction method for insurance subsidiaries. Since 2014, the deduction has been based on Danica Pension's solvency need; previously, it had been based on the minimum capital requirement. The modification is being phased in linearly from 2014 to 2016. The non-deductible part of the DKK 18.2 billion investment in Danica Pension is currently risk-weighted at 100%.

Danske Bank's statutory deductions for insurance subsidiaries and other statutory deductions from the total capital in 2014 were as follows:

- Danica Pension's solvency need less the difference between Danica Pension's total capital and the carrying amount of Danske Bank's capital holdings in Danica Pension. This method ensures that the Group's total capital is reduced fully by deductions made from Danica Pension's total capital, among other things.
- Capital holdings in other credit and financial institutions that represent more than 10% of the share capital of such institutions, excluding capital holdings in subsidiaries and associates (certain financial institutions). The deduction will be gradually phased out since the position is lower than the threshold defined in the CRR. Instead, the position will be risk-weighted at 250%.

DEDUCTIONS FROM TOTAL CAPITAL FOR INSURANCE SUBSIDIARIES AND OTHER DEDUCTIONS

(DKK millions)	31 Dec. 2014	31 Dec. 2013
Capital requirement at Danica	8,432	8,164
Add-on for positive difference between solvency need and capital requirement (transitional)	649	-
Less the difference between		
Danica's total capital	18,205	18,812
Danske Bank's capital holdings	18,823	18,902
Danica's holding of Danske Bank shares etc.	447	394
Deduction for insurance subsidiaries	9,252	7,860
Deduction for holdings in other credit institutions	25	36
Total deductions, divided equally between tier 1 and tier 2 capital	9,277	7,896
Total deductions from common equity tier 1 capital	1,850	-

Note: The carrying amount of Danske Bank's capital holdings in Danica less the total deduction for Danica from the Group's total capital is included in the total REA calculations at a 100% weight. Danske Bank's capital holding in Danica at the end of 2014 reflects the deduction of a proposed dividend of DKK 1,900 million from Danica.

3.1.4 Additional tier 1 capital and tier 2 capital

At the end of 2014, the Group's additional tier 1 capital (including old "hybrid" capital issues) amounted to DKK 17.4 billion, or 2.0 percentage points of the total capital ratio. On the same date, the Group's tier 2 capital amounted to DKK 26.3 billion, or 3.0 percentage points of the total capital ratio.

In March 2014, Danske Bank issued its first CRR-compliant additional tier 1 instruments for EUR 750 million (DKK 5.6 billion). In order to be eligible as capital under the CRR, the instruments must fulfil a number of requirements. These requirements include the Group's capacity, at its discretion, to cancel coupon payments and to write down (permanently or temporarily) the principal or convert it to equity if a certain CET1 level is breached. In the Group's first issue of additional tier 1 instruments, the level at which a temporary write-down would take place was set at 7%. The issue is perpetual, with the first call option in April 2020. Early redemption requires the prior approval of the Danish FSA.

In May 2014, Danske Bank issued tier 2 instruments for EUR 500 million (DKK 3.7 billion). The issue matures in May 2026, and the Group's first prepayment option is in May 2021.

The phase-in of the CRR will affect the way outstanding additional tier 1 instruments and tier 2 instruments will be incorporated in the total capital ratio. Outstanding old hybrid tier 1 instruments and tier 2 instruments not eligible under the CRR requirements will be phased out gradually over a period beginning in 2014. All of the Group's issues of additional tier 1 instruments and tier 2 instruments since September 2013 are fully CRR-compliant.

For a description of the conditions of the Group's outstanding issues of individual additional tier 1 instruments and tier 2 instruments, see note 21 in Annual Report 2014.

3.2 CAPITAL REQUIREMENTS AND SOLVENCY NEED

The Group's management of its total capital is based on the Internal Capital Adequacy Assessment Process (ICAAP). The Group's ICAAP, including the ICAAPs of its subsidiaries, is its main capital management tool, and it gives a clear picture of the Group's capital and risks.

As part of the ICAAP, management identifies the risks to which the Group is exposed in order to assess its risk profile. The Group also determines its solvency need (Pillar II) on the basis of the minimum capital requirement (Pillar I) and conducts stress tests to ensure that it always has sufficient excess capital to support its business strategy, among other things.

Danske Bank assumes risks as a normal part of its business activities and expects to incur some financial losses as a consequence of these risks. Under normal circumstances, it expects such losses to be well covered by its earnings. In a given year, however, if the earnings are not sufficient to cover the losses, they are covered from the Group's capital.

The Group is involved in a broad range of business activities. These activities can be divided into five segments for the purpose of risk identification: banking, market, asset management, insurance and group-wide activities. The latter category covers management activities that are not specific to any of the first four business segments but broadly support them all. Each of these activities entails various risks, which fall into the seven main categories of the Group's risk management framework.

RISK IDENTIFICATION ACROSS ACTIVITIES	Danske Bank Group's risk categories						
Activities	Credit risk	Market risk	Operational risk	Pension risk	Insurance risk	Business risk	Liquidity risk
Banking activities	√	√	√			√	√
Market activities	√	√	√			√	√
Asset management			√			√	
Insurance (Danica)					√		
Group-wide activities			√	√		√	√

Note: Insurance risk in the Danske Bank Group is defined as all risks related to Danica Pension.

After identifying the risks, the Group determines how and to what extent it will mitigate them. Mitigation usually takes place by means of business procedures and controls, contingency plans and other measures. Finally, the Group determines what risks will be covered by capital.

The Group's risk management practices ensure that it has sufficient excess capital to cover the risks associated with its business activities. It uses methods that are adjusted on the basis of expert assessments, if necessary, to monitor all significant risks.

The Group's ICAAP also forms the basis for the Supervisory Review and Evaluation Process (SREP), which is a dialogue between an institution and the financial supervisory authorities on the institution's risks and capital needs. The outcome of the latest SREP was that the supervisory colleges, led by the Danish FSA, considered the Group adequately capitalised.

3.2.1 Minimum capital requirement

The regulatory minimum capital requirement under Pillar I of the CRR is defined as 8% of the REAs for credit risk (including counterparty credit risk), market risk and operational risk.

Credit risk (including counterparty credit risk) amounted to 76.0% of the total REA, making it Danske Bank's largest risk type. In collaboration with other national financial supervisory authorities, the Danish FSA has approved Danske Bank's use of the A-IRB approach for the calculation of credit risk.

The Danish FSA has granted the Group an exemption from the A-IRB approach for exposures to government bonds and equities, among other things. The exemption also applies to exposures at the legal entities Danske Bank Limited (Northern Ireland), Danske Bank International (Luxembourg) and Danske Bank Plc (Finland) as well as to retail exposures at Danske Bank Ireland. For these exposures, the Group currently uses the standardised approach. The Group expects to obtain approval in 2015 to use the F-IRB approach for credit risk exposure to corporate and retail customers at Danske Bank Plc.

Counterparty credit risk, including central clearing counterparty (CCP) and CVA risk charges, amounted to 8.6% of the total REA. The Group expects to obtain approval in 2015 to use an internal model method (IMM) to calculate the capital requirement for counterparty credit risk.

Market risk amounted to 6.8% of the total REA. The Group uses an internal VaR model for general market risk on items in the trading book and for foreign exchange risk on items outside the trading book. The Group expects to obtain approval in 2015 to expand its internal model for general market risk to cover specific market risk as well.

Operational risk amounted to 8.6% of the total REA. The Group uses the standardised approach for the calculation of operational risk.

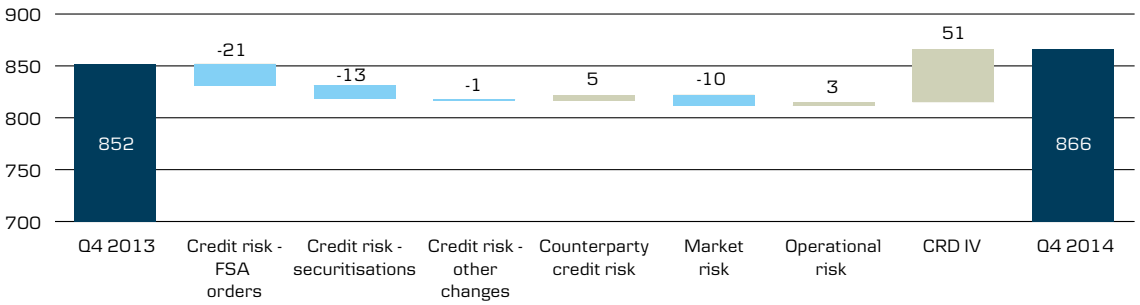
RISK EXPOSURE AMOUNT AND RISK WEIGHTS

At 31 December (DKK millions)	2014		2013	
	REA	Avg. risk weights	REA	Avg. risk weights
Credit risk				
IRB approach:				
Institutions	8,409	24%	11,707	27%
Corporate customers	308,250	39%	330,793	43%
Exposures secured by real property	93,765	15%	83,339	13%
Other retail	30,674	23%	32,891	24%
Other assets	20,468	74%	35,150	111%
IRB approach, total	461,566	29%	493,880	31%
Standardised approach, total	196,498	34%	189,768	40%
Credit risk, total	658,064		683,648	
Counterparty credit risk	45,874		35,780	
CCP default risk	7,358			
CVA risk charge	21,436			
Counterparty credit risk (incl. CCP and CVA)	74,668		35,780	
Market risk, total	59,089		61,662	
Operational risk, total	74,001		71,160	
Total risk exposure amount	865,822		852,250	

At the end of 2014, the Group's total REA amounted to DKK 866 billion, against DKK 852 billion at the end of 2013.

The total REA rose DKK 14 billion from the level in 2013, mainly because of the effect of CRD IV, which caused an increase of DKK 51 billion. The total REA declined in the third quarter, however. This was owing to a reduction of the temporary add-on of 3 percentage points to the risk weights for the corporate portfolio, which is separate from the 10 percentage points required by FSA orders. This led to a decrease in the total REA of DKK 21 billion. In the first quarter of 2014, the Group began using the option in the CRR to deduct certain securitisations from CET1 capital. This reduced the total REA by DKK 13 billion. Furthermore, we continued de-risking, particularly at Personal Banking, Corporates & Institutions and Non-core, and this also contributed to the total REA reduction.

CHANGE IN TOTAL RISK EXPOSURE AMOUNT, 2013 TO 2014
(DKK billions)



3.2.2 Internal assessment of the solvency need

The Group must meet the regulatory minimum capital requirement. As part of the ICAAP under Pillar II, the solvency need is determined on the basis of an internal assessment of the Group's risk profile in relation to the minimum capital requirement. The solvency need is the amount of capital that is adequate in terms of size and composition to cover the risks to which an institution is exposed. According to Danish law, the solvency need ratio is the solvency need divided by the total REA determined under Pillar I.

An important part of the process of determining the solvency need is evaluating whether the calculation takes into account all material risks to which the Group is exposed. The Group uses internal models to determine whether additional capital is needed according to the regulatory framework. These models quantify the amount of capital required to cover unexpected losses over the next year. The models take into account all relevant types of risk, including concentration and migration risks, as well as diversification within the individual risk types. For instance, the Pillar II assessment of credit risk is based on stressed PD, LGD and CF parameters and fluctuates with the economic cycle. The table below shows the approaches used under Pillar I and Pillar II for each risk type.

	RISK TYPE	REGULATORY FRAMEWORK	INTERNAL FRAMEWORK
Pillar I risks	Credit risk	Internal model Assumes granular portfolio One-factor model	Internal model Takes into account concentrations and country-specific factors
	Market risk	Internal model for general risk; standardised approach for specific risk and commodity risk	Internal model for general risk; standardised approach for specific risk and commodity risk
	Operational risk	Standardised approach	
Other risks	Pension risk	Internal model	
	Insurance risk	Included in credit risk	Internal model
	Business risk	Internal model	
	Interest rate risk outside the trading book	Internal model	Part of market risk

Note: Insurance risk under the regulatory framework is included indirectly in credit risk under Pillar I because the carrying amount of Danske Bank's holdings in Danica less the total deduction for Danica in the Group's total capital is included in the REA calculation at a 100% weight.

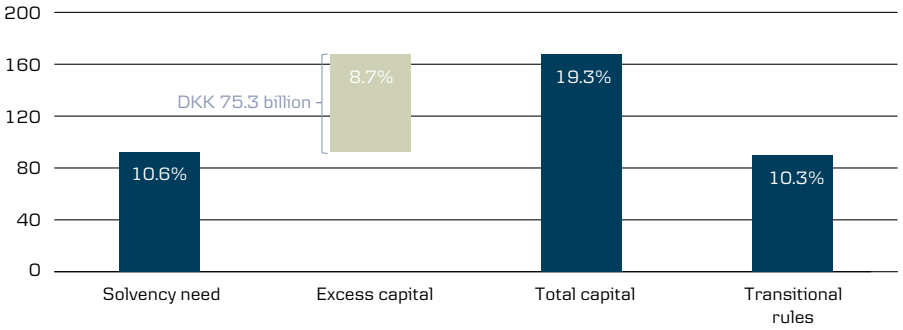
The Group has established a process in which capital add-ons are quantified on the basis of input from internal experts. When determining the solvency need on the basis of the minimum capital requirement, if the results of the model calculations do not appear sufficiently conservative, the Group then evaluates whether there is a need for capital add-ons. This may be the case, for example, if the Group believes that the result of the regulatory approach is not conservative enough or if macroeconomic uncertainty raises similar doubts. The capital add-ons are additive, although they may overlap, and the process thus represents a conservative and careful assessment of the Group's solvency need.

In addition to determining the solvency need, the Group uses the Basel I transitional rules as a "backstop" measure to determine the adequacy of its total capital. That is, the rules determine the minimum level of total capital needed if they stipulate a level that exceeds the solvency need plus the phased-in regulatory buffer requirements.

The Group does not set aside capital to cover liquidity risk but rather mitigates such risk by means of its funding strategy, contingency plans, stress test analyses and other measures. The Group recognises, however, that a strong capital position and good ratings are necessary for maintaining a strong liquidity and funding position.

At the end of 2014, the Group's solvency need was DKK 92.2 billion, or 10.6% of the total REA, and its total capital was DKK 167.5 billion, or 19.3% of the total REA. The Group's capital in excess of the solvency need was thus DKK 75.3 billion.

SOLVENCY NEED AND TOTAL CAPITAL RATIO, END-2014
(DKK billions)



As stated above, at the end of 2014, the Group's solvency need totalled DKK 92.2 billion, or 10.6% of the total REA. This represents an increase of DKK 3.9 billion, or 0.2 of a percentage point, over the level at the end of 2013. The most noteworthy changes during the year were that the Pillar II assessment of market risk increased because of higher interest rate risk in the banking book and that credit risk rose owing mainly to new regulation.

According to special requirements in EU and Danish law, the Group's solvency need and solvency need ratio must be disclosed every quarter. For information about the general methods of calculating the solvency need and solvency need ratio, see the ICAAP report, which is updated quarterly and published along with the Group's quarterly and annual reports at www.danskebank.com/ir.

3.2.3 Combined buffer requirement

CRD IV introduced a combined buffer requirement that for Danske Bank will be phased in from 2015 to 2019. This requirement applies in addition to the solvency need. When a financial institution fails to maintain the combined buffer requirement, it will be restricted from making discretionary distributions.

The combined buffer requirement consists of regulatory requirements for three separate buffers: the capital conservation buffer, the countercyclical buffer and the buffer for systemically important financial institutions (SIFIs).

On the basis of Danish legislation, the capital conservation buffer (2.5% of CET1 capital) and the countercyclical buffer (up to 2.5% of CET1 capital) will be phased in from 2016 to 2019. The Group will be subject to countercyclical buffer requirements set in each country where it has exposure.

Danske Bank was designated as a SIFI in Denmark in 2014. This means that it will be subject to stricter requirements than non-SIFI banks. Danske Bank's SIFI buffer requirement is set at an additional 3% of the CET1 capital above the CRR requirements. The SIFI buffer requirement phase-in began on 1 January 2015 and will be completed by 2019.

3.3 CAPITAL PLANNING

The Group ensures that its total capital is sufficient to meet the regulatory capital requirements at all times and that it maintains access to the funding markets under all market conditions. It also evaluates the effect of new regulations and its current business activity to determine whether to make adjustments to the level of its capital. The Group identifies possible negative effects and then takes appropriate action to maintain efficient capital consumption at an early stage.

To ensure that the Group maintains an appropriate level of capital above the regulatory capital requirements, the Board of Directors has set specific capital targets for the Group: a total capital ratio of at least 17% and a CET1 capital ratio of at least 13%. The Group's capital considerations are based the rules on the transition from current regulations, the phase-in of CRR/CRD IV, and the SIFI requirements.

The Group's capital planning takes into account both short-term and long-term horizons in order to give the Board of Directors a comprehensive view of current and future capital levels. The capital plan includes a forecast of the expected capital performance and a scenario analysis of the effect of adverse conditions on its capital level. The short-term scenarios are based on the effects that changes in the business and possible capital challenges have on earnings. The long-term scenarios evaluate the ability of the Group to comply with regulatory capital requirements and maintain appropriate excess capital.

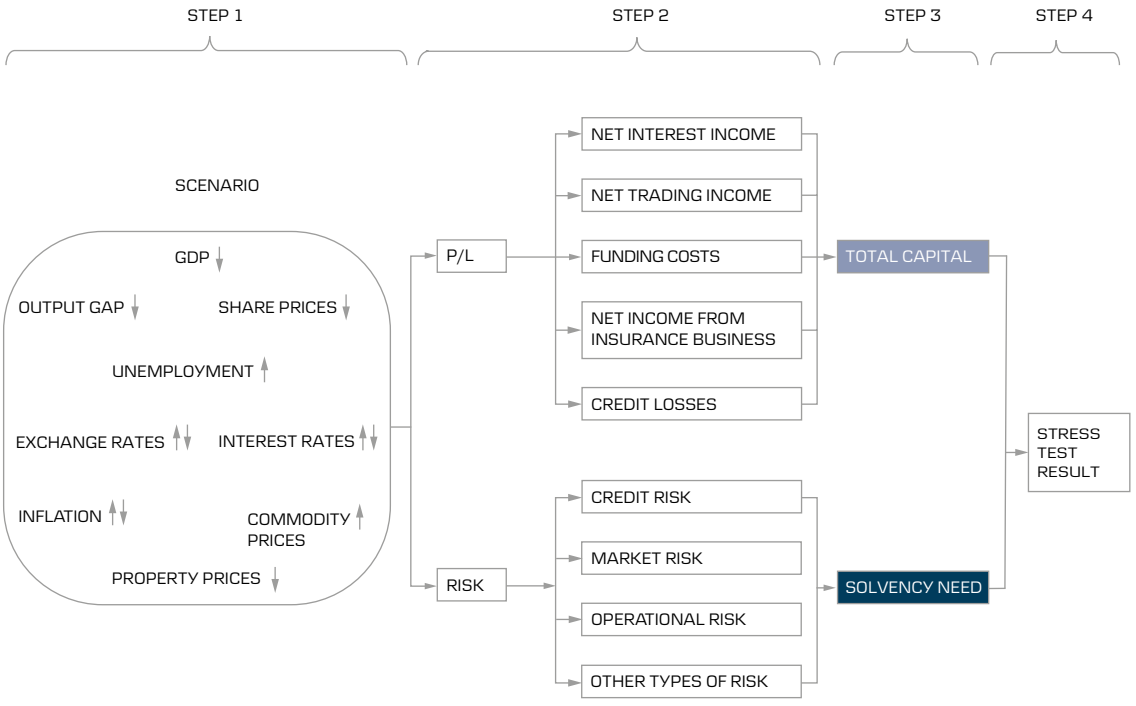
As stated above, it is the Group's objective to maintain a level of capital sufficient to support its business strategy and to meet the regulatory capital requirements at all times. It is also the Group's ambition to have a capital level that rating agencies and investors consider robust. In the current low-growth environment, which entails some macroeconomic and regulatory uncertainties, the Group considers a CET1 capital ratio of around 14% and a total capital ratio well above 17% as appropriate levels. The capital policy is revised at least once a year.

3.3.1 Stress tests

Danske Bank uses macroeconomic stress tests in the ICAAP for the purpose of projecting its solvency need and actual capital level in various unfavourable scenarios. Stress tests are an important means of analysing the risk profile since they give management a better understanding of how the Group's portfolios are affected by macroeconomic changes, including the effects of negative events on the Group's total capital. The stress tests support the Group's compliance with the regulatory capital requirements, and as mentioned above, they are an important tool in the internal capital planning.

When the Group uses stress tests in capital planning, stress is applied to risks, income and the cost structure. Stressing income and costs affects the Group's total capital, while stressing risk exposures affects the solvency need. The stress test methodology consists of four steps.

EFFECT OF STRESS TEST SCENARIOS ON EARNINGS AND RISK



The first step is to define and prepare the internal stress test scenarios. Each scenario consists of a set of macroeconomic variables. The scenarios are generally used both at the group level and for subsidiaries. Specific scenarios are also developed for subsidiaries. The scenarios are submitted to the Board of Directors for approval.

DANSKE BANK'S MOST IMPORTANT STRESS TEST SCENARIOS

SCENARIO	DURATION	DESCRIPTION
Mild recession	**3 years**	Changes in financial regulations lead to tighter credit standards. While unemployment increases, low interest rates limit the decline in property prices. This scenario assumes a slight economic contraction in the first year followed by a slow recovery.
Severe recession	**3 years**	A sharp slowdown in the global economy reduces exports and GDP. In addition, a new eurozone country falls into an unresolved debt trap. Property prices decrease because of weak consumer confidence, high unemployment and tight credit policies. There is no recovery within the 3-year duration of this scenario.
Extreme recession	**3 years**	Confidence regarding sovereign debt payments weakens significantly. Higher risk premiums lead to a temporary interest rate hike, causing property prices to decline and unemployment to increase. EU-wide austerity measures drive the economy into a state of deflation with significant GDP declines and no signs of recovery.
Regulatory scenarios	**2 years**	Danish FSA: Base case and stress scenarios.

The second step is to determine the effects of the scenarios on the various risk types. For credit risk, the Group uses statistical models that transform the macroeconomic scenarios into loss levels.

When the stress test scenarios have been translated into effects on risks, income and the cost structure, in the third step the Group can calculate its solvency need and total capital under each scenario. Finally, the results and the methodology are evaluated and discussed by the Group's experts in the field and management in order to ensure consistency and reliability.

Danske Bank uses a "mild recession" scenario to determine whether the solvency need should be supplemented by an add-on for business cycle fluctuations. If a negative macroeconomic trend indicates that the Group will incur a loss for the year, an add-on is included in the calculation of the solvency need.

In its capital planning, the Group uses a "severe recession" scenario to determine whether the capital level is satisfactory. If it concludes that its excess capital is too small in the scenario's worst year, it will consider changing the risk profile or raising capital.

In its crisis management (recovery planning), the Group uses an "extreme recession" scenario to ensure the credibility and effectiveness of its capital and liquidity contingency plans. If the current combination of elements in the contingency plans will not improve the Group's capital and liquidity situation sufficiently, the Group will consider actions to increase the effectiveness of the contingency plans.

Besides these three main scenarios, Danske Bank also uses various specialised scenarios that give management an understanding of how the Group will be affected by specific events.

The stress test framework shows that the Group is robust in the event of the unfavourable economic developments in the selected stress test scenarios.

In 2014, the Group passed the 2014 EBA stress test with excess capital of DKK 57 billion, resulting in a CET1 capital ratio of 11.7% at the end of 2016 in the adverse scenario. This was more than double the threshold value of 5.5% set by the EBA.

Reverse stress test
A reverse stress test is a risk management tool that complements the standard risk framework. The idea behind a reverse stress test is to identify an extreme event (or combination of events) that could bring the Group into a recovery state and then to determine the likelihood of the events. The Group can then judge whether it is comfortable with the probability that the events will occur in relation to the implications of their occurrence.

Along with the results from the various stress tests in the ICAAP, the reverse sensitivity analysis shows that the Group has a comfortable level of capital in excess of its solvency need – even when heavily stressed income is combined with unprecedented impairments, trading losses, operational losses and funding costs.

As a financial business, Danske Bank depends on IT systems and access to liquidity. The Group estimates its IT risk and liquidity risk on an ongoing basis in order to take mitigating actions, and on this basis, it estimates that the risk of a disruption of its business operations owing to an IT breakdown or lack of liquidity is very small.

3.4 LEVERAGE RATIO

Since January 2014, CRR/CRD IV has required credit institutions to calculate, report and monitor their leverage ratios, defined as tier 1 capital as a percentage of total exposure. The leverage ratio will be assessed under Pillar II pending a political decision in the EU on whether it should be included as a Pillar 1 requirement beginning in 2018. The leverage ratio measure represents a non-risk-adjusted capital requirement, and it will be introduced as a "backstop" measure for risk-based capital.

The Group's overall monitoring of leverage risk is done in the ICAAP. The ICAAP also includes an assessment of changes in the leverage ratio under stressed scenarios. The leverage ratio is determined and monitored monthly. To ensure sound monitoring, the Group has set forth policies for the management and control of each component that contributes to leverage risk.

The determination of tier 1 capital and the estimated fully phased-in tier 1 capital is explained in subsection 3.1 above. The total exposure for the purpose of calculating the leverage ratio is DKK 3,586.9 billion.

From the fourth quarter of 2013 to the fourth quarter of 2014, the leverage ratio fell from 4.6% to 4.1% under the transitional rules owing mainly to the redemption of the state hybrid capital. The fully phased-in leverage ratio rose from 3.3% to 3.6% owing mainly to the issuance of new CRR-compliant additional tier 1 capital. The difference between these two measures is owing to the treatment of grandfathered capital, which is not included in the fully phased-in leverage ratio.

LEVERAGE RATIO

At 31 December (DKK billions)	2014	2013
Total assets according to IFRSs	3,453.0	3,227.9
Adjustments in scope of consolidation (IFRSs to DK GAAP)		
Insurance assets (Danica)	-295.0	-271.8
Other	20.7	20.3
Total assets according to DK GAAP*	3,178.7	2,976.4
Derivatives (accounting asset value)	-412.9	-246.2
Derivatives (exposure to counterparty credit risk excluding collateral)	235.1	209.3
Securities-financing transactions (exposure to counterparty credit risk)	25.5	30.8
Undrawn committed and uncommitted facilities, guarantees and loan offers	554.6	537.5
Tier 1 capital deductions (intangibles, deferred tax assets, etc.)	-24.4	-23.8
Total exposure for leverage ratio calculation	3,562.5	3,484.0
Reported tier 1 capital (transitional rules)	144.9	161.5
Tier 1 capital (fully phased-in rules)	126.7	115.1
Leverage ratio (transitional rules)	4.1%	4.6%
Leverage ratio (fully phased-in rules)	3.6%	3.3%

*Total assets include SFTs on the balance sheet.

The final leverage ratio legislation, implementing the latest changes made by the Basel Committee, is expected to enter into force in the first half of 2015. The revised leverage ratio will, to some extent, affect the calculation of exposure to securities-financing transactions and derivatives. Furthermore, in the standardised approach for credit risk, a credit risk conversion factor (CCF) of 0%, 20%, 50% or 100%, depending on the risk category, will be implemented by setting a 10% floor on off-balance-sheet exposures. The Group estimates that, because of these changes, the leverage ratio would have increased by 0.2 of a percentage point by 31 December 2014.

In accordance with the Danish SIFI agreement, the Danish government has appointed a group of experts to consider leverage ratio requirements in Denmark. The group will assess whether it is appropriate to implement a leverage ratio requirement and, if so, whether it should be higher than the 3% level in Basel III, among other things. It will also consider whether to recommend setting lower limits on the risk weights used in internal REA models. The group is expected to present its recommendations in 2015.

3.5 CAPITAL ALLOCATION

In addition to managing the Group's total capital in the ICAAP, the Group's capital management activities include the internal allocation of capital across business units.

The Group is constantly improving its capital allocation framework in order to reflect the effects of new regulation and the risk entailed in business activities as well as possible. According to the framework and in accordance with IFRSs, the Group makes a full allocation of its total equity among business units on the basis of each unit's contribution to the Group's total risk as estimated by means of regulatory and internal risk models.

Credit risk

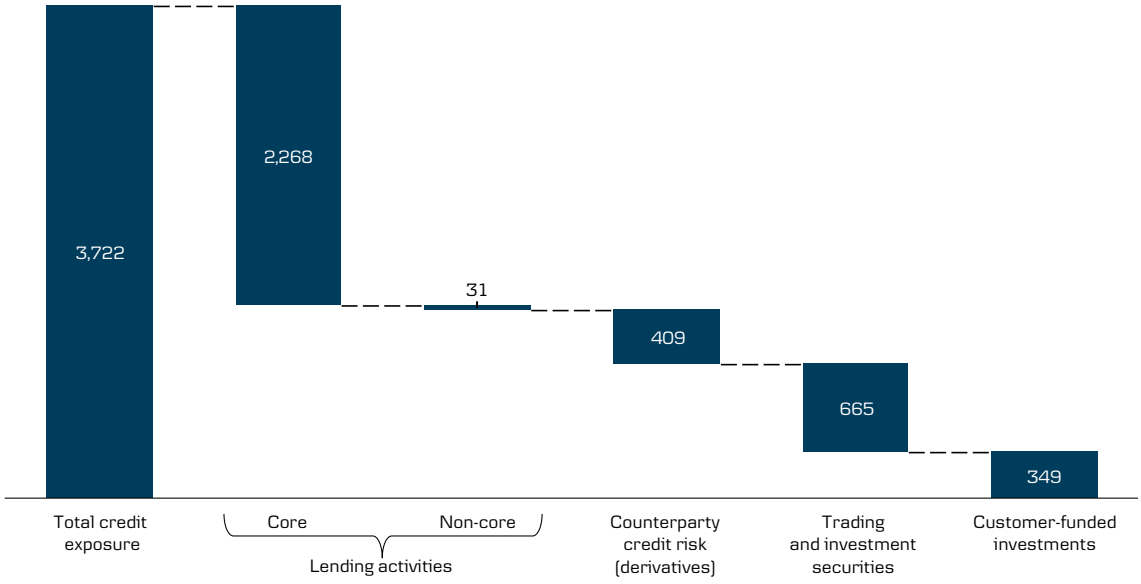
4.

The Group's total credit exposure is defined as balance sheet items and off-balance-sheet items that carry credit risk. At the end of 2014, the Group's total credit exposure for accounting purposes was DKK 3,722 billion (2013: DKK 3,395 billion).

At the end of 2014, some 76.0% of the total REA related to credit risk, excluding counterparty credit risk.

Credit exposure from lending activities accounts for most of the exposure and is the focus of this section. At the end of 2014, credit exposure from core lending activities amounted to DKK 2,268 billion (2013: DKK 2,173 billion). Credit exposure from Non-core lending activities amounted to DKK 31 billion (2013: DKK 43 billion). Credit exposure from lending activities includes amounts due from credit institutions and central banks, loans, guarantees and irrevocable loan commitments. The exposure is measured net of accumulated impairment charges and includes repo loans.

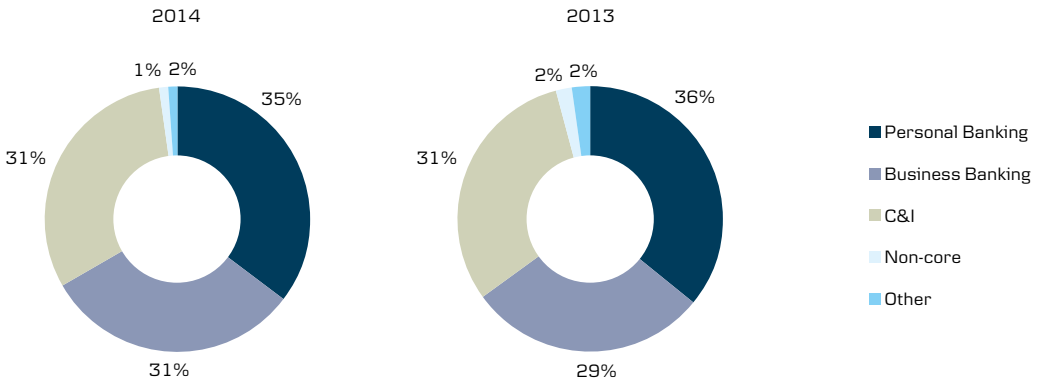
BREAKDOWN OF CREDIT EXPOSURE (CARRYING AMOUNTS)
(DKK billions)



Credit exposure from lending activities

Lending at Personal Banking, which accounted for the largest share of the exposure (35%), consisted mainly of mortgage products in the Nordic countries. The commercial portfolios in Business Banking and C&I are diversified across various industries.

BREAKDOWN OF CREDIT EXPOSURE BY BUSINESS UNIT, LENDING ACTIVITIES



Business unit	Credit exposure (DKK billions)	NPL exposure (%)	Developments in 2014
Personal Banking	812	1.7%	Credit quality improved in most markets and individual impairments continued their downward trend in 2014.
Business Banking	711	5.0%	Credit quality improved across industries. There was a significant drop in individual impairments, primarily in Denmark and the commercial property sectors in Northern Ireland and Norway.
Corporates & Institutions	712	1.1	Credit quality remained strong and impairments declined from the level in 2013.

From section 4.1 onwards, credit exposure from lending activities (referred to as "credit exposure") excludes Non-core exposure (unless otherwise stated). Non-core exposure is disclosed separately in section 4.10.

4.1 CREDIT RISK PROFILE AND CREDIT RISK APPETITE

Slowly improving macroeconomic conditions and managerial efforts to contain credit risk had positive effects on the credit risk profile in 2014. Overall credit quality improved, and impairment charges decreased. The credit risk profile also reflects the Group's position as a mortgage finance provider, with 33% of total exposure related to Realkredit Danmark A/S.

The credit risk profile is monitored and strengthened in accordance with the Credit Risk Appetite, which encompasses credit quality (expected loss) and credit risk concentration (limits on single names, industries and geographical regions).

Regular risk reporting enables the ongoing monitoring of the Group's credit risk position relative to its risk appetite.

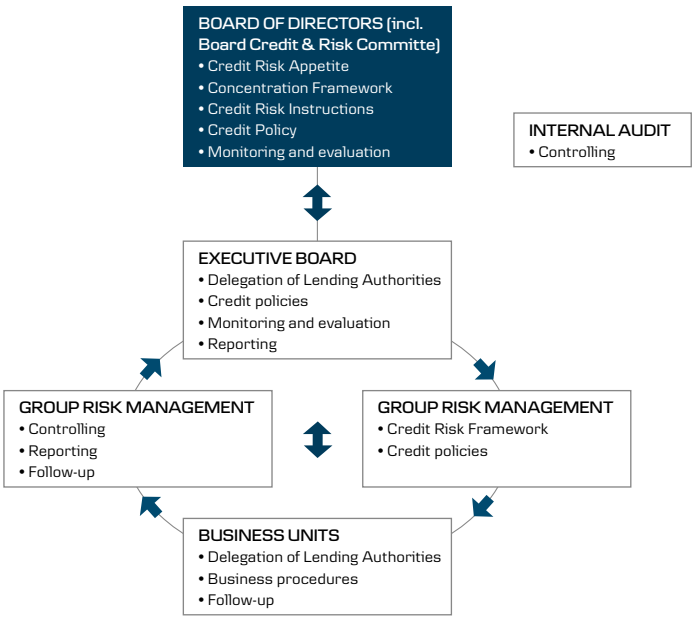
The Group Credit Risk Appetite statements are converted by the business units to their own key performance indicators in collaboration with Group Risk Management. Monitoring functions determine whether credit facilities are granted in accordance with the risk appetite. Group Risk Management monitors and challenges the performance and reports the progress to the Executive Board and Board of Directors.

4.2 GOVERNANCE AND RESPONSIBILITIES

The Executive Board approves the Credit Risk Framework, which provides the overall structure that supports effective governance of the Group's credit risk. The objectives of the Credit Risk Framework are as follows:

- To ensure the execution of responsibilities related to credit risk that are delegated by the Board of Directors to management
- To ensure efficient credit processes, robust decision making and a strong culture of credit risk management
- To support the Group's performance in accordance with strategic objectives
- To ensure compliance with legal and regulatory requirements related to credit risk

DANSKE BANK GROUP'S CREDIT RISK FRAMEWORK



The Executive Board ensures that the risk organisation is structured in such a way that the execution of tasks is separated from the control of the same tasks. The Group meets this requirement by organising its credit controls along three lines of defence:

- First line of defence – business units
  - Operate in accordance with risk appetite, policies and delegated mandates
  - Manage credit risk within applicable frameworks and limits
  - Are responsible for having adequate skills and operating procedures for exercising sound risk management
- Second line of defence – Group Risk Management
  - Sets the policies and governance frameworks under which the business units operate
  - Monitors compliance and ensures that the Executive Board and the Board of Directors are kept informed of the credit risk in the credit portfolio
  - Is responsible for the overall Credit Policy, the Credit Risk Appetite, the Concentration Framework and the Credit Risk Instruction
  - Provides independent assurance that credit risk management is conducted within the framework set by the Board of Directors and Executive Board (in a separate risk control unit)
- Third line of defence – Internal Audit

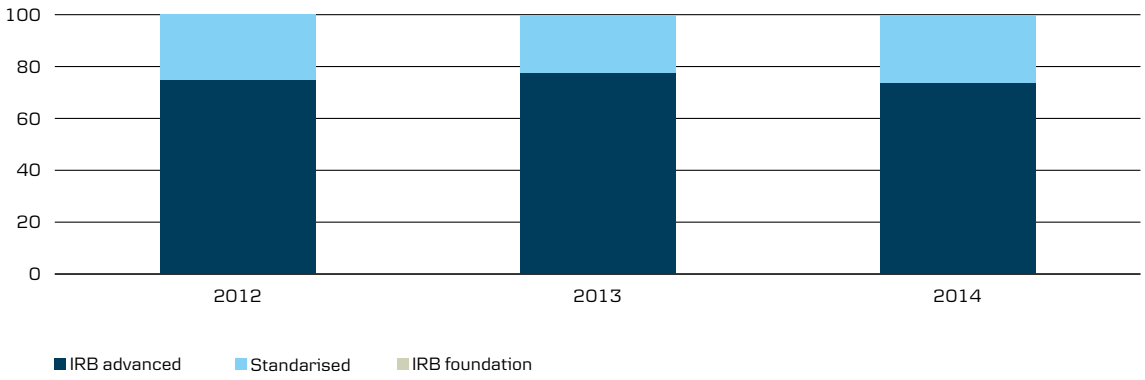
The head of Group Risk Management, the Group chief risk officer (CRO), reports to the Board of Directors in cooperation with the Group CEO. The CRO is the "risk-responsible officer" for the Group. This position gives the CRO the practical authority to veto any credit proposal. The CRO cannot be removed from office without the express approval of the Board of Directors. The CRO is the only Executive Board member who is a standing member of the Credit & Risk Committee. The CRO is also responsible for the credit risk reports that are submitted to the Board of Directors, the Board Credit & Risk Committee, the Executive Board, and the All Risk Committee. These reports do not require prior approval from the CEO.

4.3 IRB FRAMEWORK AND MODEL DEVELOPMENT

In 2008, the Danish FSA approved the Group's application to use the advanced internal ratings-based (A-IRB) approach for calculating the total risk exposure amount (REA). The approval covered all asset classes except sovereigns. At the end of 2014, the Group reported DKK 2,194 billion of exposure at default (EAD), with 73% calculated according to the A-IRB approach (83% at year-end 2008) and 27% according to the standardised approach.

In 2014, the following changes were made to the calculation of REA: the Group received a permanent exemption from A-IRB for Danske Bank International S.A. (Luxembourg); and it was allowed to calculate the REA for an investment portfolio of low-risk covered bonds with the standardised approach.

EAD BROKEN DOWN BY CREDIT RISK MEASUREMENT APPROACH
(%)



The Group is currently applying for approval to calculate REA for Danske Bank OYJ (Finland) according to the foundation IRB approach, and implementation is expected in 2015. The IRB governance structure and the modelling framework are evaluated regularly.

Monitoring of the IRB framework

Group Risk Management reviews and follows up on compliance with the minimum IRB requirements in CRR/CRD IV. This annual process includes reporting to the Executive Board as well as Internal Audit.

In June 2013, the Group received a number of orders from the Danish FSA related to the IRB framework. In September 2013, the Group implemented a temporary increase in risk weights of 10 percentage points through a loss given default (LGD) add-on because of the orders. In 2013 and 2014, it redeveloped a number of models to improve their performance and adapt them better to both business needs and regulatory requirements. The applications for these model changes were sent to the Danish FSA in 2014 in order to permanently resolve the issues in the orders.

The Danish FSA has granted the Group an exemption from the A-IRB approach for exposures to government bonds and equities, among other things. The exemption also applies to exposures at the legal entities Danske Bank Limited (Northern Ireland), Danske Bank International (Luxembourg) and Danske Bank Plc (Finland) as well as to retail exposures at Danske Bank Ireland. For these exposures, the Group currently uses the standardised approach. The Group expects to obtain approval in 2015 to use the F-IRB approach for credit risk exposure at Danske Bank Plc. Currently, the exemptions cover the following exposures:

- Exposure to sovereign asset class
- Exposure to regional and local authorities treated as institutional asset class
- Exposure to equities
- Exposure to purchased receivables
- Intragroup exposures
- Exposure through branches in Estonia, Latvia and Lithuania
- Exposure to the retail asset class through branches in the Republic of Ireland
- Exposure to covered bonds
- Selected other minor portfolios

4.4 REPORTING AND MONITORING

The Group has a number of systems for measuring and controlling credit risk. Among the most important are the Credit System (including the Delegated Lending Authorities System), the Collateral System, the Rating/Scoring System and a number of follow-up systems. Several controls are incorporated in these systems to ensure the following:

- Accurate classification of customers
- Timely registration and accurate valuation of collateral
- Granting of credit facilities according to delegated lending authorities
- Formalised monitoring and follow-up procedures

The Credit System is the foundation of an efficient, automated credit process that gives access to details about credit facilities. The system is used for all customer segments and products across all sales channels. It ensures that the basis for decision making, including file comments, current credit exposure and financial statements, is created and stored.

The Group monitors changes in customers' financial conditions closely in order to determine whether the basis for granting credit facilities has changed. The facilities should adhere to the Group's Credit Policy, including the Principles of Responsible Lending. The Principles of Responsible Lending focus on the customer's understanding of the consequences of borrowing; the assessment of the customer's needs and ability to repay; and possible conflicts with the Group's environmental, social and ethical guidelines. The Delegated Lending Authorities System ensures the efficient administration and control of lending authorities. If a delegated lending authority is exceeded, a report or a request for verification will be sent to the relevant manager or local credit office.

Group Risk Management oversees the Group's credit activities and reports on developments in the credit portfolios. Portfolio reports are produced for the Executive Board and the All Risk Committee on a monthly basis and for the Credit & Risk Committee and the Board of Directors on a quarterly basis.

4.5 CREDIT RISK CONCENTRATIONS

The Group has implemented a set of frameworks to manage credit risk concentrations. The frameworks cover the following concentrations:

- Single-name concentrations
- Industry concentrations
- Geographical concentrations

The following sections explain the breakdown of the Group's exposure across single names and industries.

Single-name concentrations

Single-name concentrations are managed according to two frameworks:

- Large exposures framework: This framework is based on the regulatory definition of large exposures specified in the CRR (Regulation (EU) No. 575/2013), article 395. At the end of 2014, The Group was well within the regulatory limits for large exposures. The Group has also defined stricter internal limits for managing single-name concentrations, including the following:
  - absolute limit on single-name exposures
  - the sum of single-name exposures larger than 10% of the total adjusted capital may not exceed a portfolio limit of 95% of the total adjusted capital (at the end of 2014, no exposures exceeded 10%)
  - the sum of single-name exposures equal to 5% to 10% of the total adjusted capital may not exceed 150% of the total adjusted capital (at the end of 2014, this segment represented 46% of the total adjusted capital)
- Single-name concentration framework: The Group has also implemented a risk-sensitive internal framework that specifies limits on exposure, expected loss (EL) and LGD in order to limit losses on single-name exposures.

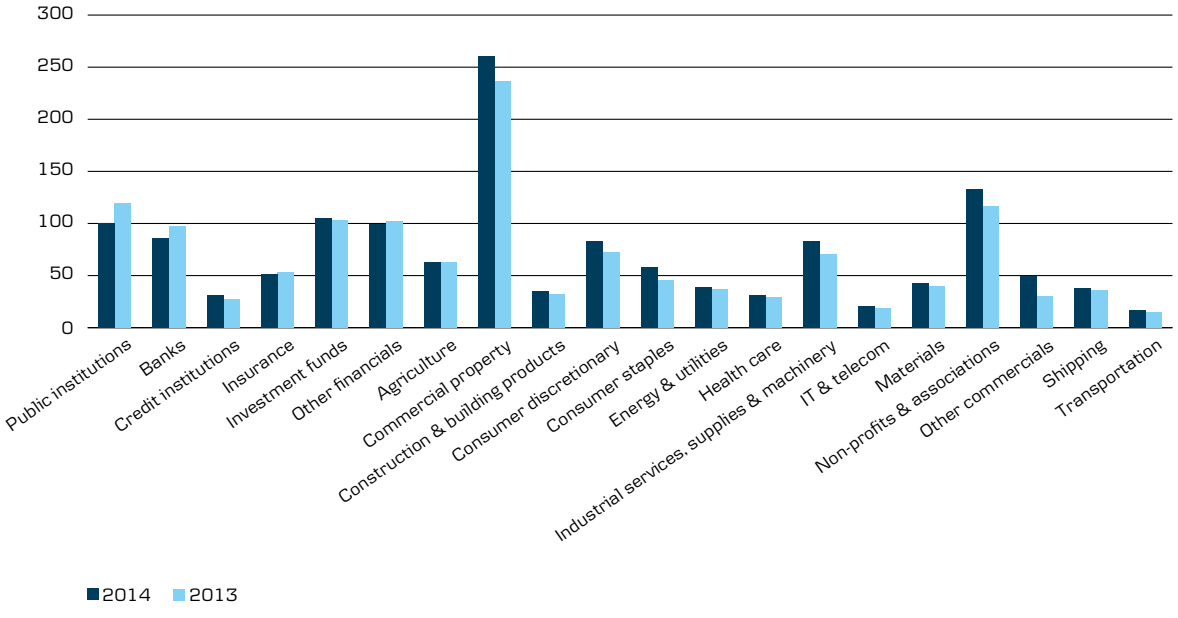
The largest single-name exposures are monitored daily and reported to the Board of Directors on a quarterly basis. The Group has reduced single-name exposures substantially in recent years.

Industry concentrations

The Industry Concentration Framework outlines the principles of managing industry exposures. A portfolio committee consisting of industry experts, risk representatives and business unit representatives proposes industry limits based on scorecards, tailored analytics and expert knowledge. The committee then submits the proposed limits to the Executive Board as well as input to the annual Credit Risk Appetite process.

At the end of 2014, exposure to personal customers, which consisted mostly of home financing secured on real property, represented the largest share of total exposure (37%). The remainder of the exposure, which related mainly to commercial customers, was diversified across various industries. Of these industries, commercial property represented the largest exposure, at 12% of total exposure.

CREDIT EXPOSURE BREAKDOWN BY INDUSTRY
(DKK billions)



4.6 CREDIT RISK ASSESSMENT

The Group uses credit risk models to assess the risk on all customers. The calculations, which are made in accordance with the IRB framework, take into account the likelihood of default and the estimated loss if a customer defaults.

The Group's probability of default (PD) models classify customers according to risk and update the classifications when new information is received. The main objectives of risk classification are to rank customers according to risk and to estimate the PD of each customer.

The Group uses LGD to estimate the loss on facilities in case of default. The LGD models are based on historical data, and the primary factors are collateral and cure probability. The conversion factor (CF) models express a conservative estimate of the EAD. The maturity indicates the remaining length of the individual contract. PD, LGD and CF values are taken into account in the allocation of capital.

In the credit risk management process, the Group uses point-in-time (PIT) PD estimates for risk classification, PIT LGDs and PIT CFs. The PIT PD estimates are based on inputs that are sensitive to the current macroeconomic conditions, and the PD estimates thus change over a business cycle. Since the PD bands of the overall scale are fixed, the percentage of customers within each PD band will vary over a business cycle. During a downturn, a customer's PIT PD may increase, and the customer may migrate to a lower rating category.

For regulatory (REA) purposes, the PIT PDs are converted to through-the-cycle (TTC) PD levels by means of a scaling mechanism that ensures fixed-target levels while preserving the customer rankings. For regulatory purposes, downturn LGDs and CFs are used – with regulatory floors and additional prudential margins.

Rating and scoring

The Group has developed a number of PD models to assess the probability of default of customers in various segments. Large business and financial customers (generally those with an exposure greater than DKK 2 million) are classified by rating models, while small business customers and personal customers are classified by scoring models. Group Risk Management is responsible for the rating and scoring models and processes.

Corporate and financial customers are rated by models in which the primary factor is the customer's financial statements. An assessment of the customer's prospects and qualitative information, such as the earnings outlook for the industry, are also considered. Relationship managers and customer advisers can provide factual information in the process but have no influence on the outcome. On the basis of this input, the model proposes a rating. The final rating takes into account input from expert assessments.

The Bank rates sovereign counterparties and central banks by converting external ratings from international rating agencies (primarily Moody's and Standard & Poor's). Local authorities and regions in the Nordic countries are assigned the same rating as the country. Ratings of local authorities in other countries are limited and are based on expert assessments.

The rating of customers is performed by credit departments in Group Risk Management. The process includes a manual control insofar as two employees are involved in most of the rating decisions: a rating officer who recommends the rating and a senior rating officer with authority to approve the rating.

After approval, a rating applies until new information is received and the rating is reassessed. Customer ratings are reassessed periodically. The ratings of large business and financial customers are reassessed more frequently than those of small customers. The reassessments are based on new information, including financial statements, budgets and other information, that affects a customer's creditworthiness.

The Bank assigns credit scores to customers that are not rated. These customers include personal customers and small business customers. The Bank has developed statistical models based on the information it possesses about customers to predict the likelihood that a customer will default. Since the accessibility of data on personal and small business customers varies from country to country, the Group has developed models for each market in which it operates. A score is based on either application data or behavioural data. A limited number of customers are assigned scores based on more general statistics because the information is temporarily insufficient or outdated. After the statistical calculation, the score may be downgraded to another classification if a risk event is registered for the customer. Risk events are registered either automatically or manually by an adviser.

The credit scores are updated monthly in an automated process. The updated scores are subject to a number of automated controls at the model level, and the automated controls are reviewed manually. The updated scores are not released until any issues have been resolved.

Risk classification distribution

The Group's overall classification scale consists of 11 main categories, with category 11 containing customers in default. Most of the categories are divided into two or three subcategories, making a total of 26 rating categories.

Scoring and rating are integral parts of the credit approval process as well as the overall credit risk management process. In the following sections, the term "rating categories" refers to the 11 main categories of the scale, which covers both ratings and credit scores.

At the end of 2014, the overall credit quality of the Group's portfolio remained sound as 97% of total credit exposure had a rating classification from 1 to 8 (2013: 96%). At Personal Banking, credit exposure in rating categories 1-8 accounted for 97% of total exposure. At Business Banking and C&I, exposure in rating categories 1-8 accounted for 93% and 99% of credit exposure, respectively.

RATING CATEGORY BREAKDOWN

At 31 December Rating category	PD scale (%)		Net credit exposure (DKK billions)	
	Upper	Lower	2014	2013
1	0.00	0.01	69	99
2	0.01	0.03	185	147
3	0.03	0.06	394	393
4	0.06	0.14	447	405
5	0.14	0.31	510	457
6	0.31	0.63	289	296
7	0.63	1.90	213	210
8	1.90	7.98	82	80
9	7.98	25.70	22	30
10	25.70	99.99	38	38
11	100.00	100.00	18	17
Total			2,268	2,173

The internal PD rating scale can be compared with the rating scale used by external credit assessment institutions such as Standard & Poor's and Moody's. Ratings 1 to 5 can be compared to investment grades; ratings 9 and 10 designate highly vulnerable customers; and rating 11 represents customers in default. The Group's internal ratings are based on PIT parameters, which means that the ratings reflect the probability of default within a year. Since Standard & Poor's and Moody's use TTC parameters, the rating scales are not 100% comparable. In addition, the category assignments are dynamic and change over time.

Validation of credit risk models

In accordance with the CRR requirements, the Group has an internal validation process aimed at ensuring and improving the performance of models, processes and systems. The models are validated annually, independently of the business units as well as the group that develops the models. The validation process plays an important role in the adjustment and further development of the models.

PD Models

The accuracy of the rating, the rating age, distribution, overrides and rating events are monitored both by the credit departments and centrally by Group Risk Management. The PD models are validated centrally by Group Risk Management.

LGD and CF

The accuracy of the LGD models is validated centrally by Group Risk Management, which compares the estimated losses with the observed losses on defaulted customers. To validate the CFs, it compares the estimated EAD with the observed EAD.

Validation includes both a quantitative and a qualitative aspect. The quantitative aspect covers the models' ability to rank customers and their ability to predict observed parameters. The qualitative validation is a broad assessment of the model framework that includes the implementation of the model, model usage and data quality. The annual validations of the credit risk models are approved by the Model & Parameter Committee.

4.7 CREDIT RISK MITIGATION AND COLLATERAL MANAGEMENT

The Group uses a number of measures to mitigate credit risk, including collateral, guarantees and covenants. The main method is obtaining collateral.

The market value of collateral is monitored and re-evaluated by advisers, internal or external assessors, or automatic valuation models. Automatic valuation models are validated annually and are monitored quarterly. The Group regularly evaluates the validity of the external inputs on which the valuation models are based. The Collateral System supports the process of reassessing the market value to ensure that the Group complies with regulatory requirements.

The market value of collateral is subject to a haircut. The haircut reflects the risk that the Group will not be able to obtain the estimated market value upon the sale of an asset in a distressed situation. It includes forced sale reduction, price volatility in the sales period, realisation costs and maintenance costs. The haircut applied depends on collateral type. For regulatory purposes, the Group also applies a downturn haircut.

The composition of the Group's collateral base reflects the product composition of the credit portfolio. The most important collateral types, measured by volume, are real property and financial assets in the form of shares and bonds. Personal customers' real property accounts for 46% of the total collateral base (after haircuts).

COLLATERAL VALUE BY TYPE (AFTER HAIRCUTS)

At 31 December (DKK billions)	Personal Banking		Business Banking		C&I		Other		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Real property	667.2	676.7	416.5	405.1	28.6	25.9	0.2	0.0	1,112.5	1,107.7
- Personal	665.5	674.5	24.5	24.3	0.0	0.0	0.0	0.0	690.0	698.9
- Commercial	1.6	2.0	346.8	335.9	26.5	23.4	0.1	0.0	375.1	361.3
- Agricultural	0.1	0.1	45.2	45.2	2.1	2.5	-	-	47.5	47.8
Bank accounts	0.7	0.7	0.7	0.7	0.2	0.2	0.0	0.0	1.6	1.7
Custody accounts and securities	6.4	6.3	5.8	9.6	281.7	282.3	3.2	2.9	297.1	301.1
Vehicles	2.4	2.7	11.8	12.1	0.4	0.5	0.0	0.0	14.7	15.3
Equipment	0.1	0.1	20.5	19.1	0.8	1.3	0.0	0.0	21.4	20.6
Vessels and aircraft	0.1	0.2	2.4	1.2	20.7	18.4	-	-	23.2	19.8
Guarantees	4.1	4.2	2.6	2.9	2.5	3.2	-	0.0	9.3	10.2
Amounts due	0.1	0.1	4.9	4.5	0.5	0.6	0.0	0.0	5.5	5.2
Other assets	0.2	0.2	25.2	15.3	3.9	3.1	-	-	29.2	18.6
Total collateral	681.5	691.2	490.3	470.9	339.4	335.5	3.3	3.0	1,514.5	1,500.5

4.8 IMPAIRMENT CHARGES

The Group conducts impairment tests, assessing all credit facilities for objective evidence of impairment (OEI) in accordance with IFRSs and guidelines set out in the Executive Order on Financial Reports for Credit Institutions from the Danish FSA.

Impairment charges are based on discounted cash flows. The Bank's systems calculate impairment charges for small loans automatically, taking into account the discounted market value of the collateral after the deduction of the costs of realising the assets (a haircut, according to IAS 39). Impairment charges for all medium and large exposures with OEI are assessed by senior credit officers. The accumulated impairment charges constitute the allowance account.

Individual impairment charges

When OEI appears for a facility, the Group applies it to all the customer's facilities and calculates the impairment charge on the basis of the total customer exposure. Under certain conditions, OEI for one customer may be applied to other customers when the customers have a "financial relationship"; for example, if they are part of the same customer group.

All customers with OEI are downgraded to rating category 10 or 11.

Customers in default (with the probability of default set at 100%) are downgraded to rating category 11 even if collateral values or other means of recovery exceed the exposure and, consequently, no impairment charges are booked against it.

Impairment charges against facilities granted to customers in rating category 11 are based on the exposure less the present value of the expected proceeds from realising collateral and other assets. The collateral values are calculated as the estimated realisation value within a six-month time horizon less a haircut to cover the estimated realisation costs.

Customers with OEI that are not in default are automatically downgraded to rating category 10. These customers are deemed to be in significant financial difficulties; for example, their cash flows appear insufficient to service their future obligations over a realistic period, their capital situation is unsatisfactory, or a restoration of sustainable earnings and capital levels cannot be expected.

The calculation of impairment charges against facilities granted to customers that are in significant financial difficulties (in rating category 10) is based on an expectation of either financial restructuring or bankruptcy. In the restructuring scenario, the Group assumes that the customer is a going concern, although the debt is too high in relation to the cash flow. The credit officer's best estimate of the amount of debt that the borrower will be able to service in a future financial restructuring serves as a basis for the impairment charge. If restructuring is judged to be impossible, the credit officer assumes that bankruptcy will occur, and the impairment charge is based on the exposure less the present value of the expected proceeds from realising the collateral and other assets.

For loans measured at fair value, the calculation of individual impairment charges is made in accordance with principles similar to those used for calculating individual impairment charges for loans at amortised cost, with two exceptions. For discounting purposes, the current effective interest rate is used instead of the original effective interest rate. For lending classified as asset financing, value adjustments are made in the same way as for other types of financing, meaning that the debt is written down to the fair value of the collateral only if financial reorganisation is not possible.

During the collection process, the Group may determine that a loss is unavoidable, and the loan in question will be written off, either partly or fully. If the Group later arranges a payment agreement for a loan that has been written off, the loan is recognised on the balance sheet as a new loan at a value equal to the present value of the payment agreement.

Collective impairment charges

Loans without OEI are included in a collective assessment of the need for impairment charges. Collective impairment charges are calculated for loans with similar credit characteristics, for example when the expected cash flow from a customer group deteriorates but no adjustment has been made to the credit margin. The charges are based on changes in customers' rating classifications over time (which is termed "migration").

When external market information indicates that an impairment event has occurred, even though it has not yet caused a change in ratings, the Group registers an "early event" impairment charge. Early events represent an expected rating change because of deteriorating market conditions in an industry. If a rating downgrade does not occur as expected, the charge is reversed.

Impairment charges, the allowance account and NPL

In 2014, impairment charges declined to DKK 2.8 billion (2013: 4.1 billion), or 15 bp (2013: 21 bp) of loans and guarantees. Individual impairment charges fell across all business units, reflecting improving macroeconomic conditions.

Net NPL exposure increased to DKK 29.4 billion at the end of 2014 (2013: DKK 27.5 billion). The increase came mainly from Danish personal customers and a few single-name customers.

NPL AND IMPAIRMENT CHARGES BROKEN DOWN BY INDUSTRY

At 31 December (DKK millions)	2014 Gross NPL	2014 Acc. individual impairment charges	2014 Net NPL exposure	2014 Net NPL exposure, ex collateral	2013 Gross NPL	2013 Acc. individual impairment charges	2013 Net NPL exposure	2013 Net NPL exposure, ex collateral
Public institutions	1	1	1	1	22	1	21	3
Banks	246	91	155	155	255	87	168	168
Credit institutions	0	0	0	0	-	-	-	-
Insurance	30	12	18	0	34	17	18	-0
Investment funds	1,574	462	1,112	0	1,640	531	1,109	969
Other financials	142	142	0	0	136	136	-0	-0
Agriculture	3,434	2,529	906	377	3,600	2,863	736	214
Commercial property	16,714	7,386	9,328	850	17,519	8,175	9,344	501
Construction & building products	2,744	2,135	608	186	3,756	2,952	805	123
Consumer discretionary	3,799	2,463	1,337	169	4,871	2,930	1,942	448
Consumer staples	712	386	325	119	601	370	231	81
Energy & utilities	596	171	425	374	128	61	67	51
Health care	129	91	38	1	91	83	8	0
Industrial services, supplies & machinery	2,559	1491	1,068	383	2,861	1,825	1,035	422
IT & telecom	247	206	41	0	277	247	30	-0
Materials	1,849	1,304	545	68	1,535	1,072	463	-0
Non-profits & associations	3,808	1,237	2,571	0	3,686	1,091	2,594	0
Other commercials	336	336	0	0	354	354	0	0
Shipping	4,486	1,797	2,689	794	4,179	1,890	2,289	742
Transportation	362	241	121	0	474	325	149	0
Personal customers	14,671	6,569	8,102	1,191	12,962	6,455	6,507	825
Total	58,439	29,049	29,390	4,668	58,981	31,464	27,517	4,546

The stock of impairments is reduced by write-offs and reversals of the charges.

The Group engages in work-out processes with customers in order to minimise losses and help viable business customers stay in business. Because of the length of the work-out processes, the Group is likely to maintain impairments for these customers for years.

Some impairments are held against assets with a non-linear repayment profile such as interest-only home loans. Customers with such loans are able to make their current payments but have an increased risk of default when the interest-only period expires. Impairments held against such assets are likely to be maintained until a default occurs and a loss is deemed to be inevitable or until the customer's financial situation changes.

4.9 CUSTOMERS IN DEFAULT, FORBEARANCE AND REPOSSESSED ASSETS

The Group adopts forbearance plans to assist customers in financial difficulty. Concessions granted to customers include interest-reduction schedules, interest-only schedules, temporary payment holidays, term extensions, cancellation of outstanding fees, waiver of covenant enforcement and settlements.

Forbearance plans must comply with the Group's Credit Policy. They are used as an instrument to retain long-term business relationships during economic downturns if there is a realistic possibility that the customer will be able to meet obligations again, or used for minimising loss in the event of default.

If it proves impossible to improve the customer's financial situation by forbearance measures, the Group will consider whether to subject the customer's assets to a forced sale or whether the assets could be realised later at higher net proceeds. At the end of 2014, the Group recognised properties taken over in Denmark at a carrying amount of DKK 106 million (2013: DKK 193 million) and properties taken over in other countries at DKK 520 million (2013: DKK 94 million).

The Group has implemented the European Banking Authority's (EBA's) definition of loans subject to forbearance measures. The table below is based on the EBA's definition, which states that a minimum two-year probation period must pass from the date forborne exposures are considered to be performing again. Such exposures are included in the Under Probation category in the table below. Exposures with forbearance measures are divided into performing and non-performing loans.

EXPOSURE SUBJECT TO FORBEARANCE

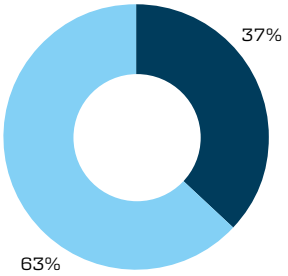
	2014		2013	
(DKK millions)	Performing	Non-performing	Performing	Non-performing
Modification	163	1,394	66	452
Refinancing	789	3,884	200	3,867
Under probation	2,657	-	2,241	-
Total	3,609	5,278	2,507	4,319

4.10 TRENDS IN SELECTED PORTFOLIOS

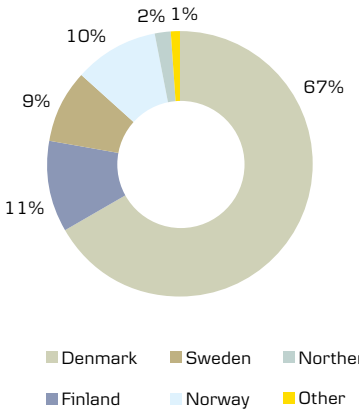
This section describes the trends in credit quality in selected lending portfolios. These portfolios either have an increased credit risk or represent a significant portion of the Group's total lending portfolio.

PERSONAL CUSTOMERS

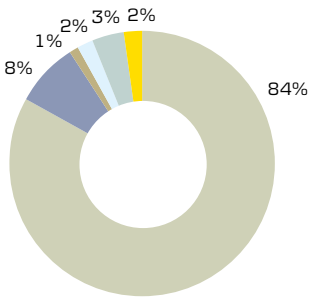
Gross credit exposure to personal customers as % of total portfolio



Gross credit exposure by country



Allowance account by country



Measured by gross credit exposure, the personal customer portfolio is the Group's largest portfolio. At the end of 2014, gross credit exposure amounted to DKK 848 billion, with DKK 431 billion at Realkredit Danmark. The exposure to personal customers covers loans secured on customers' assets, consumer loans and fully or partly secured credit facilities. Home mortgage loans represent by far most of the exposure to personal customers (86%).

DEVELOPMENTS IN THE PERSONAL CUSTOMER PORTFOLIO

	Key figures					NPL		
(DKK millions)	Gross credit exposure	Allowance account, total	Write-offs	Impairment charges (bp)	Collateral (after haircut)	Net exposure	Share of total exposure	Coverage ratio
2013	834,863	6,455	2,303	27	715,747	12,962	0.02	0.89
2014	847,584	6,569	1,862	23	707,416	14,671	0.02	0.85

The total exposure declined somewhat in the beginning of 2014, mainly because of amortisation and currency effects. In the second half of the year, new credit volume, particularly at Realkredit Danmark, more than offset amortisation. For the full year, Denmark and Norway saw increases in mortgage lending.

The credit quality of the personal customer portfolio depends on interest rate levels, disposable income, unemployment and residential property prices. In 2014, the credit quality of the personal customer portfolio improved because of improved financial conditions for homeowners and rising residential property prices.

The main risks in the personal customer portfolio relate to the following:

- **Interest-only loans, Denmark:** Interest-only loans have received much attention because the interest-only period for a large volume of loans will be reset in the near future. The first interest-only loans were reset in 2013, and the bulk of the exposure will be reset in the 2016-18 period. The exposure to loans with high LTV ratios that will be reset before the end of 2020 is limited to DKK 28 billion, and the vast majority of these customers have strong credit quality. The Group considers the current level of impairments to be sufficient, and the Credit Risk Appetite includes a KPI for interest-only loans as a percentage of approvals of new lending.

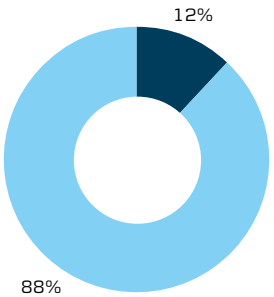
- **Short-term adjustable-rate mortgages (ARMs), Denmark:** After price initiatives, the introduction of FlexKort loans, and a continuation of low interest rates, the Group's exposure to F1 mortgages has declined significantly. The refinancing risk on short-term mortgage lending thus continues to fall.

- **Weak economy, Finland:** Finland is subject to adverse macroeconomic developments. Towards the end of 2014, the economy showed signs of returning to growth, and the slow recovery is expected to continue in 2015. Low LTV ratios and a low proportion of interest-only loans have kept impairments at a moderate level, but the Group remains vigilant about these developments. House prices are fragile, but they have benefited from low interest rates and limited supply.

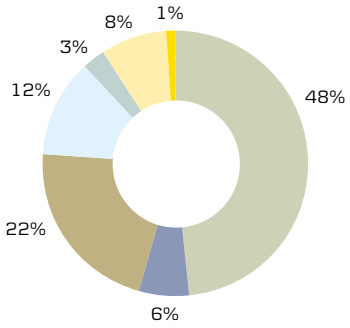
- **High household debt, Sweden:** Household debt is high, and property prices continue to rise in Sweden. A low average LTV ratio provides some protection, but a large share of interest-only mortgages increases the risk. In 2014, the share of interest-only approvals in Sweden decreased in accordance with the Credit Risk Appetite. The Swedish Financial Supervisory Authority will implement new amortisation rules for new mortgages in 2015.

COMMERCIAL PROPERTY

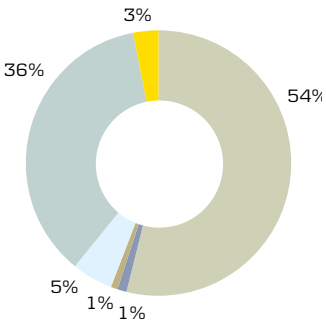
Gross credit exposure to commercial property as % of total portfolio



Gross credit exposure by country of residence



Allowance account by country of residence



The commercial property portfolio consists primarily of secured property financing exposure to owners of property that is let to a third party. It also includes exposures in which the property owner and the property user are separate legal entities within the same group.

At the end of 2014, gross credit exposure amounted to DKK 269 billion. Business Banking accounted for 91% of the exposure, with the remainder stemming from C&I. The individual allowance account for the portfolio, which amounted to DKK 7.4 billion, represented 3% of gross credit exposure.

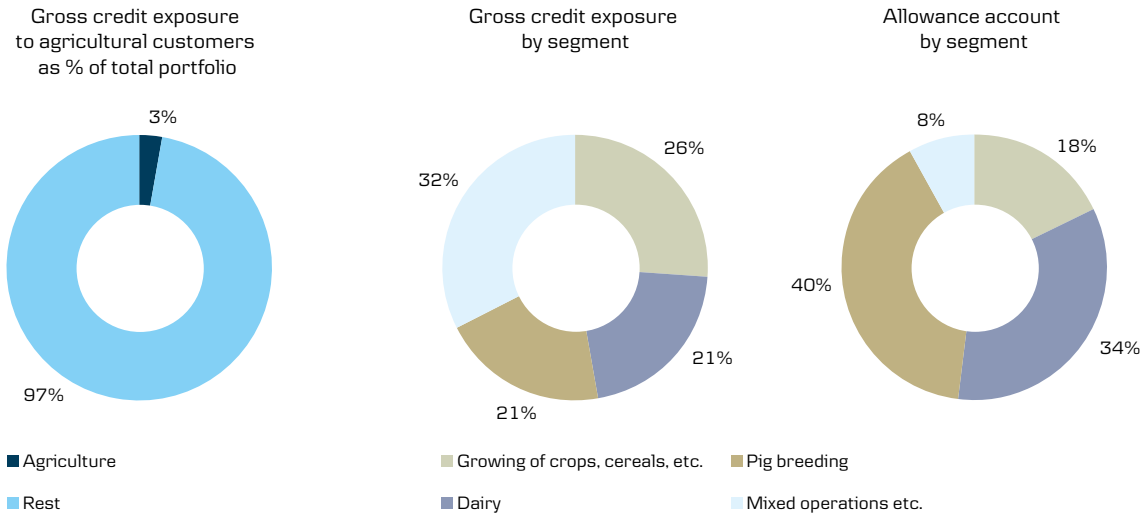
DEVELOPMENTS IN THE COMMERCIAL PROPERTY PORTFOLIO

	Key figures					NPL		
(DKK millions)	Gross credit exposure	Allowance account, total	Write-offs	Impairment charges (bp)	Collateral (after haircut)	Net exposure	Share of total exposure	Coverage ratio
2013	245,552	8,175	639	41	195,335	17,519	0.07	0.94
2014	268,626	7,386	903	-	211,808	16,714	0.06	0.90

* Gross credit exposure excludes accumulated collective impairment charges.

The credit quality of the commercial property portfolio improved in 2014 because of new exposures to highly rated customers and improving market conditions in Denmark and Northern Ireland, where most of the distressed loans originated.

AGRICULTURE



The agriculture portfolio includes customers within traditional agricultural segments such as dairy, pigs, cereals and other crops and also customers within related activities such as the manufacture and wholesale distribution of feed and seed products. Exposure to agricultural customers includes loans and credit facilities.

At the end of 2014, gross credit exposure amounted to DKK 65.8 billion, compared with DKK 65.7 billion at the end of 2013. Denmark accounted for 77% of the portfolio's gross exposure and 95% of accumulated individual impairment charges. Of the Danish agricultural portfolio, Realkredit Danmark accounted for 83% of the gross exposure and 5% of accumulated individual impairment charges. Credit quality remained weakest among pig producers and dairy farmers.

In the second half of 2014, market conditions for dairy farmers and pig farmers deteriorated significantly because of the Russian embargo, lower demand from China and an increased global supply of agricultural products. As a consequence, the pressure on the weakest farmers with high leverage and low profitability increased markedly. Overall, high indebtedness and a very high proportion of variable interest rate loans remain major risks.

The Group's agricultural exposure is managed by specialist teams for customer relationships and credit management.

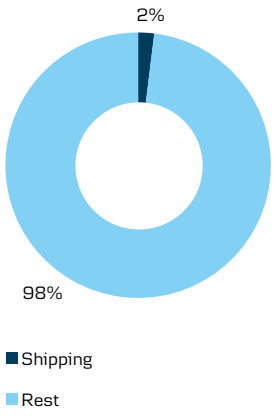
DEVELOPMENTS IN THE AGRICULTURE PORTFOLIO

	Key figures					NPL		
(DKK millions)	Gross credit exposure	Allowance account, total	Write-offs	Impairment charges (bp)	Collateral (after haircut)	Net exposure	Share of total exposure	Coverage ratio
2013	65,729	2,863	209	48	50,767	3,600	0.05	0.93
2014	65,805	2,529	219	53	50,217	3,434	0.05	0.87

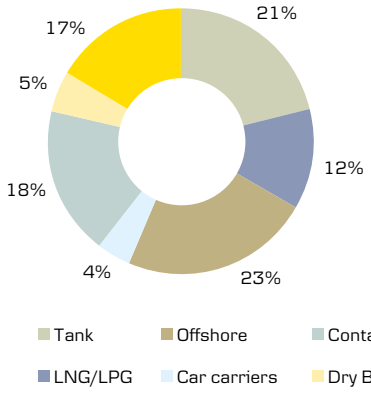
* Gross credit exposure excludes accumulated collective impairment charges.

SHIPPING

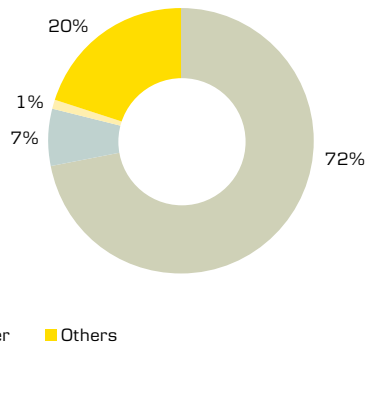
Gross credit exposure to shipping customers as % of total portfolio



Gross credit exposure by segment



Allowance account by segment



The shipping portfolio includes customers within standard segments such as container, tank, bulk and gas freight and also offshore-related activities. Exposure to shipping customers relates primarily to vessel financing secured by vessel or fleet mortgages.

At the end of 2014, gross credit exposure amounted to DKK 39.3 billion, compared with DKK 38.1 billion at the end of 2013. Market conditions are still difficult in some sub-segments and continue to affect the portfolio's credit quality.

DEVELOPMENTS IN THE SHIPPING PORTFOLIO

	Key figures					NPL		
(DKK millions)	Gross credit exposure	Allowance account, total	Write-offs	Impairment charges (bp)	Collateral (after haircut)	Net exposure	Share of total exposure	Coverage ratio
2013	38,053	1,890	18	-5	18,992	4,179	0.11	0.72
2014	39,338	1,797	356	25	19,598	4,486	0.11	0.69

* Gross credit exposure excludes accumulated collective impairment charges.

The Group's shipping exposure is managed by specialist teams for customer relationships and credit management. The Group also has a specific credit policy for the shipping segment.

In addition to exposure to the offshore segment, direct exposure to oil-related industries (mainly oil service and oil majors, which are part of the energy and utilities portfolio) amounted to DKK 5.2 billion at the end of 2014. The credit quality was generally good.

Non-core

The Non-core portfolio is managed separately by a work-out team. The portfolio is divided into two parts: Non-core Ireland and Non-core conduits etc. The portfolio is managed with a view to winding up the exposure over time.

Non-core Ireland

DEVELOPMENTS IN THE NON-CORE IRELAND PORTFOLIO

	Key figures					NPL		
(DKK millions)	Gross credit exposure	Allowance account, total	Write-offs	Impairment charges (bp)	Collateral (after haircut)	Net exposure	Share of total exposure	Coverage ratio
2013	41,310	11,570	2,373	374	23,162	19,343	0.47	0.96
2014	27,062	6,840	4,098	244	17,162	12,154	0.45	0.99

* Gross credit exposure excludes accumulated collective impairment charges.

At the end of 2014, gross credit exposure to Non-core Ireland fell to DKK 27.1 billion, or 1.2% of the Group's total gross credit exposure, compared with DKK 41.3 billion at the end of 2013. The individual allowance account amounted to DKK 6.8 billion, or 19% of the Group's total individual allowance account. The portfolio reduction is proceeding according to plan.

The Non-core Ireland portfolio includes two sub-portfolios:

- **Personal Mortgages:** Net exposure of DKK 17.4 billion to personal customers' home mortgage loans is being retained and will amortise according to the terms of the loans. The management of these loans has been outsourced to a third-party loan servicer in Ireland, the Pepper Group, which is now managing the loans on a daily basis.

- **Commercial Portfolio:** The remaining exposure of DKK 2.9 billion is covered by our commercial portfolio plans, and the Group intends to exit the portfolio. The portfolio has declined 65% since the end of 2013, and 2,157 properties have been sold since the end of 2012.

Non-core conduits etc.

DEVELOPMENTS IN THE NON-CORE INSTITUTIONAL PORTFOLIO

	Key figures					NPL		
(DKK millions)	Gross credit exposure	Allowance account, total	Write-offs	Impairment charges (bp)	Collateral (after haircut)	Net exposure	Share of total exposure	Coverage ratio
2013	13,191	89	22	-52	9,248	571	0.04	0.16
2014	11,362	259	157	157	8,246	1,410	0.12	0.28

* Gross credit exposure excludes accumulated collective impairment charges.

The portfolio represents 0.5% of the Group's total gross credit exposure and consists mainly of liquidity facilities for conduits. The Group originated its entire portfolio in the period 2001-07, and the gross credit exposure at the end of 2008 amounted to DKK 56.5 billion. The Group's strategy was to acquire bonds or enter into facilities for securitisation assets that were either structurally senior or were expected to obtain a triple-A rating from one or more of the major rating agencies. At the end of 2014, the Group had reduced the portfolio to DKK 11.4 billion.

The key risk on the portfolio still relates to the underlying securitisation transactions, which consist mainly of commercial and residential mortgage loans originated in the UK and Germany.

Counterparty credit risk

5.

Danske Bank Group enters into transactions involving derivatives and securities-financing instruments (SFTs), for example repurchase (repo) and reverse repo agreements, and thus takes on counterparty credit risk. Securities-financing instruments are treated as loans against collateral. Most counterparty credit risk is related to interest rate and foreign exchange contracts. Some 8.6% of the Group's total risk exposure amount (REA) stems from counterparty credit risk, including Central Clearing Counterparty (CCP) and CVA risk charges.

5.1 GOVERNANCE AND RESPONSIBILITY

The Counterparty Credit Risk Policy is approved by the All Risk Committee and is a part of the overall credit governance described in the Credit Risk section.

Group Risk Management is responsible for the consolidated counterparty credit risk management, risk modelling and reporting. The credit departments of the business units are responsible for the day-to-day management of counterparty credit risk at their units.

The Group has an integrated system for internal counterparty credit risk management covering the assignment of lines, monitoring and control of line utilisations, management of master agreements and management reporting.

In accordance with the Counterparty Credit Risk Policy, the Group has set limitations on trades entailing specific wrong way risk (SWWR). The limitations cover product range, counterparty rating and the rating of the underlying securities. Trades with SWWR are monitored constantly and reported to senior management on a regular basis.

5.2 RISK CONTROL PRINCIPLES AND RISK MITIGATION

The Group uses an internal simulation model to calculate exposure used in day-to-day risk management. The model performs a Monte Carlo simulation that simulates potential future market values of each customer's portfolio of transactions.

Close-out netting of the market values is based on legally binding master agreements that the Group has signed with its counterparties. For master agreements that have an associated collateral management agreement, the expected value of the collateral provided or received is also included in the internal simulation model. Counterparty credit risk exposure, which is the potential future value of the netted market values and collateral, is expressed by the potential future exposure (PFE) measure. In the internal simulation model, PFE consists of the largest exposure that the Group can expect at the time of the calculation, at a confidence level of 97.5%. It assumes that all transactions remain in force until the original expiry date. The internal model is used for almost 90% of all transactions.

In calculating the PFE on transactions in products for which the Group does not use the internal model, the potential change in market value is determined as a percentage (add-on) of the nominal principal amount. The add-ons represent a conservative margin in comparison with the risk that the internal simulation model would have calculated if the trades had been covered by the model.

To mitigate counterparty credit risk, the Group generally requires master agreements. This enables the Group to net the positive and negative replacement values of contracts if the counterparty defaults. As an additional mitigating measure for larger counterparties, the Group often attaches collateral management agreements to the master agreements.

Collateral management agreements specify threshold amounts and minimum amounts for the transfer of collateral, and collateral to be provided or received is generally determined on a daily basis. The collateral takes the form of cash, government bonds or mortgage bonds with high ratings.

5.3 COUNTERPARTY CREDIT RISK EXPOSURE

This section provides an overview of the Group's counterparty credit risk that arises from derivatives and securities-financing transactions, including the risk arising from exposure to CCPs. Capital Requirements Directive (CRD) IV, which went into effect on 1 January 2014, introduced a regulatory capital requirement for CCPs.

In 2014, the share of derivatives cleared through CCPs, measured by notional amount, was 62%, unchanged from the level in 2013.

Of the total notional amount of OTC derivatives transactions that are not cleared through a CCP, 94% is supported by collateral management agreements.

At the end of 2014, some 83% of the Group's collateral management agreement holdings consisted of cash. The remainder consisted of Danish and Swedish mortgage bonds and government bonds issued by Denmark, France, Germany, the Netherlands, Norway, Sweden and the United States.

The table below shows the effect of netting and collateral on current exposure.

CURRENT EXPOSURE AFTER NETTING AND COLLATERAL

At 31 December (DKK millions)	2014			2013		
	Total	Derivatives	SFTs	Total	Derivatives	SFTs
Current gross exposure	2,024,910	791,000	1,233,909	2,170,825	896,204	1,274,621
Current exposure after netting	1,343,146	109,236	1,233,909	1,347,903	73,282	1,274,621
Current exposure after netting and collateral	67,976	58,159	9,817	48,690	41,192	7,499

The tables below show the breakdown of current exposure and EAD by exposure class, both after netting and collateral:

CURRENT EXPOSURE AFTER NETTING AND COLLATERAL BY EXPOSURE CLASS

At 31 December (DKK millions)	2014			2013		
	Total	Derivatives	SFTs	Total	Derivatives	SFTs
Central governments and central banks	8,894	5,774	3,119	9,497	7,574	1,923
Institutions	16,580	12,207	4,373	20,595	16,731	3,864
Corporates	42,401	40,076	2,325	18,516	16,804	1,712
Retail	101	101	-	83	83	-
Total	67,976	58,159	9,817	48,690	41,192	7,499

EXPOSURE AT DEFAULT AFTER NETTING AND COLLATERAL BY EXPOSURE CLASS

At 31 December (DKK millions)	2014			2013		
	Total	Derivatives	SFTs	Total	Derivatives	SFTs
Central governments and central banks	62,865	12,542	50,324	31,445	17,314	14,132
Institutions	115,915	102,704	13,211	159,424	116,914	42,510
Corporates	74,218	67,686	6,531	49,887	36,653	13,234
Retail	159	159	-	161	161	-
Total	253,157	183,091	70,066	240,918	171,042	69,876

Most of the Group's counterparties in derivatives trading have high ratings, as shown in the table below.

EXPOSURE AT DEFAULT AFTER NETTING AND COLLATERAL BY RATING CATEGORY

At 31 December (DKK millions)	2014			2013		
	Total	Derivatives	SFTs	Total	Derivatives	SFTs
1	68,893	16,817	52,076	43,918	22,361	21,557
2	29,829	23,555	6,274	42,124	21,526	20,598
3	93,920	85,146	8,774	109,240	94,764	14,476
4	31,468	29,632	1,836	24,284	11,638	12,647
5	19,798	18,722	1,076	12,350	11,996	354
6	4,630	4,630	0	5,011	5,001	10
7	2,804	2,774	30	2,356	2,121	235
8	788	788	0	576	576	0
9	178	178	0	336	336	0
10	469	469	0	498	498	0
11	381	381	0	224	224	0
Total EAD after netting and collateral	253,157	183,091	70,066	240,918	171,042	69,876

5.4 IMM APPLICATION

In 2014, Danske Bank applied to the Danish FSA to use the internal simulation model to calculate the capital requirement for counterparty credit risk (i.e., to become approved to use the Internal Model Method, or IMM) because the model gives a more precise representation of risk than simpler methods do.

Market risk

6.

The Group markets, trades and takes positions in products that entail a variety of market risk components. Most of the Group's trading and position-taking activities involve relatively simple products. Interest rate products represent by far the largest notional trading and position-taking volumes, followed by shares and foreign exchange instruments. Inflation-linked products and commodities are less significant asset classes in the Group's trading and position-taking activities.

At the end of 2014, some 6.8% of the Group's total risk exposure amount related to market risk.

6.1 RISK POLICY, APPETITE AND AUTHORISATIONS

The Group's market risk management and control cover all of its assets, liabilities and off-balance-sheet items. The Board of Directors sets the overall risk policies for the Group's market risk exposures, including risk appetite, general instructions and risk limits.

Taking on market risk is an integral part of the Group's business strategy. The activities that involve market risk derive mainly from the Group's servicing of corporate and institutional clients with risk management solutions. The Corporates & Institutions business unit (C&I) provides a full range of products to Nordic customers and provides core products to customers outside the Nordic region. Advanced derivatives are traded mainly with professional customers, while simple products are distributed to Business Banking and Personal Banking customers as well.

The Group's market risk appetite is defined as its total appetite for market risk given its business strategy and the market environment expected in the near future. Danske Bank establishes its market risk appetite on the basis of a risk mandate assessment. The purpose of the risk mandate assessment is to measure the effect of proposed limits by quantifying the expected upside of using the limits (that is, expected earnings) and the potential downside (that is, the potential loss if the expectations are not realised).

To manage the exposure incurred from servicing customers within the market risk appetite, the Board of Directors has set authorisations that allow the Group's trading units in C&I to take positions for its own account and at its own risk. The Group also takes on market risk as part of its treasury operations, which support the procurement and day-to-day management of liquidity and the management of net interest income. On the basis of the overall risk limits, the Executive Board sets market risk limits for C&I and Group Treasury.

Market risk associated with activities in Personal Banking and Business Banking is either hedged or managed as part of Group Treasury's market risk positions.

The market risk on the assets in which Danica Pension's equity is invested and on assets allocated to Danica's policyholders as well as the market risk relating to the Group's defined benefit pension plans are managed separately (see sections 9 and 10). The Group's overall market risk limits do not apply to the market risks associated with life insurance and pension plans.

6.2 RISK CONTROL

The Group carries out market risk measurement, monitoring and management reporting on a daily basis. In early 2014, the controlling process was enhanced to enable continuous limit monitoring and swift escalation of limit breaches by implementing real-time intra-day monitoring of limit utilisations.

The Group calculates current market risk exposures in internally developed systems that are linked to the trading systems and cover all of its market risk positions.

Market risk control includes setting limits for C&I, Group Treasury and sub-units.

6.3 USE OF MODELS

Since there are shortcomings with every kind of model, no single measure can cover the entire risk in a given position or portfolio. We therefore use a range of measures to create a framework that captures the material risks to which the Group is exposed.

We use both conventional risk measures and mathematical and statistical measures, such as Value at Risk (VaR), to calculate market risk exposures and regulatory capital. The calculations are used for the following purposes:

- Reporting to Group management on a regular basis
- Reporting on the capital requirement for general risk and related backtest results to the Danish FSA
- Internal risk reporting and limit control
- Day-to-day management in the business units

The Group also develops and maintains in-house models that are used for pricing and risk management of financial products that cannot be valued directly on the basis of quoted market prices or standardised financial models.

See section 6.5 for a description of the maintenance of models.

6.3.1 General market risk

The Group uses an internal VaR model for the calculation and management of general market risk at the portfolio level. The current version of the model was approved by the Danish FSA in 2007 for calculating the capital requirement for general market risk. The following risk types are included: interest rate, yield volatility, inflation rate, foreign exchange and equity market risks. The model does not cover commodity risk, to which the Group's exposure is very limited. The model estimates the maximum potential loss from changes in general market risk factors within 10 days at a confidence level of 95% assuming unchanged positions. For capital requirement purposes, VaR is also calculated at a confidence level of 99%.

The Group uses a simulation model to estimate VaR on the basis of two years' historical market data. The main advantages of this method are that it uses full revaluation and makes no assumptions regarding loss distribution. In the simulation, one thousand scenarios are generated by means of a so-called bootstrap method. To construct a 10-day scenario, 10 independent drawings are made from a dataset of two years' historical daily returns. The drawings are generated at random, and 70% of the scenarios are based on the latest year of historical market data. Each outcome contains all the risk factors so that the correlation is maintained.

6.3.2 Bond spread risk

As a supplement, the Group has developed and implemented a stand-alone bond spread VaR model for day-to-day risk management. The model estimates the maximum potential loss from changes in bond spreads within 10 days at a confidence level of 95% assuming unchanged positions. The calculations are made in a stand-alone model that is not integrated with the Group's internal VaR model for general market risk. When the model generates the profit-and-loss distribution, 67% of the scenarios come from the latest year, while the remaining 33% of the scenarios come from the preceding year – effectively the same technique as the one used in the internal VaR model for general market risk. The Group currently calculates the capital requirements for specific risk for both debt and equity instruments according to the standardised approach.

6.4 MARKET RISK EXPOSURES

When calculating the capital requirement, the Group distinguishes between risk exposure in and outside the trading book in accordance with its trading book policy. The policy defines trading book positions generally as positions in financial instruments or commodities that are held for the purpose of trading or of hedging other elements of the trading book. Positions not defined as part of the trading book are by definition part of the banking book. Both types of position are considered in day-to-day risk management and control procedures, however.

The table below shows the Group's total market risk, excluding bonds classified as hold-to-maturity, at the end of 2014 and the end of 2013, broken down according to selected risk factors. The risks are calculated as stand-alone VaR for each risk factor without including diversification effects.

MARKET RISK EXPOSURE (STAND-ALONE VAR, CONFIDENCE LEVEL OF 95%, 10-DAY HORIZON)

At 31 December (DKK millions)	2014	2013
Bond spreads	314	282
Interest rates	115	226
Currencies	15	25
Equities	122	174

Although the exposure to bond spread risk increased from end-2013 to end-2014, the overall exposure to market risk was reduced in 2014. Bond spread risk was lower during the year, primarily because of lower exposure to mortgage and covered bond spreads. It rose to its previous level in Q4, however, owing to increased volatility, mainly in Danish mortgage bonds. Throughout the year, interest rate risk was significantly lower than in 2013, mainly because of lower risk at C&I's trading units.

Most of the exposure to equities related to unlisted shares, and the exposure fell because of the sale of Nets Holding.

6.4.1 Interest rate risk

Interest rate risk is the risk of losses caused by changing yields in the financial markets. Most of the Group's interest rate risk in the trading book derives from activities that involve position-taking in connection with servicing C&I clients with a variety of interest-rate-related products in the Group's various local markets. Most of these activities involve relatively simple interest rate products such as swaps, bonds, futures and standard interest rate options.

Most of the Group's interest rate risk derives from positions in the Scandinavian currencies and euros. The Group is also exposed to yield curve shifts in other currencies in which its customers are commercially active such as USD, GBP, and on a smaller scale AUD, CAD, CHF and JPY.

All interest rate risk is subject to daily risk control. The daily monitoring includes interest rate sensitivity analysis combined with stress-testing metrics and VaR measures. Interest rate risk sensitivities include conventional parallel shifts as well as non-parallel scenarios in which the curvature of the yield curves changes. The Group also actively manages interest rate basis risk that is entailed in derivatives with various rate reset terms and in derivatives that involve an exchange of liquidity.

Interest rate risk outside the trading book is included in the Group's interest rate risk calculations and thus in day-to-day monitoring and risk management. Interest rate risk outside the trading book is related primarily to the Group's funding activities, and it is hedged and treated according to the rules of fair value hedge accounting. Interest rate risk derives, to a lesser extent, from the Group's banking activities, which offer fixed rate deposits, loans and other interest rate products. The interest rate risk on the following remaining fixed rate items is thus not hedged in the accounting process but is managed on a daily basis:

- A portfolio of fixed rate mortgage loans in Denmark
- Fixed rate loans and advances provided by Personal Banking and Business Banking in Finland, Northern Ireland and the Baltics
- Operational leasing
- Positions resulting from interest rate payments on Realkredit Danmark loans (monthly interest rate payments that are not passed on to bondholders until the end of the quarter or year)
- Positions related to asset/liability management
- Bonds in the hold-to-maturity portfolio
- Interest rate risk exposure on deposits in the Personal Banking and Business Banking units

The interest rate risk exposure on deposits derives from demand deposits. The exposure has an element of fixed interest rate risk because the interest rates are set according to financial market rates to a limited extent. The portfolio has shown stable growth and is expected to continue growing.

The table below shows the Group's total exposure to interest rate risk expressed as the effect on the present value of an immediate +/-100 basis point parallel shift in yield curves.

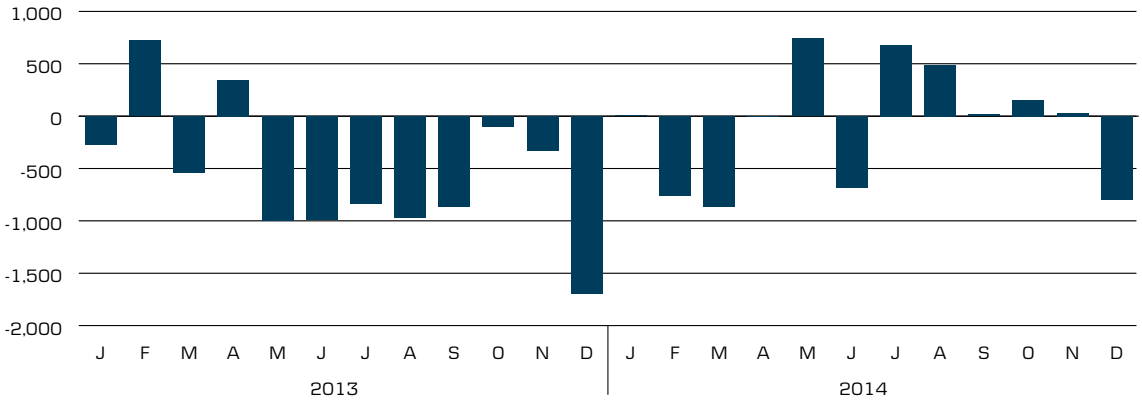
GROUP INTEREST RATE RISK (PARALLEL SHIFT IN YIELD CURVE OF 100 BASIS POINTS)

At 31 December (DKK millions)	2014		2013	
	+100bp	-100bp	+100bp	-100bp
Trading book items	-797	-3	-1,692	1,744
Non-trading book items	-2,443	2,548	-995	1,046
Total	-3,240	2,545	-2,687	2,790

The increase in the non-trading book was owing mainly to an increase in the hold-to-maturity bond portfolio as well as a reclassification of the available-for-sale bond portfolio as a non-trading book item. The fall in trading book items was the result of reduced positions at C&I's trading units.

The chart below shows the Group's interest rate risk on trading book items at the end of each month, measured as the effect of a general rise in interest rates of 100 basis points.

GROUP INTEREST RATE RISK, TRADING BOOK
(DKK millions)



The table below shows the effect of three yield curve scenarios on the Group's trading activities: a parallel +1 basis point shift, a flattening of the yield curve (in which the yield curve twists around the 2-year tenor), and a hump scenario in which rates in the very short end and the long end of the yield curve shift downwards, while rates in the medium range (from a 9-month tenor to a 5-year tenor) shift upwards.

GROUP YIELD CURVE RISK (TRADING BOOK ITEMS)

At 31 December (DKK millions)	2014	2013
Parallel shift scenario	-4	-17
Flattening scenario	-15	-2
Hump scenario	-5	5

For units that trade in interest rate options, the measures mentioned above are supplemented with measures that capture option-market-specific risks, such as the maximum loss in a number of market scenarios and the sensitivity of option values to implied volatility (vega), which expresses the sensitivity of option values to changes in the expected future volatility of the underlying asset.

Interest rate basis risk

The Group's trading activities involve various types of interest rate basis risk. Interest rate basis risk is the risk that, upon changes in yields, the market values of offsetting exposures used in a hedging strategy do not change to exactly the same degree. Interest rate basis risk occurs mainly because of unequal shifts in various currencies' yield curves or unequal shifts in yield curves in one currency used to price financial instruments with differing interest reset dates. The Group monitors its interest rate basis risk in the trading portfolio on a daily basis. It calculates interest rate basis risk as changes in the market value of its positions because of unequal shifts in yield curves related to differing interest reset dates within a currency or across currencies. The scenarios used to measure interest rate basis risk are based on historical changes in the yield curves.

GROUP INTEREST RATE BASIS RISK (TRADING BOOK ITEMS)

At 31 December (DKK millions)	2014	2013
Total interest rate basis risk	78	125

Interest rate risk on shareholders' equity

Shareholders' equity is included in the consolidated financial statements as a non-interest-bearing liability. The derived theoretical interest rate sensitivity is symmetrical for rising and declining interest rates. This risk is not hedged separately. The implied interest rate on the liquidity from shareholders' equity is thus the Group's standard variable Danish kroner rate (comparable to the overnight rate).

6.4.2 Bond spread risk

Positions in bonds are exposed to spread risk. The bond spread reflects the additional net return that an investor requires on securities with a given credit quality and liquidity compared with the return on liquid securities without credit risk or with a reference rate (such as a swap rate).

Most of the Group's bond spread risk can be attributed to bonds issued for real property financing, Danish mortgage bonds and covered bonds from other European countries in particular. In addition, the Group is exposed to bond spread risk from government bonds and to a lesser extent corporate bonds.

The holdings of government bonds are made up mainly of issues from the Scandinavian countries and Germany. The holding of corporate bonds is related primarily to the Group's debt capital market activities at C&I.

The Group's management of the bond spread exposure is based on an individual credit assessment and approval of issuer lines for nominal amounts of purchased bond holdings, supplemented by limits on the net holdings and the price sensitivity to a change of 1 basis point in the bond spread (the basis point value).

In day-to-day risk management, the Group divides the bond portfolio into the following three general categories that each have a specific set of underlying risk drivers:

- Mortgage and covered bonds
- Government and government-guaranteed bonds
- Corporate bonds

In the management of the bond spread risk on government bonds, the Group includes an assessment of market expectations of future risk in addition to the current rating. Key factors are the rating agencies' expectations of future ratings (the rating outlook), the spread on credit default swaps for the issuer, and the spread to the yield on the equivalent German government bonds.

The table below shows the effect on the market value from a change of 1 basis point on various bond categories in the trading book.

GROUP BOND SPREAD RISK (BASIS POINT VALUE)

At 31 December (DKK millions)	2014	2013
Mortgage and covered bonds	47	63
Government and government-guaranteed bonds	-1	21
Corporate bonds	5	4
Total	51	88

Besides bonds in the trading book, the Group has bonds in the banking book classified as hold-to maturity. This sub-portfolio consists mostly of Danish mortgage bonds and EUR-denominated government bonds. In 2014, the available-for-sale portfolio was reclassified as a non-trading book component. The interest rate risk on the bonds in the banking book is included in the risk figures shown for non-trading book items in section 6.4.1.

6.4.3 Foreign exchange risk

The Group measures and manages foreign exchange risk at the group level on the basis of a VaR calculation. The VaR figure represents the maximum loss within 10 days at a confidence level of 95%, assuming unchanged positions.

The calculations are made with the internal VaR model for general market risk (see section 6.3.1). At units in the Group where positions are taken or risks are mitigated, the risk is calculated and managed on the basis of the net exposure to each currency. For units that trade in currency options, the Group also runs a number of scenarios that express the potential loss under stressed market conditions and the sensitivity of option values to underlying parameters such as vega (volatility).

Earnings at units outside Denmark are denominated in local currency and are therefore subject to foreign exchange risk. The Group hedges this risk against Danish kroner on a monthly basis. The initial investments in these units were funded in local currency and thus do not entail any foreign exchange risk.

At the end of 2014, foreign exchange VaR totalled DKK 15 million, against DKK 25 million at the end of 2013.

6.4.4 Equity market risk

Equity market risk is the risk of losses caused by changing equity prices. It is calculated as the net value of long and short positions in equities and equity-based instruments that are subject to various market risk limits. In equity market risk monitoring, the Group distinguishes between risk on listed and unlisted shares. The risk on positions in individual companies is measured and monitored separately. For units trading in equity options, the Group also calculates the maximum standardised loss due to equity price changes of up to +/-20% as well as vega (volatility).

For unlisted shares, the Group distinguishes between ordinary open positions, exposure to private equity funds (including exposure in the form of commitments), and banking-related investments. Banking-related investments consist of equity holdings, primarily in financial infrastructure and payment service businesses.

When the Group determines its capital requirements, unlisted shares are treated as part of the banking book and therefore are not included in the VaR calculations.

EQUITY MARKET RISK (NET POSITION)

At 31 December (DKK millions)	2014	2013
Listed shares	172	63
Unlisted shares	3,419	4,704
Total	3,591	4,767

In 2014, the Group increased its position in listed shares slightly, while the exposure to unlisted shares declined, mainly because of the sale of Nets Holding.

6.4.5 Other market risks

In addition to the types of transaction subject to market risk listed above, the Group also trades and takes positions in inflation-linked products and to a limited extent in commodity instruments.

Inflation rate risk

Inflation rate risk is the risk of losses caused by changes in the traded future inflation rates. The value of a few of the Group's products depends on changes in inflation. The Group has therefore set limits on losses caused by changes in traded future inflation rates. Risk is measured as the loss caused by a change in traded future inflation rates of 100 basis points. At the end of 2014, inflation rate risk amounted to DKK 31 million, against DKK 53 million at the end of 2013.

Commodity risk

Commodity risk is kept at an insignificant level, but it is also subject to limits and is measured as the expected loss on commodity instruments caused by changes of +/-10% in individual commodity indices. The Group's commodity risk is related primarily to energy products.

6.5 MODEL DEVELOPMENT AND MAINTENANCE

The Group develops and maintains financial models for product pricing and risk management purposes. The Group conducts a variety of activities to maintain a healthy model apparatus in the market risk area.

Group Risk Management is responsible for validating these pricing models independently of the development process. A model must be validated before the trading unit can trade in new types of product that are priced and risk-managed with the model. The purpose of the validation process is to evaluate, independently of the business unit, whether the stability and quality of the model are sufficient to enable the Group to price and risk-manage the financial products in question in a satisfactory manner.

To supplement the initial validation, Group Risk Management has established an ongoing monitoring process in which the crossing of specific thresholds (such as indications of a deterioration in model quality or an increase in the magnitude of risk involved) calls for additional validation activities.

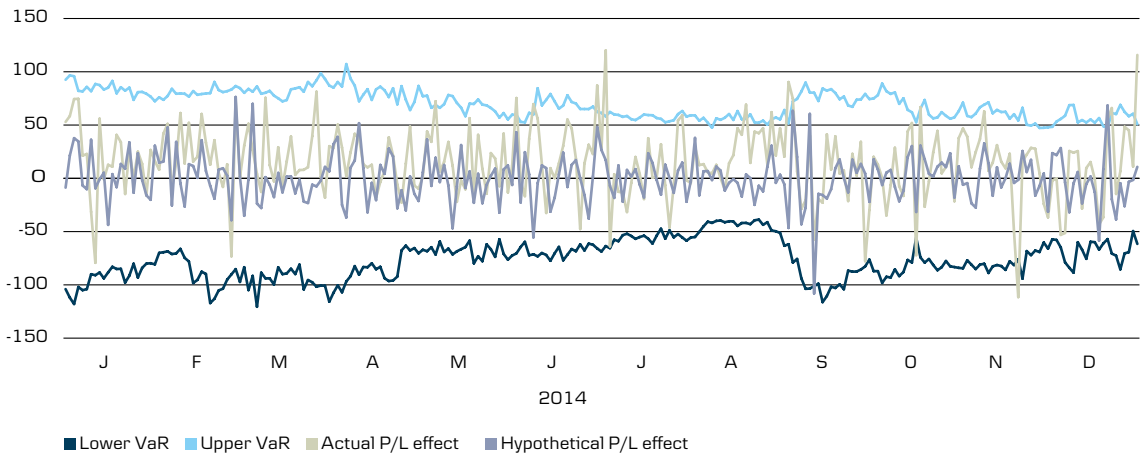
An independent validation unit carries out the validation of new portfolio models used for the capital requirement calculations, the validation of material changes to existing portfolio models, and recurring validations of the major model assumptions. The standards for these validations are set forth in a validation policy for internal risk models. As with pricing models, these guidelines are in line with best practices presented in the OCC guidelines.

In addition, the Group conducts a number of activities to continually monitor the internal VaR model for general market risk, including an annual review of the model, quarterly risk factor reviews, and backtesting of the model. The quarterly risk factor reviews include an assessment of the materiality of risk factors that are not included in the model. Besides factors that are covered by the stand-alone bond spread VaR, there are currently no material risk factors that are not covered by the internal VaR model.

6.6 BACKTESTING OF THE INTERNAL VAR MODEL

Regulatory backtests are conducted on a daily basis to document the performance of the internal VaR model. The backtesting procedure compares 1-day VaR calculated on trading book positions with the actual and hypothetical profit or loss. For the latter, the positions are assumed to be unchanged until the following business day (no intraday trading is included). If the hypothetical or actual loss exceeds the predicted possible loss (VaR), an exception has occurred. Since the VaR figures used for back-testing are based on a confidence level of 99% (as in the calculation of the capital requirement), the expected number of exceptions per year is two to three. The backtest results for 2014 are shown in the chart below.

BACKTEST RESULTS, P/L EFFECT
(DKK millions)



The backtest of the VaR model showed two exceptions in the actual P/L in 2014 and one exception in the hypothetical P/L. Consequently, the number of determining exceptions is two, which is within the expected number of 2-3 exceptions. The exception in the hypothetical P/L in September was caused by a steepening of the yield curves. In October, the exception was caused by widening credit spreads on bonds and increasing interest rates, and in November, the exception was due solely to increased credit spreads on bonds.

6.7 STRESS TESTING

To comply with the regulatory requirements implemented on 31 December 2011 (CRD III/Basel 2.5), once a week the Group calculates stressed VaR with the internal VaR model. The result is fed directly into the calculation of regulatory capital for market risk as an add-on. The calculation is performed on current positions with market data from a particularly stressed historical period of 12 months. The 12-month period must be submitted to the FSA; the period currently used is September 2008 to August 2009.

As a supplement to the daily calculation of VaR, the more conventional risk figures and the weekly calculation of stressed VaR, the Group performs stress tests and sensitivity analyses on a regular basis. Some of these tests are part of the daily limit control, while others are performed weekly or quarterly.

Stress test scenarios feature changes in interest rates, exchange rates, equity prices, volatilities and bond spreads. Such changes affect the Group's earnings directly through value adjustments. The scenarios are often based on large changes in a single risk factor or on conditions that reflect historical periods of economic or financial crisis, combined with factors relevant under the current market conditions.

The Group's periodic stress tests and sensitivity analyses also include scenarios with extreme market developments as periodically defined by the European Banking Authority (EBA), as well as hypothetical scenarios involving extreme financial or macroeconomic events.

6.8 VALUATION

Certain of the Group's financial instruments cannot be valued by means of market prices. Instead, they are valued on the basis of pricing models developed by the Group. As shown in the table below, only a few types of financial instrument are measured on the basis of unobservable input.

FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

At 31 December 2014 (DKK millions)	Quoted prices	Observable input	Unobservable input	Total
Financial assets				
Derivatives				
Interest rate contracts	3,807	269,285	4,562	277,654
Currency contracts	127	130,860	801	131,788
Trading portfolio bonds				
Government bonds and the like	143,749	-	-	143,749
Danish mortgage bonds	74,695	3,188	-	77,883
Other covered bonds	57,776	2,077	-	59,853
Other bonds	33,780	9,832	-	43,612
Trading portfolio shares	7,442	-	532	7,974
Investment securities, bonds	186,024	38,264	25	224,313
Investment securities, shares	53	-	1,772	1,825
Loans at fair value	-	741,609	-	741,609
Assets under pooled schemes and unit-linked investment contracts	80,148	-	-	80,148
Assets under insurance contracts, bonds				
Danish mortgage bonds	37,357	2,703	-	40,060
Other bonds	105,021	26	1,610	106,657
Assets under insurance contracts, shares	64,464	453	12,429	77,346
Assets under insurance contracts, derivatives	44	12,996	-	13,040
Total	794,487	1,211,293	21,731	2,027,511
Financial liabilities				
Derivatives				
Interest rate contracts	4,221	239,798	5,743	249,762
Currency contracts	543	138,609	832	139,984
Obligations to repurchase securities	160,707	117	59	160,883
Bonds issued by Realkredit Danmark	655,965	-	-	655,965
Deposits under pooled schemes and unit-linked investment contracts	-	86,433	-	86,433
Total	821,436	464,957	6,634	1,293,027

FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

At 31 December 2013 (DKK millions)	Quoted prices	Observable input	Unobservable input	Total
Financial assets				
Derivatives				
Interest rate contracts	5,172	173,830	8,617	187,619
Currency contracts	215	60,992	709	61,916
Trading portfolio bonds				
Government bonds and the like	174,004	637	-	174,641
Danish mortgage bonds	110,347	11,468	-	121,815
Other covered bonds	91,729	1,444	-	93,173
Other bonds	43,009	6,773	-	49,782
Trading portfolio shares	6,020	-	757	6,777
Investment securities, bonds	84,701	16,576	-	101,277
Investment securities, shares	35	-	3,163	3,198
Loans at fair value	-	728,081	-	728,081
Assets under pooled schemes and unit-linked investment contracts	74,761	-	-	74,761
Assets under insurance contracts, bonds				
Danish mortgage bonds	37,650	2,351	-	40,001
Other bonds	101,025	108	674	101,807
Assets under insurance contracts, shares	60,306	521	8,591	69,418
Assets under insurance contracts, derivatives	642	1,234	-	1,876
Total	789,616	1,004,015	22,511	1,816,142
Financial liabilities				
Derivatives				
Interest rate contracts	5,745	151,175	6,786	163,706
Currency contracts	698	63,587	949	65,234
Obligations to repurchase securities	205,967	265	11	206,243
Bonds issued by Realkredit Danmark	614,196	-	-	614,196
Deposits under pooled schemes and unit-linked investment contracts	-	81,882	-	81,882
Total	826,606	296,909	7,746	1,131,261

Group Market Risk has established guidelines for quantifying the risk on valuation with models designed to handle various derivative products. This amount, which is called the model reserve, is recalculated on a regular basis. In addition to this validation process, the Group has established procedures to monitor and validate the market data used to calculate market values and risk. Market data controls are carried out at month-end as well as once during each month.

The results and potential corrections from the market data validation process are submitted to the managements of CFO Area and the Group's trading unit at the end of the month. At the end of each quarter, a more detailed report is submitted to senior management.

Liquidity risk

7.

7.1 REVIEW OF 2014

Market sentiment generally continued to be positive in 2014, although concerns about geopolitical uncertainties and the economic outlook remained. All funding markets were open to Danske Bank.

Danske Bank's credit ratings rose in 2014. In April, Standard & Poor's upgraded the Bank from A- to A; in November, Moody's upgraded the Bank from Baa1 to A3; and in September, Fitch Ratings affirmed the Bank's A rating. The market had largely priced in the changes prior to the announcements.

The Group's volume of new issuances rose in 2014 in preparation for new regulations. In spite of the increase, the Group's covered bond and senior debt spreads continued to tighten. Besides the ratings improvements, monetary policy initiatives from the ECB such as the TLTRO and the covered bond purchase programme (CBPP3) helped maintain positive market conditions for the Group.

The Group maintained its liquidity reserves throughout 2014 and adhered to its funding plan, including its plan for subordinated debt. It was therefore able to repay the hybrid capital borrowed from the Danish state on the first prepayment date, in April 2014.

In the first half of the year, the Group took advantage of benign market conditions and continued to adjust its capital structure to the new requirements. In March, Danske Bank became the first Nordic bank to issue benchmark additional tier 1 (AT1) capital instruments. The issue, for EUR 750 million, was followed by a tier 2 issue in May for EUR 500 million, as further outlined in section 3, Capital Management.

In 2014 Group Risk Management also conducted an Internal Liquidity Adequacy Assessment (ILAA) in accordance with the forthcoming regulation from the European Banking Authority (EBA).

7.1.1 Rating situation

Danske Bank's improving financial performance had a positive effect on external rating assessments in 2014.

On 29 April 2014, S&P raised its assessment of the Group's risk position from "moderate" to "adequate" and adjusted the standalone credit profile from "bbb+" to "a-". It raised the long-term counterparty credit rating from A- to A and the short-term rating from A-2 to A-1. The outlook is negative, reflecting the likely reduction of government support.

On 18 September 2014, Fitch Ratings affirmed its viability rating of Danske Bank at "a", its long-term rating at A, and short-term rating at F1. The outlook is stable.

On 29 November 2014, Moody's Investor Services raised its baseline credit assessment of Danske Bank from Baa2 to Baa1, retaining one notch of government support, and also raised its senior debt and deposit ratings from Baa1 to A3. Besides the Group's improving financial performance, the upgrade was also owing to reduced risk exposure, particularly in Non-core operations.

Danske Bank's and Realkredit Danmark's covered bond ratings from both Standard & Poor's and Fitch were unchanged. Standard & Poor's upgraded Realkredit Danmark's junior covered bonds in step with Danske Bank's rating in April 2014.

DANSKE BANK'S RATINGS, END-2014

Rating agency	Long-term rating	Short-term rating	Outlook	Danske Bank's covered bonds
S&P	A	A-1	Negative	AAA
Moody's	A3	P-2	Stable	Not rated
Fitch	A	F1	Stable	AAA

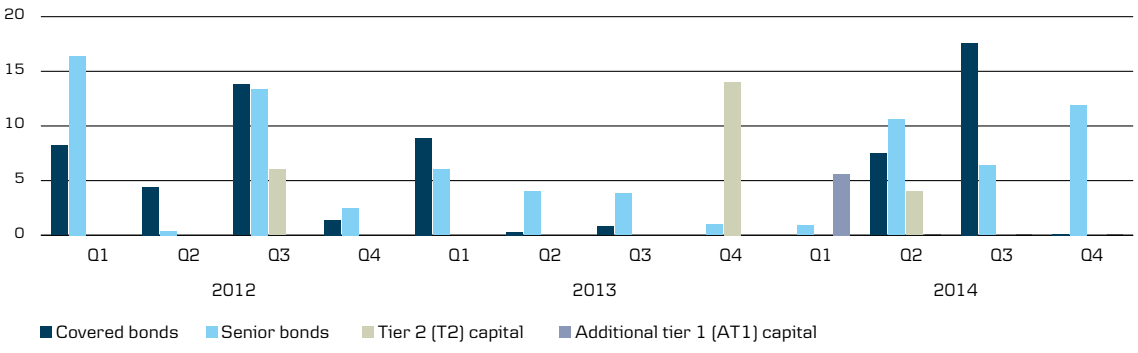
In addition, Danske Bank Plc (Finland) is rated A/A-1/Negative by Standard & Poor's and A2/P1/Negative by Moody's. Danske Bank Plc also has an Aaa rating from Moody's on its covered bond programme.

7.1.2 Funding

In 2014, Danske Bank issued covered bonds for DKK 25.1 billion, senior debt for DKK 29.7 billion, and subordinated debt of DKK 9.3 billion. The Group also redeemed long-term debt of DKK 63.7 billion.

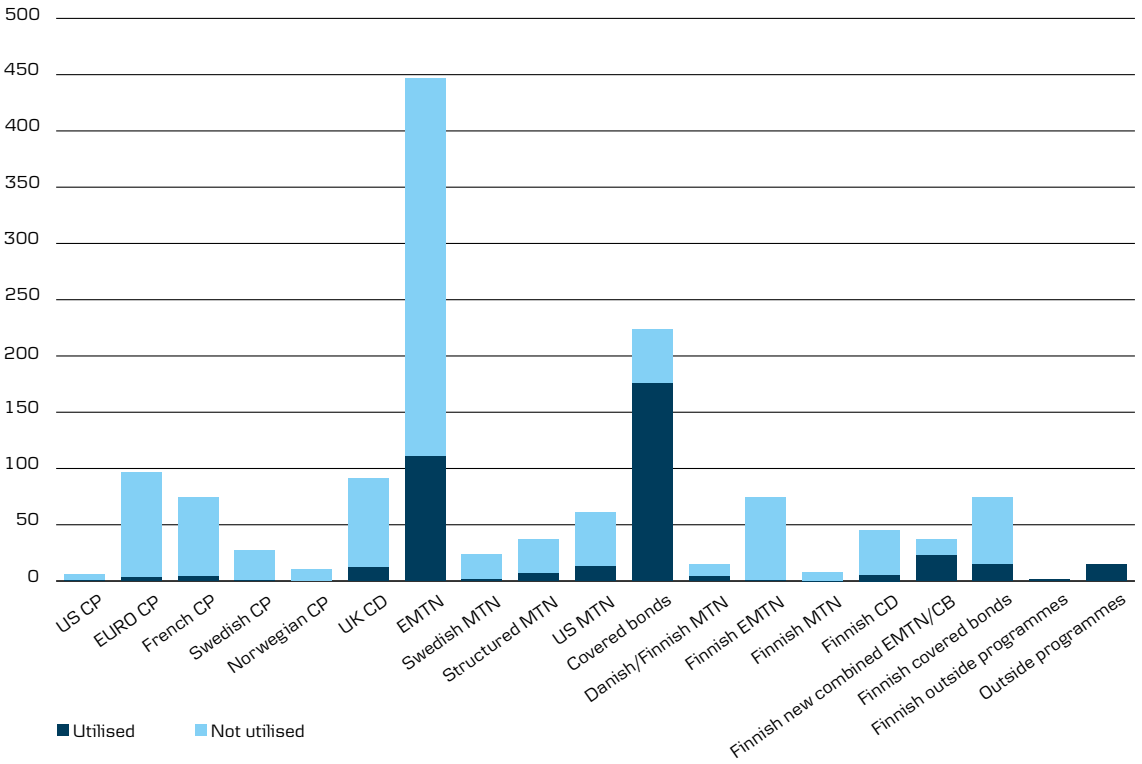
At 31 December 2014, the total amount of outstanding long-term funding, excluding mortgage bonds and senior debt issued by Realkredit Danmark, was DKK 332 billion, against DKK 330 billion at the end of 2013.

DEBT ISSUANCE, BY QUARTER
(DKK billions)



In 2015, Danske Bank will raise funding through medium- and long-term funding programmes. For long-term funding, the most important programmes are the European Medium Term Note (EMTN) and covered bond programmes, including a programme at the Bank's subsidiary in Finland. Covered bonds are generally used for longer maturities, while senior funding is used for shorter maturities.

UTILISATION OF LONG- AND SHORT-TERM PROGRAMMES AVAILABLE, END-2014
(DKK billions)



7.2 LIQUIDITY RISK MANAGEMENT

7.2.1 Governance of liquidity risk management

The Group manages its liquidity on a daily basis, and liquidity risk is managed through a combination of KPIs, risk triggers and risk policy. Two documents lay the foundation for the Group's liquidity risk management: (1) Liquidity Policy and Appetite and (2) Liquidity Instructions. The former document contains the overall principles and standards of the Group's liquidity risk management. It covers both the liquidity risk profile and the governance structure. The latter document defines limits and the methods of calculation. Both documents are issued by the Board of Directors.

The Group Liquidity Risk Committee (GLRC) is the committee responsible for overseeing group-level liquidity risk management and funding. The GLRC is chaired by the chief risk officer (CRO) and consists of representatives of Group Risk Management, CFO Area, and the three business units. The GLRC has broad authority to challenge the way in which the Group's liquidity risk profile and funding position is managed.

Group Treasury is responsible for Danske Bank's liquidity and funding. This includes executing the funding plan and managing the liquidity buffer. Short-term liquidity is managed by FICC under the supervision of Group Treasury.

Group Risk Management, headed by the CRO, oversees liquidity risk management at the group level and compliance with the liquidity risk appetite framework.

Danske Bank's liquidity management is centralised and conducted on a consolidated basis to ensure regulatory compliance at the group level as well as compliance with internal requirements. Regulatory compliance and the maintenance of adequate liquidity reserves at subsidiaries are managed locally. Realkredit Danmark and Danica Pension conduct their own liquidity risk management. Realkredit Danmark, which issues mortgage bonds, is substantially self-financing, and its liquidity management is conducted separately from the rest of the Group's. Danica's balance sheet includes long-term life insurance liabilities and assets, much of which is invested in readily marketable bonds and shares. Both companies are subject to statutory limits on their exposures to Danske Bank A/S. In the following sections, "Group" refers to the banking units only; that is, it does not include Realkredit Danmark and Danica Pension.

Liquidity risk appetite

Taking on liquidity risk is an integral part of the Group's business strategy. The Board of Directors determines the overall approach to liquidity risk appetite, including the Group's liquidity risk exposure profile and liquidity risk limits. The Liquidity Policy states that the Group's liquidity risk appetite is conservative and that the Group must maintain a strong liquidity and funding position. The liquidity risk appetite is an articulation in both general and specific terms of the Group's desired risk profile and provides the overall framework and guidance for liquidity management. Two key concerns have been identified.

Liquidity risk appetite – key concerns:

- Distance to default: Management must have sufficient time to respond to events and developments in order to avoid financial or regulatory default.
- Market reliance: The Group's reliance on wholesale funding and liquidity reflects its loan-to-deposit shortfall and maturity transformation profile. Excessive reliance makes the Group vulnerable to investor sentiment, market stress and market dysfunction.

7.2.2 Liquidity risk measures

Liquidity risk management focuses on the monitoring and management of all the Group's liquidity risks – both short-term and long-term.

Survival horizon

The Group's short-term risk management is intended principally to ensure that the Group always has a liquidity reserve that, in the short term, is sufficient to absorb the net effects of known future receipts and payments from current transactions as well as unexpected volatility. Bond holdings that can be used in repo transactions with central banks are considered liquid assets. To account for the potential risk of drawings under committed lines of credit, the Group factors in the unutilised portion of the facilities in the calculation of liquidity risk.

For liquidity management purposes, the Group distinguishes between liquidity in Danish kroner and liquidity in other currencies. This is because of the Group's strong position in the Danish market and because the Group has a net deposit surplus in Danish kroner (deposits exceed lending) and a net deposit shortfall in other currencies (lending exceeds deposits). The net deposit surplus in Danish kroner is a valuable, stable funding source for the Group. Because of this discrepancy, the Group uses limits to manage short-term liquidity risk both for total liquidity and for liquidity in non-Danish currencies. In addition to limits set by the Board of Directors and the All Risk Committee, the GLRC has set overnight targets for each key currency.

Liquidity reserve

The Group must at all times maintain a liquidity reserve to cover the need for liquidity that may arise under both normal and stressed conditions.

The Group's liquidity reserve is defined as the assets available to Danske Bank's Group Treasury in a stressed situation. All assets must be unencumbered, and securities received in reverse repo transactions are included, while securities used as collateral for repo transactions are not.

The table below shows the nominal value of the Group's liquidity reserve without haircuts. The haircuts applied to determine the liquidity values for regulatory purposes are defined by regulators, whereas the haircuts used for internal stress testing purposes are defined on the basis of a set of parameters reflecting the specific scenario in question.

NOMINAL VALUE OF THE LIQUIDITY RESERVE AVAILABLE TO THE GROUP

At 31 December (DKK billions)	Market value
Cash and holdings at central banks	21
Securities issued or guaranteed by sovereigns, central banks or multilateral development banks	66
Covered bonds (including mortgage bonds)	289
Issued by other institutions	224
Own issued	65
Other	23
2014 total	399
2013 total	452

Assets in the liquidity reserve are eligible for repo transactions with central banks. Central bank eligibility is vital for intraday liquidity needs and overnight liquidity facilities and also for defining liquidity in financial markets during stressed periods. Besides central bank eligibility, the external credit rating is an important factor in determining the liquidity value of the assets in the reserve.

The minimum size of the reserve is determined by several requirements, including an LCR of at least 110%, certain minimal operational survival horizons and liquidity levels determined by stress testing.

Stress testing

The Group conducts stress tests to measure its immediate liquidity risk and to ensure that it has sufficient time to respond to potential crises. The stress tests are conducted for various scenarios, including three standard scenarios: a scenario specific to the Group, a general market crisis and a combination of the two. A "stress-to-failure" test is also conducted.

All stress tests are based on the assumption that the Group does not reduce its lending activities. This means that existing lending activities continue and require funding. The degree of possible refinancing of the Group's funding varies depending on the scenario in question as well as on the specific funding source. To assess the stability of the funding, the Group considers maturity and makes behavioural assumptions.

In the scenarios, the liquidity reserve is used to cover the cash outflows. Scenario-specific haircuts are applied to the bond portfolio.

Additional contractual obligations

Through a number of mutually binding agreements, the Group is obligated to provide collateral if the fair value of current transactions changes to its detriment. The assets provided as collateral do not count as part of the Group's liquidity reserve.

The table below shows the loss of liquidity for the Group under four scenarios involving downgrades of the Group's long- and short-term debt. It also shows how much the Group would have to prepay under the contracts or provide in supplementary collateral under the various scenarios. The number in parentheses after the rating indicates the number of notches by which the rating is reduced from its current level in the scenarios.

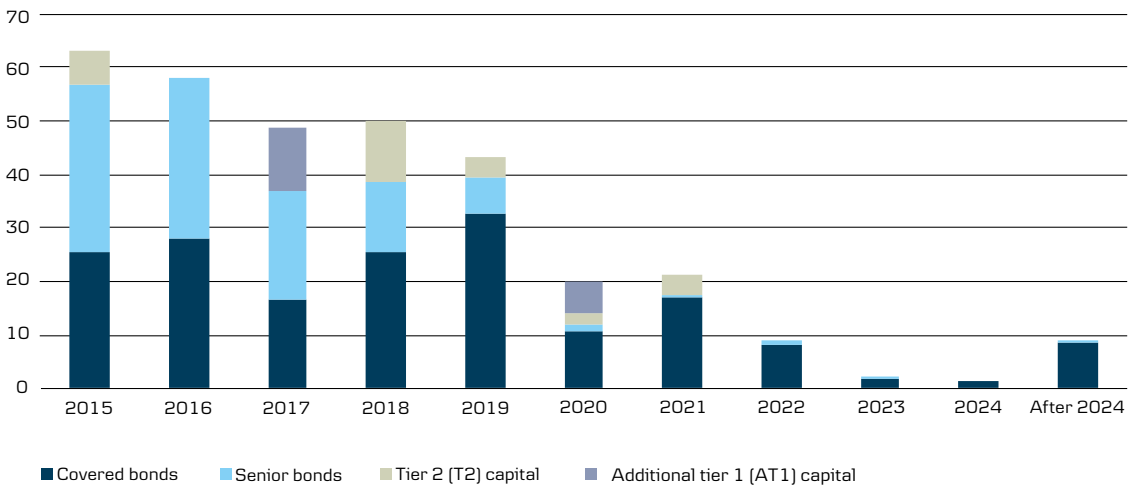
LOSS OF LIQUIDITY IF THE GROUP'S CURRENT RATINGS ARE DOWNGRADED, END-2014

	Moody's (short-term)	S&P (short-term)	Fitch (short-term)	Moody's (long-term)	S&P (long-term)	Fitch (long-term)	Supplementary collateral (DKK billions)
Present rating							-
Scenario 1	P-2	A-1	F1	Baa1 (▼1)	A- (▼1)	A- (▼1)	0.4
Scenario 2	P-3 (▼1)	A-2 (▼1)	F2 (▼1)	Baa1 (▼1)	A- (▼1)	A- (▼1)	0.9
Scenario 3	P-3 (▼1)	A-2 (▼1)	F2 (▼1)	Baa2 (▼2)	BBB+ (▼2)	BBB+ (▼2)	1.0
Scenario 4	P-3 (▼1)	A-2 (▼1)	F2 (▼1)	Baa3 (▼3)	BBB (▼3)	BBB (▼3)	5.3

Market reliance

The Group monitors the diversification of its funding sources by product, currency, maturity and counterparty to ensure that its funding base provides the best possible protection even if financial markets come under pressure. The maturity profile of long-term funding is monitored particularly to ensure that the portion of long-term funding that matures within one year or one quarter is kept at an acceptable level.

REDEMPTION PROFILE OF LONG-TERM FUNDING, END-2014
(DKK billions)



Retail deposits are a valuable, stable funding source for the Group. Most of the Group's retail deposits are covered by a deposit insurance scheme, and despite financial crises and intensified competition, they have been very stable over time.

Wholesale funding is another important funding source, although its stability sometimes varies over time, especially when markets are strained.

BREAKDOWN OF WHOLESALE FUNDING BY CONTRACTUAL MATURITY

	Maturity of wholesale funding						
At 31 December (DKK billions)	0-1 month	1-3 months	3-12 months	1-5 years	> 5 years	2014 total	2013 total
Deposits from credit institutions and central banks	299	53	12	3	0	368	351
CDs and CP	5	8	12	0	0	26	25
Senior unsecured MTNs	0	2	26	71	5	103	102
Covered bonds	1	1	26	110	74	212	194
Subordinated liabilities	0	5	0	27	7	39	64
Total	306	70	75	211	85	747	737
Breakdown							
Secured	191	37	2	3	0	233	208
Unsecured	115	33	73	208	85	514	529

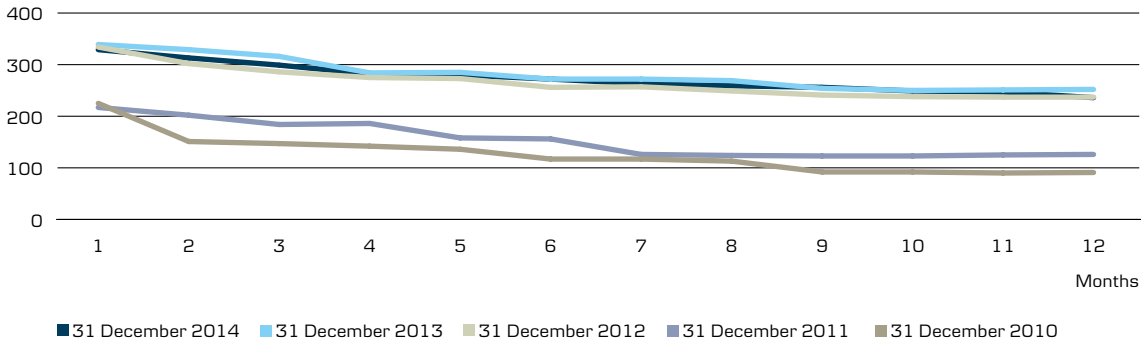
Note: Wholesale funding is measured at nominal value as opposed to the treatment in section 7.1, where it is measured at amortised cost. Covered bonds issued to enhance the Group's liquidity buffer are included. Repo transactions are not netted.

Danske Bank also analyses the survival horizon if it does not have access to funding markets. The market-reliance analysis assumes the following:

- The Group is cut off from capital markets, and refinancing in the markets is not possible. That is, deposits from credit institutions, CDs and CP, covered bonds, senior unsecured MTNs and subordinated debt will not be refinanced at maturity.
- Most of the stable deposit base will remain available as a funding source, while some unstable deposits will run off.
- A moderate reduction in business activities will take place.
- Off-balance-sheet items are included until their actual maturity dates.

Stress tests show that the Group's liquidity reserve is sufficiently large to close any liquidity gap if all capital markets are closed and refinancing is impossible. The Group monitors its liquidity reserve continually to ensure a survival period of at least 12 months in this scenario.

TWELVE-MONTH LIQUIDITY
(DKK billions)



Asset encumbrance

Asset encumbrance, or the percentage of assets pledged as collateral, and the resulting structural subordination of senior unsecured creditors and depositors, are drawing increased attention from regulators, rating agencies, investors and others.

The Group's asset encumbrance comes mainly from three sources:

- Loans and securities serving as collateral for covered bond issuance. Covered bond issuance is a strategic long-term funding measure that entails ring-fencing assets according to statutory regulation.
- Securities provided as collateral in repo and securities-lending transactions. The Group's repo activities consist of business-driven transactions that can be wound up relatively quickly and transactions for short- or long-term funding purposes. In repo transactions, the securities remain on the Group's balance sheet, and the amounts received are recognised as deposits.
- Cash and securities provided as collateral for derivatives and clearing transactions, where pledging collateral is an operational requirement to support business activities.

The table below shows asset encumbrance as a percentage of total assets. When the Group has used its holdings of own issued covered bonds or Realkredit Danmark issues as collateral, these bonds are eliminated from the other sources of encumbrance shown in the table in order to avoid double counting.

In the table below, asset encumbrance at the Realkredit Danmark and Danica subsidiaries is shown separately since these assets are not available for funding in the rest of the Group.

ASSET ENCUMBRANCE AS A PERCENTAGE OF TOTAL ASSETS, EXCLUDING DERIVATIVES

	Assets pledged as collateral for			Assets pledged through		
At 31 December 2014 (%)	Covered bond issuance	Repo transactions	Derivatives and clearing transactions	Realkredit Danmark	Danica	Total
Danske Bank A/S	9.9	18.6	4.2	-	-	32.7
Danske Bank Group	7.8	11.2	2.5	21.5	8.3	51.4

Note: In this table, Danske Bank Group means the Group as presented in Annual Report 2014. Asset encumbrance is measured as a percentage of balance sheet assets. The methodology used for asset encumbrance in this table is consistent with the methodology used in Annual Report 2014, notes 27 and 28.

Loans and securities pledged as collateral for covered bond and Realkredit Danmark issuance include all assets pledged to collateralise the issuance in question, even if part of that issuance is held internally. Consequently, the actual asset encumbrance is lower than the encumbrance shown in the table because some of the bonds, although they are issued, are not sold.

The table does not take into account assets received as collateral through reverse repo transactions and derivatives. In accordance with accounting principles, the percentages in the table are not netted for such collateral received. From the perspective of available liquidity, however, the collateral received offsets the encumbrance from repo transactions and derivatives.

In 2014, the Group implemented a policy to monitor the level of encumbrance and ensure that it does not increase significantly from the current level.

Assets that Danske Bank A/S has received as collateral through reverse repo transactions represent 13.4%, and assets received through derivatives represent 2.5%.

Assets that Danske Bank Group has received as collateral through reverse repo transactions represent 8.4%, and assets received through derivatives represent 2.0%.

7.2.3 Regulatory measures

While national regulations on liquidity have not changed since 2012, international regulations, specifically the Capital Requirements Directive and Capital Requirements Regulation (CRD IV/CRR), originating from the 2010 Basel Accord (Basel III), have been put into legislation.

International regulations

The new CRD IV/CRR will establish a consistent and integrated regulatory framework for many aspects of bank management, including liquidity, and it will provide a homogeneous standard under a unified set of prudential rules. In relation to liquidity, the Liquidity Coverage Ratio (LCR) has remained in focus, and it will be phased in first. The Net Stable Funding Ratio (NSFR) will be implemented afterwards. The LCR rules will become binding for all credit institutions in the EU by October 2015, while the components of the NSFR have been monitored since 2013 with a view to introducing a binding requirement in 2018.

The LCR regulation stipulates that banks must have a liquidity reserve that ensures a survival horizon of at least 30 calendar days in case of a severely stressed liquidity situation. The final requirement from the EBA allows Danish mortgages to be classified as level 1 liquid assets, almost on par with Danish government bonds.

The NSFR is intended to ensure a sound funding structure by promoting an increase in long-dated funding. The NSFR stipulates that at all times banks must have stable funding equal to the amount of their illiquid assets for one year ahead.

National regulations

The external national liquidity requirements that apply to the Group are set forth in section 152 of the Danish Financial Business Act, which states that a credit institution's liquidity reserve must equal or exceed both of the following:

- 15% of the debt obligations that, regardless of any disbursement conditions, the institution must pay on demand or at less than one month's notice
- 10% of the institution's total debt and guarantee obligations, excluding subordinated loan capital infusions that can be counted as part of the total capital

Liquidity includes cash on hand, fully secured and liquid demand deposits at other credit institutions and insurance companies, and holdings of secure, readily negotiable, unencumbered securities and credit instruments.

In 2010, the Danish FSA introduced the Supervisory Diamond, which includes benchmarks for liquidity and funding for the parent company. The benchmark for liquidity states that banks must have excess liquidity coverage that is 50% above the regulatory requirements in section 152 of the Danish Financial Business Act. At the end of 2014, Danske Bank A/S's excess liquidity coverage ratios were 141% and 161%, respectively, above the regulatory requirements.

The benchmark for funding stipulates that a bank's lending may not exceed stable funding (deposits as well as issued bonds and subordinated debt with a maturity above one year). This means that banks must have a funding ratio of less than 1.00. At the end of 2014, Danske Bank A/S's ratio was 0.63.

7.3 FUNDS TRANSFER PRICING

The Group's Funds Transfer Pricing (FTP) model adheres to the matched-maturity principle when internal costs are assigned. The FTP charged on loans and awarded to deposits reflects the distinct characteristics of the individual balance sheet items, with a focus on product and customer type, including maturity, currency, amortisation profile, modelled behaviour and underlying interest rate risk. Credits are reduced by any charges against contingent commitments, such as expected stressed deposit run-off, and specific charges apply to contingent commitments, such as committed lines of credit.

FTP links the balance sheet composition directly to the income statement, and it is a key component driving the Group's overall funding position. FTP is fundamental in evaluating the profitability of the Group's balance sheet, and it has therefore been embedded in the profitability analysis at the customer level in order to facilitate consistency between liquidity risk assessment, product pricing and balance sheet valuation.

The Group's trading activities – that is, at Danske Bank Markets and Group Treasury – are also subject to FTP in a model that identifies the proportion of a product that requires stable funding and charges a long-term funding cost for this proportion.

Operational risk

8.

Danske Bank Group is exposed to operational risk in the form of possible losses resulting from inadequate internal procedures, human or system errors, or external events. Operational risk includes legal risk.

Model risk is a subtype of operational risk that is defined as the risk of losses resulting from decisions based mainly on output from internal models because of errors in the development, implementation or use of the models.

Operational risk can often be associated with one-off events, such as failure to observe business or working procedures, defects or breakdowns of the technical infrastructure, criminal acts, fire and storm damage, and litigation. Operational risk is thus non-financial risk.

In accordance with its definition of operational risk, the Group's risk appetite and tolerance for operational risk are set forth in four risk appetite statements, including operational risk thresholds, for the following areas: Processes, People, Systems and External Events.

The Group's operational risk management process involves a structured and uniform approach across the Group. It includes risk identification; risk assessments; and the monitoring of risk indicators, the control environment and risk mitigation plans for key operational risks in accordance with its risk appetite.

In its qualitative approach to operational risk management, Danske Bank Group has chosen to include the likelihood, consequence and reputational effects of an event and the adequacy of key internal controls in its assessment of whether a given operational risk event may materially affect Danske Bank. This approach improves the basis for assigning priority to the key risks identified.

At the end of 2014, operational risks accounted for 8.6% of the Group's total risk exposure amount. In 2014, the Group focused on the adequacy of key controls to mitigate group-wide operational risks and risk indicators, and also continued to expand day-to-day operational risk management in all subsidiaries, business units and support functions.

The chief risk officer is the chairman of the Operational Risk Committee. The committee's general responsibilities are, on behalf of the Executive Board, to set the direction for the group-wide operational risk management framework and to oversee the implementation of the framework. Danske Bank's Board of Directors is involved in important decisions about operational risks, including approving the Operational Risk Policy and the operational risk appetite and receiving notification of significant operational losses. The Board of Directors receives reporting on the Group's operational risk profile at least once a year.

Each subsidiary, business unit and support function is responsible for the day-to-day monitoring of its operational risks and for reducing and preventing losses caused by operational risks.

8.1 POLICY

The Operational Risk Policy and operational risk instructions are approved by the Board of Directors and set the principles and standards of operational risk management in the Group. The Group's Operational Risk Policy covers the following:

- The definition of operational risk, risk appetite and governance structure; setting out the objectives of the Group's framework for operational risk management
- The methodology for the operational risk framework, including identifying, assessing, monitoring and managing the Group's current and potential operational risk exposure
- Informing the Executive Board and Board of Directors of issues that involve the Group's operational risks

The Group also has policies addressing security and outsourcing that are considered part of the operational risk management framework.

In addition, the Group has policies regulating other operational risk areas, such as a policy for using insurance as a risk mitigation measure.

8.2 PROCESS, MEASUREMENT AND CONTROL

Once a year, the Group conducts a risk identification survey at its subsidiaries, business units and support functions and compiles a list of the key operational risks. The subsidiaries, business units and support functions – in collaboration with the Group Operational Risk department – assess the likelihood, consequence, and reputational effects of risk events before and after the implementation of key controls. Some of the largest risks fall into the Basel II event categories for operational risks: Execution, delivery and process management; Clients, products and business practices; External fraud; and Business disruption and system failures.

The risks being monitored and addressed by the Group include two notable operational risk issues that arose in 2014:

On 7 February 2014, the Danish Public Prosecutor for Serious Economic and International Crime (SØIK) brought accusations of price manipulation of a particularly serious nature against Danske Bank A/S. Danske Bank had found that in 2009 four employees from the banking operation and Realkredit Danmark violated internal rules and may have manipulated prices. The investigation is ongoing.

Danske Bank received and accepted three administrative fines for failing to report securities transactions to the Danish Financial Supervisory Authority and the Swedish Financial Supervisory Authority in 2014. Danske Bank itself discovered the errors and informed the FSAs. The errors were corrected, and the transactions were reported.

The Group monitors its risk profile on an ongoing basis throughout the year. It manages operational risks in a process that includes strengthening key controls, risk mitigation and monitoring of risk indicators. Operational risk considerations are included in the Group's daily work in accordance with its risk appetite.

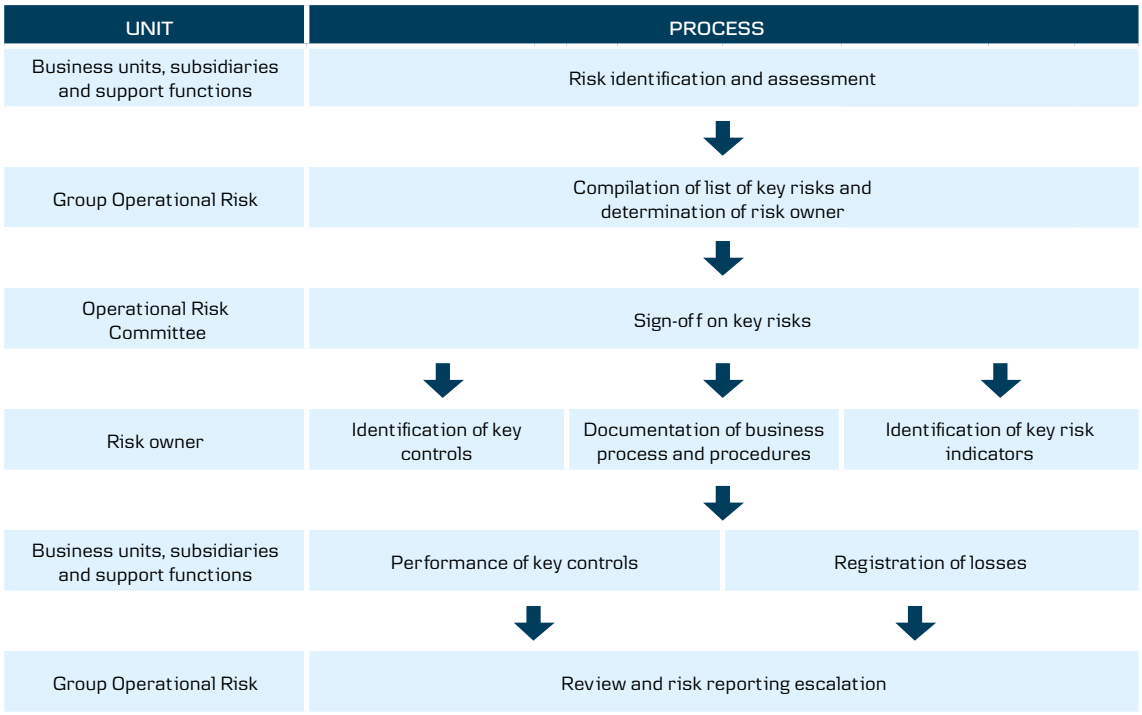
Business line management, subsidiaries and support functions are responsible for identifying and managing the risks inherent in the products, activities, processes and systems for which they are accountable on the basis of the Group's risk framework, since the local risk owners have expert knowledge about area-specific risks.

Group Operational Risk (part of Group Risk Management) is responsible for the independent oversight of operational risk management and governance, for the establishment of the group-wide risk management framework, and for performing a controlling and reviewing role in the operational risk identification and assessment process to ensure consistency in the framework applied.

The chart below shows the process from risk identification and assessment to the ongoing monitoring of the Group's key operational risks.

The process starts with risk identification and assessment, which lead to the compilation of a list of the Group's key operational risks, which is signed off by the Operational Risk Committee. The adequacy of the control environment for each key risk is evaluated, and key risk indicators are identified as part of the ongoing monitoring of operational risks. Key risks are monitored, and their status is documented in a quarterly report to the Operational Risk Committee that includes significant indicators of changes in the Group's risk profile, including loss data, risk management governance, audit remarks, and other relevant risk indicators.

RISK ASSESSMENT PROCESS FROM RISK IDENTIFICATION TO RESPONSE

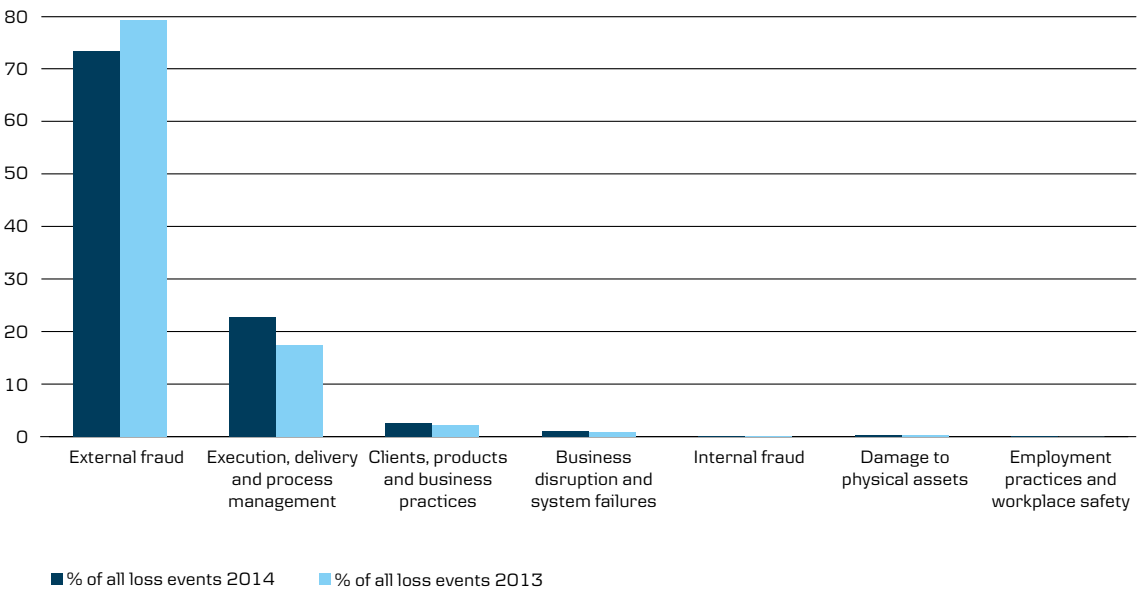


The risk identification and assessment process is updated once a year. New operational risks may be identified, and risks that have become irrelevant are removed from the list of key risks.

The Group's operational risk losses are recorded in a database. Losses are categorised according to the Basel II event categories for operational risk. Operational risk events that entail losses of DKK 10,000 or more are recorded.

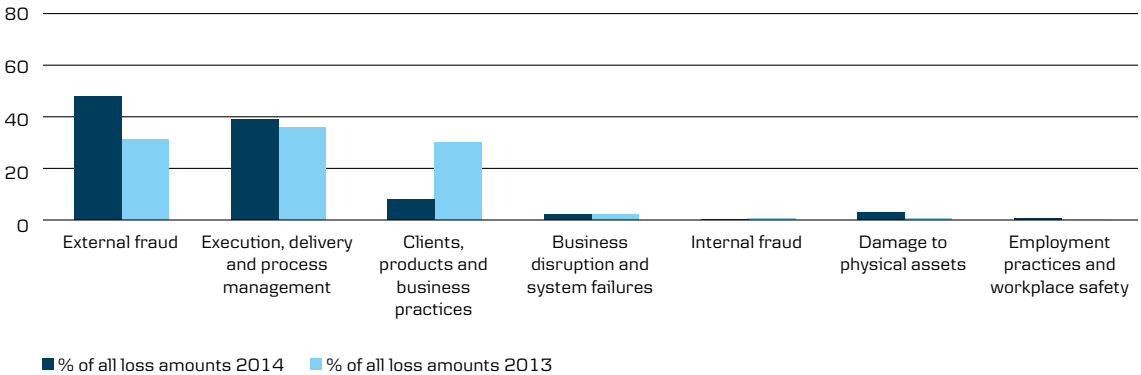
Measured by the number of loss events, External fraud and Execution, delivery and process management accounted for most of the losses in 2014. External fraud accounted for 73%, and Execution, delivery and process management accounted for 23% of total loss events, against 79% and 17%, respectively, in 2013. A large portion of these risk events involve low financial costs. External fraud consists of events such as card fraud, eBanking fraud, bank robberies, card skimming and document falsification. Execution, delivery and process management includes losses because of erroneously processed transactions and losses related to routine manual input.

BREAKDOWN OF LOSS EVENTS
(%)



Measured by amount, External fraud accounted for 48%, Execution, delivery and process management for 39%, and Clients, products and business practices for 8% of the total operational risk loss in 2014, against 31%, 36% and 30 %, respectively, in 2013.

BREAKDOWN OF LOSS AMOUNTS
(%)



Insurance risk

9.

Danske Bank Group's insurance risk consists of all risks at the companies in the Danica group. The main risks are market risk and life insurance risk. Market risk involves the risk of losses on investments of Danica's own equity ("own investments") and the risk of losses on investments of customer funds from insurance policies with guaranteed returns. The risk of losses on policies concerns mainly *Danica Traditionel* insurance policies. Life insurance risk involves life insurance and pension products, and it is affected by changes in longevity, mortality, disability, critical illness and the like.

Developments in the financial markets in 2014 generally continued in the same direction they have followed since 2009. The stock markets delivered good returns, and interest rates kept falling. The low interest rates have left Danica's bonus potential of paid-up policies at a historically low level, affording little room for high risk assets in Danica's investment portfolio. Interest rates as well as equities and bond spreads are stressed and are monitored on a daily basis to make sure that Danica's own equity will not suffer losses.

9.1 HOW DANICA'S RESULTS AFFECT THE GROUP'S INCOME STATEMENT

Danske Bank owns Danica, and Danske Bank's financial results are affected by Danica's financial position through the "Net income from insurance business" item in the financial highlights. This item consists mainly of the risk allowance and the investment return on Danica's equity capital. If there is a shortfall in the investment return that cannot be absorbed by the collective bonus potential and bonus potential of paid-up policies, funds will be allocated from equity. The funds allocated will be transferred to a shadow account, and the booking will be deferred until a year when the technical basis permits.

The risk allowance is the annual return that Danica Pension may book from its with-profit business, and it may be booked only if the technical basis for the risk allowance permits and the bonus potential of paid-up policies is not used for loss absorption. The technical basis for the risk allowance is essentially the investment return on policyholder funds less the change in life insurance provisions. If the risk allowance cannot be booked, in whole or in part, it can be transferred to a shadow account and the booking can be deferred until a year when the technical basis for the risk allowance permits. All profits and losses after interest payments to policyholders, the risk allowance and changes in insurance provisions are added to the collective bonus potential.

According to the Contribution Principle, which states that policyholders' funds must be ring-fenced in groups with generally the same technical rate of interest, insurance risk and expenses, Danica has individual investment and hedging strategies for each group. The risk allowance is also determined for each group individually.

9.2 KEY RISK FACTORS

As shown in the table below, the key risk factors for Danica are market risks, life insurance risks, operational risks and business risks. They are discussed in the section below.

MAIN RISK FACTORS AFFECTING DANICA PENSION

MARKET RISKS	LIFE INSURANCE RISKS	OPERATIONAL RISKS	BUSINESS RISKS
Interest rate	Longevity	IT	Reputation
Equity	Mortality	Legal	Strategy
Credit spread	Disability	Administrative	
Currency	Concentration	Fraud	
Liquidity		Model	
Counterparty			
Concentration			

Insurance risk at Danica is related mainly to life insurance and pension products and to a lesser extent to insurance against critical illness and health insurance. Most of the risk on life insurance and pension products derives from with-profits policies in Denmark. Unit-linked policies in Denmark, Sweden and Norway account for a smaller share.

TWO TYPES OF LIFE INSURANCE PRODUCT IN DENMARK

With-profits policies
Danish with-profits policies have a guaranteed benefit based on a *technical rate of interest* (currently 0.5%). The policyholders earn interest at a rate that is set for each year at the discretion of the life insurance company and that can be changed at any time.

The difference between the actual (set) rate of interest and the return on policyholders' savings in a given year is added to the collective bonus potential and can be used as a buffer.

At Danica, the with-profit policies are called *Danica Traditionel*.

Unit-linked policies
Unit-linked policies are policies in which investments are allocated to the policyholders, who can decide how to invest their pension savings themselves or let the life insurance company invest the savings.

For unit-linked policies, the policyholder receives the actual return on the investments rather than a fixed rate of interest. The policyholder carries the entire investment risk unless a guarantee is attached to the policy.

Danica offers two types of guarantee to holders of unit-link policies: a minimum 0% return guarantee in Danica Balance and a watermark-based guaranteed benefit in *Danica Link*.

Risks related to unit-linked business are considered minor because most of the risks are carried by the policyholders or hedged by means of financial derivatives.

Danica's foreign activities account for about 10% of its total provisions, and they offer mainly unit-linked products without guarantees. The risk on these activities is thus very small. The remainder of this section concerns Danica's activities in Denmark. The table below shows the trend in life insurance provisions.

DANICA'S POLICIES BROKEN DOWN BY BUSINESS SEGMENT

At 31 December 2014 (DKK billions)	With-profits contracts				Unit-linked	Health and accident insurance	Other
	New customers	Low guarantee	Medium guarantee	High guarantee			
Collective bonus potential	0.5	0.2	0.9	0.5	-	-	0.3
Bonus potential of paid-up policies	0.6	0.1	0.1	0.1	-	-	-
Other provisions	41.9	21.4	15.7	83.7	96.7	8.9	1.5
Provisions for insurance and investment contracts	43.0	21.7	16.7	84.3	96.7	8.9	1.8

At 31 December 2013 (DKK billions)	With-profits contracts				Unit-linked	Health and accident insurance	Other
	New customers	Low guarantee	Medium guarantee	High guarantee			
Collective bonus potential	0.4	0.0	0.4	0.0	-	-	0.3
Bonus potential of paid-up policies	3.4	0.3	0.1	0.1	-	-	-
Other provisions	41.0	20.7	14.2	81.2	83.3	8.2	1.4
Provisions for insurance and investment contracts	44.8	21.0	14.7	81.3	83.3	8.2	1.7

9.3 CONTROL AND MANAGEMENT

Danica's board of directors defines the overall principles for Danica's risk management, and management monitors Danica's risks to ensure compliance with these principles. In addition, Danica's board of directors determines Danica's investment strategy and follows up on the results. Management prepares the specific investment plans.

9.3.1 Market risks

With-profits business

Losses can arise on policies with guarantees because of changes in interest rates, exchange rates, equity prices, the value of alternative investments, property values, credit spreads and market liquidity and as a result of issuer or counterparty defaults that cause changes in the fair value of Danica's assets and liabilities. Liabilities carry interest rate risk owing to the guarantees issued. For example, if market interest rates drop, the market value of liabilities increases.

Danica's liabilities are calculated by discounting expected cash flows at a rate defined by the Danish FSA. The discount yield curve includes the following constituents: the euro swap curve, a 250-day moving average of the Danish-German government yield spread, and a Danish mortgage bond spread. It is not possible to hedge the liabilities without a significant element of basis risk.

Since the Danish bond market is not large enough and does not have the necessary duration to hedge the liabilities, Danica must invest in non-Danish fixed income instruments. The bond portfolio therefore consists of a broad range of fixed income assets: Danish and other European government bonds, Danish mortgage bonds, Danish index-linked bonds and a well-diversified portfolio of global credit bonds. This means that Danica is exposed to changes in yield spreads between other European government bonds and EUR swap rates, for example.

At the end of 2014, about 72% of the bond portfolio consisted of government and mortgage bonds of high quality (AA to AAA ratings from the international rating agencies) or unrated mortgage bonds whose issuers have similarly high ratings. Only 10% of the portfolio was invested in non-investment-grade bonds. This risk is hedged and managed in the same way as equity market risk is managed.

Danica conducts internal stress tests to ensure that it can withstand significant losses on its equity and credit exposure and substantial changes in interest rates. Interest rate risk that is not covered by the bond portfolio is hedged by means of financial derivatives.

Early transfer or surrender by policyholders may force Danica to sell some of its funds and thus expose Danica to the risk of low sales prices. Danica reduces this liquidity risk by investing a large part of its funds in liquid bonds and shares.

Concentration risk and counterparty credit risk are limited because of internal investment restrictions and the use of collateral agreements for financial derivatives. Most bonds in Danica's portfolio are denominated in DKK and EUR, and almost all non-euro currency risk is hedged.

Unit-linked business

Approximately 80% of unit-linked policies have no financial guarantees. For these policies the policyholders bear all the investment risk.

For the rest of the unit-linked policies, which consist mainly of *Danica Balance* policies, the policyholders have an investment guarantee. The guarantees do not apply until the time of retirement and are paid for by an annual fee. Danica manages the risk on these guarantees in *Danica Balance* by adjusting the allocation of equities and alternative investments in the individual policies. The adjustments ensure that the investments can withstand a substantial decline in equities and alternative investments without bringing the guarantee into the money. Because of these hedging and risk management strategies, Danica considers the investment risk on guarantees in unit-linked products to be minor.

Danica's own investments

Not only are policyholders' savings exposed to market risk; Danica's own investments are also exposed to market risk, as are investments related to health and accident insurance.

Danica's board of directors has set a separate investment strategy for its own investments, which are made primarily in short-term Danish bonds. The investments related to health and accident insurance follow essentially the same investment strategy as the one used for customers' funds allocated to with-profits policies, since the benefits are similar.

9.3.2 Life insurance risks

Life insurance risks are linked to longevity, mortality, disability, critical illness and similar factors. For example, an increase in longevity lengthens the period during which benefits are payable under certain pension plans. Similarly, changes in mortality, illness and recoveries affect life insurance and disability benefits. Longevity, or increased life expectancy, is the most significant life insurance risk factor for Danica.

Danica subjects its life insurance risks to ongoing actuarial assessment in order to calculate insurance liabilities and make relevant business adjustments. For life insurance policies, Danica calculates the insurance liabilities according to expected mortality rates based on empirical data from its insurance portfolio. The rates reflect a possible increase in life expectancy in the future and a safety margin to cover uncertainty about expected mortality. For health and personal accident policies, Danica calculates insurance liabilities on the basis of expectations for future recoveries and re-openings of old claims. The expectations are based on empirical data from Danica's insurance portfolio. To mitigate life insurance risk, Danica uses reinsurance for large individual policy exposures and the risk of losses due to disasters.

9.3.3 Operational risks, business risks and model risk

Danica manages operational risk through internal controls and standard operating procedures that are updated regularly to reflect the current business environment. Danica systematically reviews its business areas to minimise the risk of financial losses due to sanctions, claims and reputational damage resulting from non-compliance with legislation, rules and standards. Danica closely monitors the competition in all relevant markets to ensure that its prices are competitive and customers are satisfied. Danica also monitors model risk by comparing model results with actual market results on an ongoing basis.

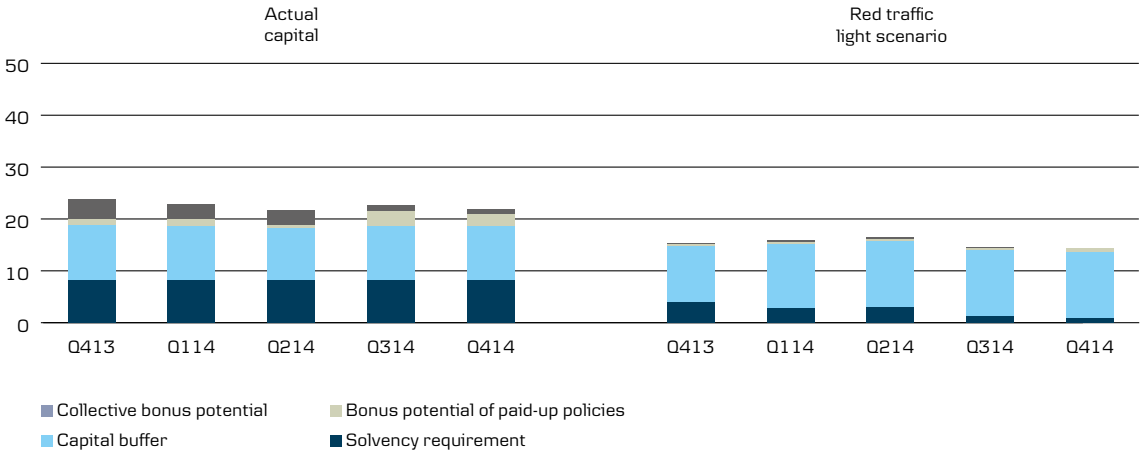
9.4 STRESS TESTING

To ensure that insurance companies in Denmark have sufficient capital to withstand significant changes in the market, the Danish FSA requires that they report the results of a set of stress tests commonly known as the red traffic light scenario.

The red traffic light scenario tests the effect of changes in interest rates, equity prices, property prices, exchange rates and counterparty credit risk. A company is said to have red light status if its total capital is less than 1% of its life insurance provisions when it is subjected to all the stresses in the red traffic light scenario at the same time. If a company has red light status, the Danish FSA will become involved in its financial management.

Danica has never had red light status and has significant capital strength, as shown in the chart below.

RED TRAFFIC LIGHT SCENARIO FOR THE DANICA GROUP
(DKK billions)



The tables below show the effect on Danica's total capital, as well as on the collective bonus potential and the bonus potential of paid-up policies (the capital buffer), caused by each of the stress tests in the red traffic light scenario. (Bond spread risk and risks posed by changes in mortality and disability are not part of the scenario but are shown as supplementary information.)

SENSITIVITY ANALYSIS FOR DANICA

At 31 December 2014 (DKK billions)	Change in collective bonus potential	Change in bonus potential of paid-up policies	Change in total capital	Total
Interest rate increase of 0.7 of a percentage point	0.1	1.6	-0.1	1.6
Interest rate decrease of 0.7 of a percentage point	1.9	-0.1	0.0	1.8
Decline in equity prices of 12%	-1.3	-0.5	-0.1	-1.9
Decline in property prices of 8%	-1.3	0.0	-0.3	-1.6
Foreign exchange risk (VaR 99.0%)	-0.3	0.0	0.0	-0.3
Loss on counterparties of 8%	-1.3	-0.1	-0.3	-1.7
Decrease in mortality of 10%	-1.0	0.0	-0.7	-1.7
Increase in mortality of 10%	1.6	0.0	0.0	1.6
Increase in disability of 10%	-0.1	0.0	0.0	-0.1

At 31 December 2013 (DKK billions)	Change in collective bonus potential	Change in bonus potential of paid-up policies	Change in total capital	Total
Interest rate increase of 0.7 of a percentage point	-0.1	2.8	-0.2	2.5
Interest rate decrease of 0.7 of a percentage point	0.8	-2.6	0.1	-1.7
Decline in equity prices of 12%	-0.6	-0.7	-0.6	-1.9
Decline in property prices of 8%	-0.5	-0.2	-0.8	-1.5
Foreign exchange risk (VaR 99.0%)	-0.2	-0.1	-0.2	-0.5
Loss on counterparties of 8%	-0.5	-0.4	-1.0	-1.9
Decrease in mortality of 10%	-0.2	-0.2	-1.4	-1.8
Increase in mortality of 10%	1.5	0.1	0.0	1.6
Increase in disability of 10%	0.0	0.0	0.0	0.0

For example, a 12% decline in equity prices results in a total loss of DKK 1.9 billion. The buffer absorbs DKK 1.8 billion of this, and the remaining loss of DKK 0.1 billion is covered by equity.

9.5 CAPITAL REQUIREMENT

Danica is subject to the capital requirement specified in the solvency rules for insurance companies. At 31 December 2014, Danica's regulatory capital requirement was DKK 8.4 billion, against DKK 8.2 billion at the end of 2013.

In addition to the regulatory capital requirement, which is a risk measure based on volume, Danica must meet its solvency need, which is a risk-based capital requirement that supplements the regulatory capital requirement. All Danish insurance companies are required to maintain total capital equal to or greater than the larger of the regulatory capital requirement and the solvency need. At 31 December 2014, the solvency need was DKK 10.4 billion, against DKK 10.5 billion at the end of 2013.

Danica calculates its solvency need in a solvency II–compliant standard model for the stress testing of all relevant risk factors, including equity prices, property prices, interest rates and longevity. The solvency need is calculated as the total capital requirement after stress testing, adjusted for the use of the collective bonus potential and the bonus potential of paid-up policies. This model was introduced on 1 January 2014 by the Danish FSA as a pre-implementation of Solvency II.

Solvency II

Solvency II is the new European risk-based solvency regime for insurance companies. Although possible transition rules are still being debated, it is very likely to be implemented in some form by 2016.

The Solvency II regime has been postponed several times because of difficulties that the many countries and stakeholders involved have had in agreeing on the rules.

As part of the new standard model, Danish insurance companies have to make a detailed overall risk assessment and submit it to the Danish FSA every year. They did this for the first time in 2014.

Other risks

10.

10.1 PENSION RISK

Pension risk arises because of Danske Bank Group's liability for defined benefit pension plans for current and former employees.

For accounting purposes, defined benefit pension plans are valued according to IFRSs (IAS 19). Before making the year-end valuation of its pension obligations, the Group conducts a full review of the assumptions and parameters underlying the valuations of its various pension plans, including the discount rate and inflation, so that they reflect the current market conditions.

10.1.1 Pension plans

The Group's defined benefit pension obligations consist of pension plans in Northern Ireland, the Republic of Ireland and Sweden as well as a number of small pension plans in Denmark. In addition, the Group has unfunded defined benefit pension plans that are recognised directly on the balance sheet and that are not managed by separate pension funds. All these plans are closed to new members. The table below gives an overview of the various plans.

OVERVIEW OF THE GROUP'S PENSION PLANS

At 31 December 2014		Northern Ireland	Ireland	Denmark	Sweden
Pension plan for new employees		Defined contribution	Cash balance	Defined contribution	Defined contribution
Status of defined benefit pension plan		Closed to new members in 2004	Closed to new members in 2008	Closed to new members	Closed to new members in 2013
Gross liability (DKK millions)		10,579	4,087	1,752	1,673
Assets at fair value (DKK millions)		11,510	4,617	1,919	1,477
Net assets (net liabilities) (DKK millions)		931	530	167	-185
Number of members:	Active	1,038	150	6	1,107
	Deferred	1,938	1,196	-	1,301
	Pensioners	2,000	504	194	531
	Total	4,976	1,850	200	2,939

Note: In Norway, Finland and the Baltics, the Group operates defined contribution plans under which it pays fixed contributions into a separate, legally independent entity and afterwards has no further obligations. After winding up the Norwegian defined benefit plan in 2005, the Group still has an early retirement pension obligation. The obligation amounted to DKK 31 million at 31 December 2014.

More than half of the Group's pension obligations are attributable to the Danske Bank Northern Ireland pension plan. The plan was closed to new members in 2004, and all new employees have since been enrolled in a defined contribution plan. After a comprehensive review of pension benefits carried out by the Group in 2007, the defined benefit pension plan was subject to a number of benefit changes, including a change in the future accrual basis from final salary to career average. The plan was changed again in 2012, with adjustments to the revaluation of pensions in payment.

Future benefit accruals under the Danske Bank Ireland plan were seized in 2010, when all employees were transferred to a so-called "cash balance" plan. The defined benefit plan had been closed to new entrants since 2008.

The cash balance plan can be thought of as a defined contribution plan with defined investment returns. Employer and employee contributions are invested on behalf of each member, and the investment return is guaranteed at the outset.

The Group's Swedish defined benefit plan was closed to new members in 2013 and replaced by a collectively negotiated defined contribution pension plan established by the Swedish banking association and the employees' union. Employees had previously been eligible to join a "hybrid" defined benefit plan in which benefits accrue on a final-salary basis up to a certain level of earnings and on a defined contribution basis above this level.

The Danish pension obligations reflect a number of plans that have been closed to new members for many years. Because of the maturity of the plans, pensioners account for the vast majority of plan members.

10.1.2 Control and management

The Group's defined benefit plans are funded mainly by ordinary contributions made by the Group and the employees in question to separate pension funds. The boards of directors of the pension funds tend to the members' interests in accordance with the prevailing articles of association and provisions, and they manage the assets by investing the contributed amounts in such a way that the contributions and the expected returns cover future pension payments.

A key element of the Group's risk management strategy is using derivative instruments to mitigate interest rate risk. The Group minimises pension risk by matching expected future pension obligations with the return on derivatives and the associated underlying assets.

Because of the complexity of the pension obligations, the Group does not use its normal limit structure when monitoring pension risk. Instead, it manages market risk on pension plans according to special follow-up and monitoring principles called "business objectives".

The Group has established procedures to be followed in case of deviations from these objectives. The All Risk Committee has defined risk targets for the Group's pension funds. To follow up on the objectives, the Group uses quarterly risk reports that analyse the individual plans' net obligations calculated on the basis of swap rates, sensitivity analyses and the VaR measure. It sets specific limits for the acceptable levels of risk exposure.

At the end of 2014, VaR was DKK 2,879 million (end-2013: DKK 3,331 million).

The Group's aggregate net pension obligation at the end of 2014 was DKK -1,412 million (that is, it had net pension assets of DKK 1,412 million), against DKK -1,048 million a year before. Lower bond yields (which are used to discount the net present value of pension cash flows) caused an increase in gross pension liabilities. But this increase was more than offset by an increase in pension assets.

DEFINED BENEFIT PENSION PLANS

At 31 December (DKK millions)	2014	2013
Present value of unfunded pension obligations	188	200
Present value of fully or partly funded pension obligations	17,933	14,479
Fair value of plan assets	19,533	15,727
Net pension obligation	-1,412	-1,048

The Group's net pension obligation of DKK 1,412 million reflects plans with net pension assets of DKK 1,861 million and net pension liabilities of DKK 449 million.

10.1.3 Liability recognition

The Group's defined benefit pension plan agreements contain provisions stipulating the pension benefits that the employee will be entitled to receive on retirement. The Group's obligation is thus recognised as a balance sheet liability subject to valuation. As the pension benefit will typically be payable for the rest of the employee's life, this increases the Group's uncertainty about the amount of future obligations since the liability and pension expenses are measured actuarially.

To value the liabilities, the actuary receives individual details of the plan's current, retired and deferred members. Data relating to changes in membership since the preceding valuation are also supplied so that a reconciliation of the membership numbers can be carried out and actual experience can be tested against the assumptions of the preceding valuation.

Various assumptions need to be made. Some are financial (e.g., the discount rate used to calculate the net present value of the pension cash flows and rates of salary and pension increases); and some are demographic (e.g., rates of mortality, ill health, early retirement and resignation). The actuary also requires details about the assets held by the plan. Assets are given at market value in conjunction with market-based yields for valuing liabilities.

The Group uses a number of calculation methods to determine its pension obligations that each serve a specific purpose, for example compliance with the local authorities' minimum funding requirements and the compilation of the consolidated accounts. These methods include the following valuations:

- The actuarial valuation, which assesses the pension fund's financial status according to local solvency rules and determines the amount of Group cash contributions to be paid in order to satisfy regulatory funding principles. Typically, this involves using a prospective benefits funding method based on the total prospective service of the existing membership, allowing for salary increases until retirement, resignation or death, as appropriate. The future service contribution rate is adjusted to allow for any past service surplus or deficit.
- The financial reporting valuation, which determines the Group's pension obligations according to IFRSs, including the pension cost and balance sheet liability of the Group. IFRSs use an accrued benefits funding method, which determines the cost of providing the benefits earned in the year after the valuation date. Pension obligations are recognised at fair value on the balance sheet.
- The risk management valuation, which assesses the market risk of the Group's pension obligations and provides the basis for the Group's general risk monitoring and quarterly follow-up on business objectives.

The Group calculates market risk on defined benefit plans on a quarterly basis. The risk is expressed partly as VaR at a confidence level of 99.97% and a one-year horizon. In this scenario, equity price volatility and the correlation between interest rates and equity prices are set at values reflecting normal market data. The duration of the pension obligations is reduced by half to take into account inflation risk. This is a widely accepted proxy that is also used by the Danish FSA, among others. It has been determined that the values of the volatility and correlation parameters are set appropriately.

Danske Bank uses the VaR model when advising life insurance and pension customers. The model discounts expected future pension payments at a "risk-free" swap rate rather than at the high-quality corporate bond yield currently used under IFRSs. The model also incorporates actuarial assumptions about longevity, salary growth and inflation in the calculation. The assets in the plan portfolio as well as their duration and the convexity are included in the model as well.

In addition, for each pension plan, the calculations include the sensitivity of the net obligation to changes in interest rates, equity prices and life expectancy (see the table below).

SENSITIVITY ANALYSIS OF NET OBLIGATION

(DKK millions)	Change	Effect, 2014	Effect, 2013
Equity prices	-20%	-1,137	-1,268
Interest rates	+1/-1%	+681/-380	+1,076/-788
Life expectancy	+1 year	-563	-458

Pension obligations are measured in the Group's solvency calculation at fair value. Pension risk is covered by the ICAAP, and it is measured by VaR.

10.2 BUSINESS RISK

Business risk is the risk that income will not be able to cover losses caused by events affecting the Group's profit before loan impairment charges, market losses and operational losses. Business risk exists throughout the Group. It reflects possible changes in general business conditions such as market environment, customer behaviour, the Group's reputation and technological progress to which the Group may not be able to adjust quickly enough.

The Group believes that capital for business risk should serve as a buffer only when income cannot cover losses arising from other risk types. Unexpected losses arising from other risk types are already covered by capital allocated for credit, market and operational risks. This is known as the "absolute loss" approach.

The method used to calculate economic capital for the Group's business risk takes place in two stages. First, the quarterly earnings before credit, market, and operational losses over the past five years are used to estimate the likelihood of a loss based on current earnings, the historical volatility of the earnings, and expected losses from other risk types. The second step entails an additional strategic risk estimate of the effects of possible future events. For this purpose, the Group has identified strategic scenarios that could cause the largest declines in earnings.

When the Group's earnings are stressed according to this method, the result is still positive, and no capital is required for business risk. The Group has nevertheless allocated DKK 3 billion for business risk to reflect the great uncertainty of the current macroeconomic situation.

Definitions

11.

Additional tier 1 (AT1) capital
Additional tier 1 capital consists of loans that form part of tier 1 capital. This means that it can be used to cover a loss of shareholders' equity.

Allowance account
The allowance account comprises all impairment charges against loans at amortised cost, loans at fair value, amounts due from credit institutions and central banks, loan commitments, and guarantees.

Asset encumbrance
Asset encumbrance is defined as the percentage of a counterparty's assets pledged as collateral.

Bond spread risk
A bond spread reflects the additional net return required by an investor on securities with a given credit quality and liquidity compared with the return on liquid securities without credit risk or a reference rate (such as a swap rate). Bond spread risk thus measures the change in value due to changes in the market's assessment of credit quality and liquidity.

Business risk
Business risk is the risk that income will not be able to cover losses caused by events affecting the Group's profit before loan impairment charges, market losses and operational losses.

Business unit
The Group's banking operations are organised in three business units – Personal Banking, Business Banking and Corporates & Institutions – each of them spanning all of the Group's geographical markets. Other business units in the Group include Danica Pension and Danske Capital.

Commodity risk
Commodity risk is the risk of losses caused by changes in commodity prices.

Conversion factor
A conversion factor expresses the percentage of an unutilised facility or credit line that will be converted into utilised exposure at the time of default. It thus represents a conservative estimate of the exposure at default (EAD).

Common equity tier 1 (CET1) capital
CET1 capital consists of shareholders' equity after certain statutory supplements and deductions.

Common equity tier 1 capital ratio
The CET1 capital ratio is defined as CET1 capital as a percentage of the total risk exposure amount (REA).

Counterparty credit risk
Counterparty credit risk is the risk of losses resulting from a customer's default on over-the-counter (OTC) derivatives contracts and securities-financing instruments.

CRD
The European Union's Capital Requirements Directives (2006/48/EC and 2006/49/EC), including amendments (CRD II and CRD III). In Denmark the rules are incorporated in the Danish Financial Business Act and associated executive orders, including the Executive Order on Capital Adequacy, and the Executive Order on the Calculation of the Capital Base. The rules in CRD II and CRD III have been revised (CRD IV 2013/36/EU) as a consequence of the implementation of Basel III. CRD IV was implemented in Denmark in March 2014.

CRR
The European Union's Capital Requirements Regulation (No. 575/2013) is based on the Basel III guidelines. The rules took effect on 1 January 2014.

Credit risk
Credit risk is the risk of losses arising because debtors or counterparties fail to meet all or part of their payment obligations.

Cure probability
Cure probability is the probability that a customer in default will return to performing status and the Group therefore will not need to recognise any losses.

Defined benefit pension plans
In defined benefit plans, the pension agreement contains a provision stipulating the pension benefit that the employee will be entitled to receive on retirement. The benefit is typically stated as a percentage of the employee's salary immediately before retirement, but it can also be a percentage of the average salary during the entire period of employment. The pension benefit will typically be payable for the rest of the employee's life, and this increases the employer's uncertainty about the amount of the future obligations.

Defined contribution pension plans
A defined contribution plan is a post-employment benefit plan under which the employer pays fixed contributions into a separate entity and has no further obligations. The pension entitlement accumulated by the employee depends on the size of the contributions agreed upon, the performance of invested pension funds and associated expenses.

Economic capital
Economic capital is the amount of capital, calculated with the Group's internal models, required to cover unexpected losses over the next year. The calculation of economic capital takes into account all relevant types of risk, including concentration and migration risks, as well as diversification within the individual risk types. The aggregation across risk types does not take into account the potential benefit from diversification among various risk types.

Equity market risk
Equity market risk is the risk of losses caused by changes in equity prices.

Foreign exchange risk
Foreign exchange risk is the risk of losses on the Group's foreign currency positions caused by changes in exchange rates.

General market risk
General market risk is the risk of losses on trading book positions because of general changes in market prices or rates, including interest rates, exchange rates, equity prices and commodity prices.

ICAAP
The Group's Internal Capital Adequacy Assessment Process (ICAAP) includes an evaluation of the capital needed under Pillar II. In the ICAAP, the Group identifies and measures its risks and ensures that it has sufficient capital in relation to its risk profile. The process also ensures that adequate risk management systems are used and further developed. As part of the ICAAP, the Group calculates the solvency need and performs stress tests to ensure that it has sufficient capital to support the chosen business strategy. Once a year, the full ICAAP report is submitted to the Board of Directors for approval, and the report is updated quarterly in a condensed format for approval.

IFRSs
International Financial Reporting Standards.

Inflation rate risk
Inflation rate risk is the risk of losses caused by changes in the traded future inflation rates.

Insurance risk
Insurance risk is defined as all types of risk at Danica Pension, including market risk, life insurance risk and operational risk.

Interest rate risk
Interest rate risk is the risk of losses caused by changing yields in the financial markets.

Leverage ratio
The leverage ratio is defined as tier 1 capital as a percentage of total exposure calculated according to the CRR. The leverage ratio does not take into account that various activities on credit institutions' balance sheets may have differing degrees of risk.

Liquidity risk
Liquidity risk is the risk of losses arising because funding costs become excessive, lack of funding prevents the Group from maintaining its business model, or lack of funding prevents the Group from fulfilling its payment obligations.

Loss given default (LGD)
Loss given default is the expected loss on an exposure calculated as the percentage of the expected facility utilisation that will be lost if a customer defaults. Downturn LGD is calculated by making a downturn adjustment that reflects the most severe economic conditions in the estimation period.

Market risk
Market risk is the risk of losses because the fair value of financial assets, liabilities and off-balance-sheet items varies with market conditions.

Model risk
Model risk is defined as the risk of losses resulting from decisions based mainly on output from internal models because of errors in the development, implementation or use of the models.

Non-performing loans
The Group defines non-performing loans as facilities with objective evidence of impairment and for which individual impairment charges have been booked. For non-retail exposures with any non-performing loans, the entire amount of the customer's exposure is considered to be non-performing. For retail exposures, only impaired facilities are included in non-performing loans. The Group's definition of non-performing loans differs from the EBA's definition by excluding fully covered exposures in default and performing forborne exposures under probation but more than 30 days past due.

Operational risk
Operational risk is the risk of losses resulting from inadequate internal procedures, human or system errors, or external events. Operational risk includes legal risk.

Pension risk
Pension risk is the risk that the Group will be liable for additional contributions to defined benefit pension plans for current and former employees. Pension risk includes risks of the following:

- Lower-than-expected returns on invested funds
- Changes in actuarial assumptions, including the assumptions about the discount rate and inflation, that cause an increase in the pension obligations
- Longer-than-expected longevity among members

Probability of default (PD)
Point-in-time (PIT) probability of default represents the PD within the next 12 months. This type of PD is cyclical and tends to fluctuate with the underlying business cycle. Through-the-cycle (TTC) PD measures the average annual default rate over the business cycle and tends not to fluctuate much with the underlying business cycle.

Risk exposure amount (REA)
The total risk exposure amount (formerly designated as "risk-weighted assets") is calculated for credit risk, market risk and operational risk in accordance with the Danish FSA's rules on capital adequacy.

Risk policies
The Board of Directors has adopted overall risk policies regulating the scope of risk-taking by the Group. On the basis of the overall risk policies, detailed risk policies and procedures are prepared for the various business areas.

SIFI
Systemically important financial institution.

Solvency II
The new risk-based solvency regime for European insurance companies.

Solvency need
The solvency need is the amount of capital that is adequate in terms of size and composition to cover the risks to which an institution is exposed.

Solvency need ratio
The solvency need as a percentage of the total risk exposure amount (REA).

Specific market risk
Specific market risk is the risk of losses in the trading book portfolio that can be attributed to the specific issuer of a financial instrument.

Tier 1 capital (T1)
Tier 1 capital consists of shareholders' equity after certain statutory supplements and deductions and additional tier 1 capital less statutory deductions.

Tier 1 capital ratio
Tier 1 capital as a percentage of the total risk exposure amount (REA).

Tier 2 capital (T2)
Tier 2 capital consists of subordinated debt subject to certain restrictions.

Tier 2 capital ratio
Tier 2 capital as a percentage of the total risk exposure amount (REA).

Total capital
Total capital consists of tier 1 and tier 2 capital, less certain deductions. Tier 2 capital may not account for more than half of the total capital (see section 3 for full descriptions of both types).

Value-at-Risk (VaR)
Value-at-Risk is a risk measure used to calculate risk exposure over a defined period at a given confidence level.

Wrong-way risk (WWR)
Wrong-way risk is defined as the additional risk deriving from an adverse correlation between counterparty credit exposure and the credit quality of the counterparty.

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