DANSKE BANK GROUP

RISK MANAGEMENT 2012

Danske Bank

The Danske Bank Group's business model

The Danske Bank Group, headquartered in Copenhagen, is the largest bank in Denmark and one of the leading financial enterprises in northern Europe. The Group offers a full range of banking services, with retail banking as its core activity. The Group also provides asset management, investment, mortgage finance, life insurance and pension, real estate and leasing services.

Our banking activities are organised in three business units – Personal Banking, Business Banking and Corporates & Institutions – that span all of the Group's geographical markets. All our banking activities are conducted under the Danske Bank brand name.

The Group offers banking services in 15 countries, with a focus on the Nordic region. It has a market-leading position in Denmark; it is one of the largest banks in Northern Ireland and Finland; and it has a challenger position in the other markets, including Sweden, Norway, Ireland and the three Baltic countries.

The Group also has branches in London, Hamburg and Warsaw. A subsidiary in Luxembourg caters to private banking customers, and another in St. Petersburg serves corporate banking customers. In addition, the Group has an office in New York.

The Group offers life insurance and pension products through Danica Pension, mortgage finance through Realkredit Danmark and asset management through Danske Capital.

The Group serves customers through various distribution channels, including nation-wide branch networks, contact centres, the Internet and mobile telephony, depending on customers' needs and preferences. Its products are based on a shared IT and service platform that lays the foundation for an efficient centralisation of risk management, financial follow-up and product development.

Altogether, the Group has more than 5 million retail customers and a significant share of the corporate and institutional markets. Some 2.2 million customers take advantage of online self-service features, including mobile and tablet apps that enable a wide range of self-service options, such as securities trading.

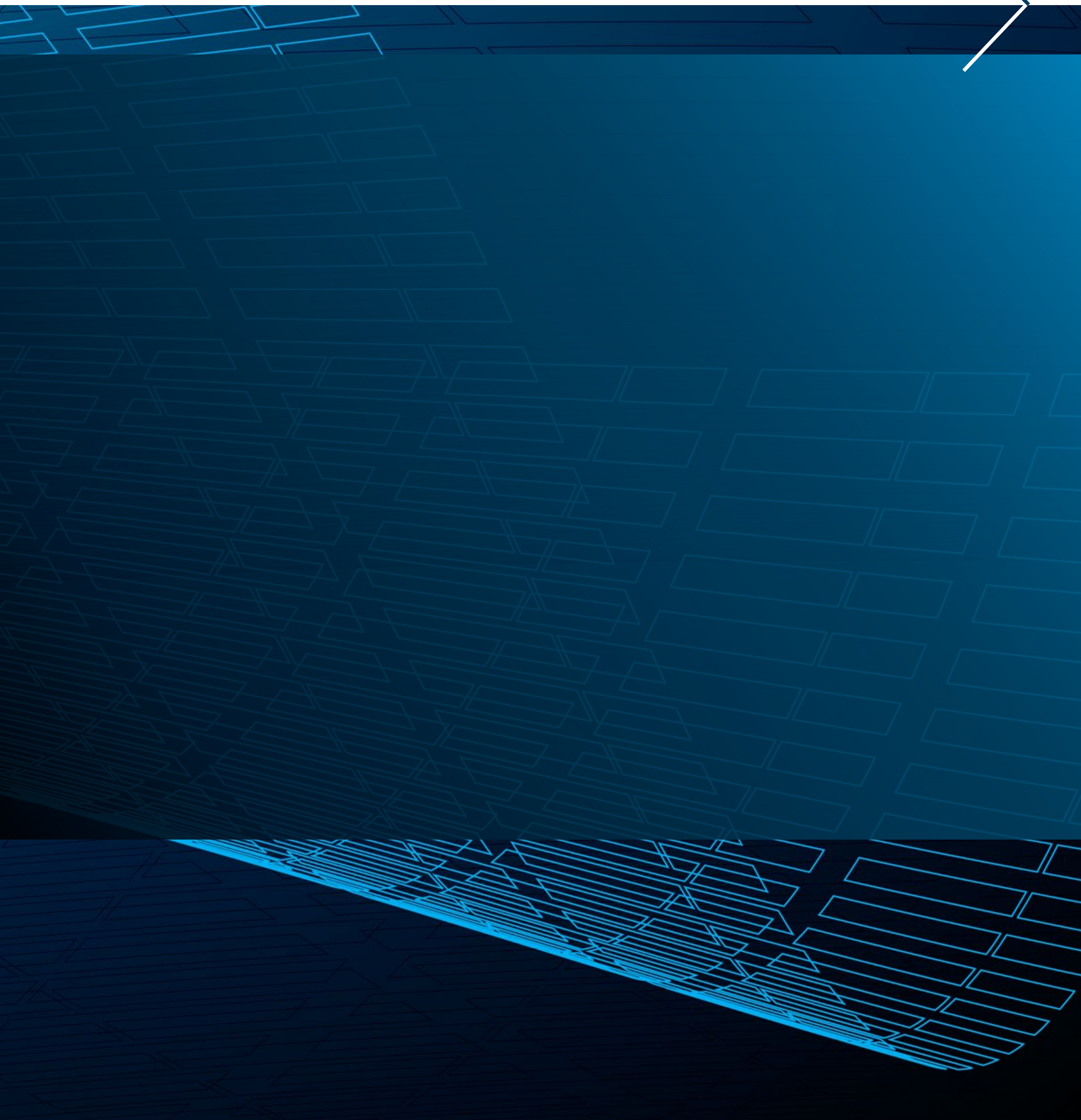
Our professional, well-trained staff provide individualised service tailored to customers' needs and desires. The Group employs more than 20,000 people.

CONTENTS

The objective of Risk Management 2012 is to inform shareholders and other stakeholders of Danske Bank Group's risk management, including policies, methodologies and practices.

Additional Pillar 3 disclosures required under the Danish Executive Order on Capital Adequacy can be downloaded from www.danskebank.com/ir.

1. 2012 IN BRIEF



In 2012, Danske Bank Group implemented a new strategy and organisational changes. With these initiatives, the Group confirmed its role as a universal bank in the regions where it operates. The strategy entails clear segmentation choices and customer propositions based on industry-leading advisory services. The Group will bring digitalisation and automation in banking to new levels. A resolute focus on process optimisation and operational excellence is intended to significantly improve customer satisfaction and reduce costs. Combined with improved capital efficiency, this will ensure higher returns on a stable capital base. The risk profile is intended to be conservative.

The organisational changes included the delegation of risk management responsibilities to dedicated risk teams in the new business units: Personal Banking, Business Banking and Corporates & Institutions. In 2012, the Group made a substantial effort to clarify the risk governance processes as part of the consolidation of the new organisation. A new unit – Group Risk Management – was set up to guide, monitor and consolidate risk management. The unit is headed by the Group chief risk officer, who is a member of the Executive Board.

The Group's recently launched strategy also entails an ambition to attain a better balance between earnings and risks in business activities. This ambition requires the enhancement of differentiated systems, processes and policies for the individual business units, a development that was in focus in 2012 and will also be so going forward.

The year 2012 also presented a difficult macroeconomic environment, with volatile markets and high impairment charges for the Group in Denmark and Ireland. A significant part of the Group's lending book in Ireland – much of it related to commercial property – was singled out as being incompatible with the business strategy. This portfolio was the main source of losses in Ireland, and it will be wound up or divested as soon as market conditions permit. Until then, the portfolio will be managed so as to optimise collections.

Uncertainty about the recovery of the European and global economies continued, with massive public debt problems still unresolved and consumer confidence stubbornly low. The sovereign debt crisis increased the divergence among European yields that began in 2011. In this financially divided Europe, the Scandinavian countries and Germany continued to function as safe havens, where interest rates were pushed down to levels near zero and even below zero at times, whereas interest rates in Spain and Italy especially rose to previously unseen levels. The announcement of a new bond purchase programme by the European Central Bank at its September meeting, however, succeeded in driving rates back down to the levels from the beginning of 2012 in the peripheral countries.

Despite considerable uncertainty and high volatility, the capital markets functioned reasonably well. Credit spreads narrowed, and strong banks – including Danske Bank - had opportunities to issue senior debt. Investor sentiment remained fragile, though.

Danske Bank's ratings from external rating agencies are essential for the Group's access to capital markets. Despite negative actions from the agencies in the first half of 2012 due to growing concerns over general business conditions for Nordic banks, Danske Bank had reasonable access to funding and liquidity markets, albeit at higher prices than those of its main Nordic peers.

Danske Bank has taken major steps to enhance its access to funding and improve its ratings. To accelerate the achievement of our rating targets, we issued new shares for an amount of DKK 7.1 billion in October 2012. Shortly afterwards, Standard & Poor's changed its outlook for Danske Bank from stable to positive.

Furthermore, in dialogue with the Danish Financial Supervisory Authority (FSA), Danske Bank agreed to accelerate compliance in 2012 with the forthcoming EU rules on the Liquidity Coverage Ratio (LCR), which is expected to take effect gradually from 2015 to 2019, and to take other measures. It is, however, important to emphasise that Danske Bank's liquidity level remained strong throughout the year and vastly exceeded regulatory requirements. At the end of 2012, the Group's LCR was 121%, and the Group therefore achieved compliance with the forthcoming rules.

The Group will continue to make considerable efforts to prepare for the massive regulatory changes that will be implemented in the financial services industry in the coming years.

Danske Bank expects that it will be designated a SIFI in Denmark and that it will be subjected to stricter requirements than Danish banks that are not designated as SIFIs. Danske Bank's position is that any requirements placed upon SIFIs in Denmark must be based on a clear set of international standards in order to avoid distortions of competition because of local differences in the treatment of SIFIs.

2. RISK ORGANISATION

2.1 RISK ORGANISATION

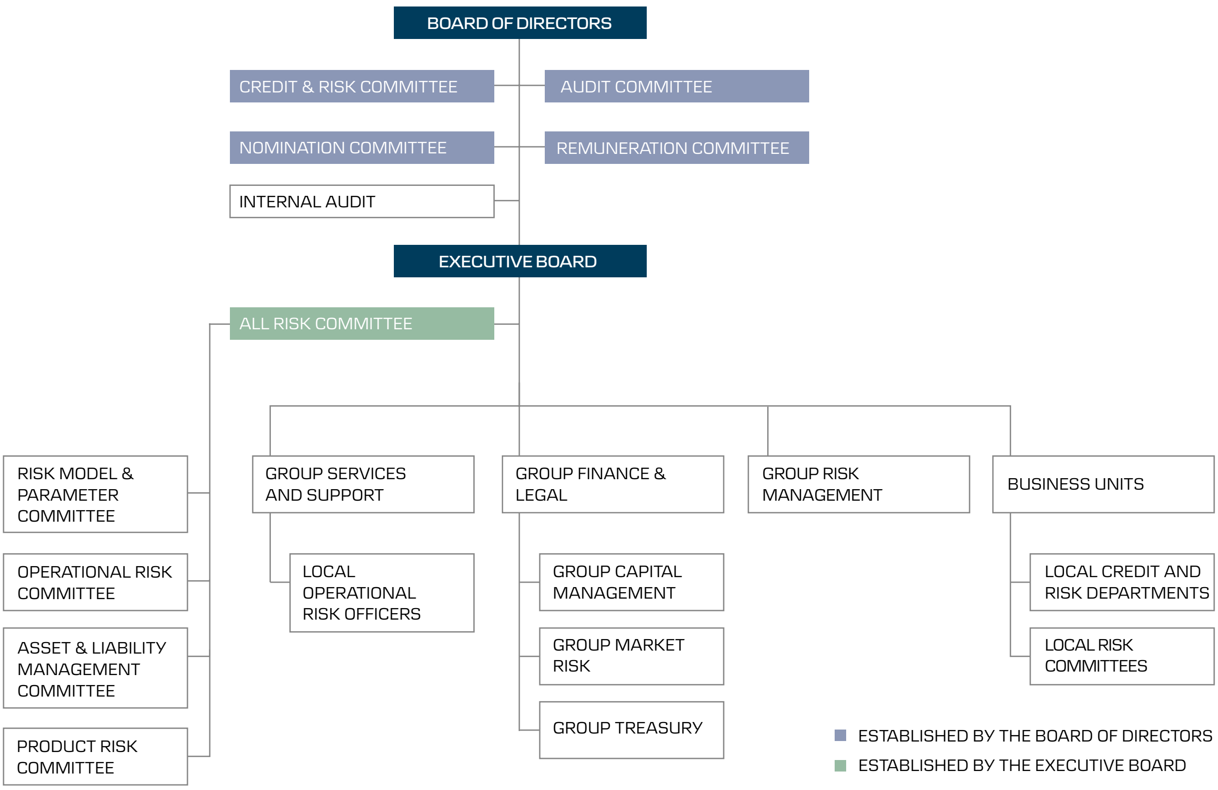
Danske Bank's rules of procedure for the Board of Directors and the Executive Board (the "Rules of Procedure") specify the responsibilities of the two boards and the division of responsibilities between them. The Rules of Procedure and the two-tier management structure, which were developed in accordance with Danish legislation, 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 boards of directors' obligations as presented in the Danish Financial Business Act and sets forth requirements for effective corporate governance.

On 1 June 2012, the Group implemented a new organisation, and responsibility for all business-related risks was placed with the heads of the business units and the heads of the operations and services areas. The segment-based organisation allows risk management processes to be better tailored to the various customer segments over time and to be aligned across borders.

RISK ORGANISATION OF DANSKE BANK GROUP



2.1.1 Board of Directors

The Board of Directors must ensure 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 all material 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 2012, the Board consisted of 13 members, including five 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 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, that there are written business procedures for all areas of activity, that adequate internal control procedures are in place, and that 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.

The Executive Committee, which served as a coordinating forum for a large number of senior managers, was disbanded upon the introduction of the new organisational structure on 1 June 2012. Executive Board members are now assigned day-to-day responsibility for the banking business units. This ensures more direct representation of business areas as well as risk and financial management 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 the individual business units. These instructions are used for laying down business and control procedures for the various units and for the Group's system development work.

Every quarter, the Group assesses its risk profile to ensure that it matches the risk instructions for its major business units. The Group conducts risk management at the customer and industry levels as well as on the basis of geographical location and collateral type. Risk monitoring is based on the following central risk areas:

- Credit risk, including counterparty 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 committees are the Credit & Risk Committee, the Remuneration Committee, the Nomination Committee and the Audit Committee.

The Executive Board has set up the All Risk Committee, which has overall responsibility for ongoing risk management.

COMMITTEES ESTABLISHED BY THE BOARD OF DIRECTORS	
Credit & Risk Committee	The Credit & Risk Committee acts as a consultative panel in respect of setting the Danske Bank Group's risk appetite and in doing so evaluates the risk profile, including significant risk concentrations and individual risk exposures. The Credit & Risk Committee also acts as a consultative panel in respect of the Group's pratices and procedures regarding all risk types.
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.
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.
Audit Committee	The Audit Committee examines accounting, auditing and security issues. These are issues that the Board of Directors, the committee itself, the Group chief auditor or the external auditor thinks deserve attention before they are brought before the full Board.

The Credit Committee was disbanded in 2012 upon the implementation of the Group's new organisational structure. The committee's duties are now performed by the Executive Board.

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. Within the framework determined by the Board of Directors, the All Risk Committee has overall responsibility for a number of tasks: • 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	• Risk Model & Parameter Committee • Operational Risk Committee • Asset & Liability Management Committee • Product Risk Committee

The Group has also set up various sub-committees for specific risk management areas, such as the Asset & Liability Management Committee, the Operational Risk Committee, the Risk Model & Parameter Committee and the Product Risk Committee. The sub-committees consist mostly of senior staff in risk management functions.

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

Local risk committees are set up at relevant units. The committees, which are chaired by the heads of the units, convene at least four times a year.

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 organisation. 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 general policies and mandates are adhered to by the business units and the operations and services organisations. These functions are located in Group Risk Management and Group Finance & Legal.

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

2.4.1 Business units

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.

When the new organisation was introduced on 1 June 2012, responsibility for all business-related risks was placed with the heads of the business units and the heads of the operations and services areas. Their responsibilities extend across national borders; the organisational change thus centralised risk management by business segment. The segment-based organisation enables risk management processes to be tailored to the various customer segments and to be aligned across borders. Lending authorities for specific customer segments and products are granted to the individual business units. Credit decisions exceeding the delegated authorities are referred to the Executive Board and 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 still managed centrally at the group level.

Increased attention from local regulators – especially where activities are organised in local legal entities - led the Group to strengthen governance structures for risk management from a local perspective. In the new organisation, 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 member of the Executive Board.

The department has overall responsibility for monitoring the Group's risk policies and for monitoring, 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.

The department supports and challenges the rest of the risk management organisation in risk management practices and reporting. It serves as secretariat for the All Risk Committee. Senior staff from the department also chair the Risk Model and Parameter Committee, which monitors the Group's use of risk models, results of backtests and changes to parameters; the Operational Risk Committee, which evaluates the management of the Group's key operational risks; and the Product Risk Committee, which reviews risk related to possible new products. A specialised department in Group Risk Management is responsible for the day-to-day monitoring of operational risks.

In addition, the department has overall responsibility for setting the group-wide risk appetite and policies, for reviewing the approval and follow-up processes in the business units' lending books, and for monitoring and reporting on the Group's consolidated lending portfolio - including the determination of portfolio limits for specific industries and countries.

Group Risk Management is also responsible for facilitating the quarterly process of calculating and consolidating the impairment of credit exposures.

A unit within the department is responsible for developing credit rating and valuation models and for ensuring 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 backtesting and validating credit risk parameters in collaboration with the business units.

In September 2012, the Danish FSA made an inspection of the management of controls in the credit area at a number of major Danish banks, including Danske Bank. The inspection took place after implementation of the new organisational structure on 1 June 2012 and just before the new CRO took office on 1 October 2012 and began consolidating the credit risk management organisation. The inspection and its conclusions thus do not take into consideration the organisational changes. The Group responded to the orders in the consolidation of the credit risk management department under the CRO.

2.4.3 Group Finance & Legal

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

The department is also in charge of the Group's investor relations, capital structure, capital allocation, regulatory matters and relations with international rating agencies.

It is responsible for the day-to-day monitoring and control of market risk as well as the compilation of risk-weighted assets and the Group's internal capital adequacy assessment process (ICAAP).

Within Group Finance & Legal, Group Treasury is responsible for monitoring liquidity risk and funding 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 ensure ongoing compliance with the approved risk limits. It has set guidelines for reporting to relevant management bodies, 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 quarterly (see the table below). The Group's ICAAP report is also submitted quarterly to the Board of Directors for approval. Once a year, an expanded ICAAP report is submitted for approval together with a detailed analysis of the Group's risk profile.

ANNUAL REPORTING	
Risk policy	Review of the overall risk policies, including a consideration of whether any revisions are required.
ICAAP	Evaluation of the risk profile and the solvency need. The report contains the 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 that is submitted quarterly in an abbreviated form.
Risk management framework	Thorough analysis of the Group's risk profile, including 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.
Contingency planning	Contingency plans describing options available to the Group to improve its capital and liquidity under stressed conditions.

QUARTERLY REPORTING	
ICAAP and placement requirements	Short version of the annual ICAAP report. Separate report on the Group's adherence to capital and placement requirements (including the Supervisory Diamond) in the Danish Financial Business Act.
Credit quality report	Analysis of impairment charges and losses by business unit and of portfolio breakdowns by rating category, size, business unit, etc.
Market risk	Analysis of the Group's current equity, fixed income and currency positions as well as reports on the utilisation of board-approved limits since the preceding report.
Large exposures	Overview of exposures equal to or exceeding 10% of the Group's capital base and the sum of these exposures, including the percentage of the capital base it represents.
Loan impairment charges	Report on the trends in collective and individual loan impairment charges.
Industry analyses	Analyses of selected industries and business areas. They include a review of relevant macroeconomic developments as well as the trends in individual portfolios.
Liquidity risk	Report on limits for operational liquidity risk, 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.

3. CAPITAL MANAGEMENT

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

The Group has set prudent capital targets to be achieved by the end of 2013: a total capital ratio of at least 17% and a core tier 1 capital ratio of at least 13%. The Group's capital considerations are based on an assessment of the capital requirements under the current capital adequacy rules and the rules on the transition from previous regulations as well as on an assessment of the effects of future regulations, including CRD IV and requirements for systemically important financial institutions (SIFIs). If the final regulatory requirements differ from our expectations, this may result in adjustments of our capital targets. The Group also considers criteria such as expected growth and earnings, dividend policy and stress test scenarios.

The Group aspires to improve its credit ratings, which are important for its access to liquidity and for the pricing of its long-term funding. The Group therefore includes the ratings in its capital considerations.

In the second half of 2012, the Group launched initiatives to improve its ratings and prepare its capital structure for the coming European capital requirements for banks.

In September 2012, the Group issued DKK 5.7 billion in subordinated debt. The issue is expected to comply with the requirements for tier 2 capital under CRD IV. The loan has a maturity of 25 years and may be redeemed at par after five years. The issue represented 0.7 of a percentage point of the total capital ratio at the end of 2012.

In October 2012, Danske Bank strengthened its core tier 1 capital by issuing new shares for DKK 7.1 billion by means of an accelerated book-building process. The issue represented an increase of about 0.9 of a percentage point of the core tier 1 capital ratio at end-2012.

In the beginning of November 2012, Standard & Poor's Services revised its outlook for Danske Bank Group's rating from stable to positive as a consequence of these initiatives.

At the end of 2012, the Group's core tier 1 capital amounted to DKK 119.1 billion, or 14.5% of risk-weighted assets (RWA). The Group's total capital base consists of tier 1 capital (including core tier 1 capital) and tier 2 capital. At the end of 2012, the capital base amounted to DKK 174.4 billion and the total capital ratio was 21.3%, with DKK 155.0 billion deriving from tier 1 capital and thus giving a tier 1 capital ratio of 18.9%.

At the end of 2012, the Group's solvency need amounted to DKK 90.3 billion, or 11.0% of RWA. The Group's capital base thus contains a capital buffer of DKK 84.1 billion.

In October 2012, Danske Bank announced the results of the European Banking Authority's (EBA) update of the capital test conducted in December 2011. Danske Bank was one of the 61 European banks tested. The Group demonstrated a capital level substantially above the EBA's required level. The results reconfirmed that Danske Bank has a strong capital base and is among the best-capitalised banks in Europe.

The Group uses mainly the advanced internal ratings-based (A-IRB) approach to calculate RWA for credit risk. In 2012, the Group carried out a number of initiatives to strengthen the IRB framework and improve capital efficiency. The initiatives included revisions and improvements to models and parameters. Some are pending approval by the Danish FSA, while others have already been implemented. The Group believes that the models are robust and sufficiently conservative. The models and their results are monitored continually, and the Group makes adjustments for changes in financial and regulatory conditions when necessary.

3.1 CAPITAL MANAGEMENT

Credit institutions assume risks as a normal part of their business and expect to incur some financial losses. Under normal circumtances, an institution would expect such losses to be well covered by its earnings. In a given year, however, if the earnings are not sufficient to cover the losses, the losses are covered from the capital buffer (the part of the capital base that exceeds the institution's solvency need).

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

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

As part of the ICAAP, management identifies the risks to which the Group is exposed for the purpose of assessing its risk profile.

The Group is involved in a number of business activities. These activities can be divided roughly 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 risks						
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 Danske Bank Group is defined as all risks related to Danica Pension.

After the risks have been identified, the Group determines how and to what extent it will mitigate them. Mitigation usually takes place by means of business procedures, contingency plans and other measures. Finally, the Group determines what risks will be covered by capital. In the ICAAP, the Group also determines its solvency need on the basis of internal models for economic capital and other means, and it conducts stress tests to make certain that it always has sufficient capital to support its chosen business strategy, among other things.

The Group's ICAAP is also the basis for the Supervisory Review and Evaluation Process (SREP), which is a dialogue between an institution and the financial supervisory authority on the institution's risks and capital needs. The outcome of the latest SREP was that the Danish FSA, like Danske Bank, considered the Group's calculation of its solvency need ratio to be satisfactory and the Group's capital level therefore to be sufficient.

According to special requirements in Danish law, the Group's solvency need and solvency need ratio must be published quarterly. For information on the general methods of calculating the solvency need and solvency need ratio, see the ICAAP report, which is updated quarterly and published at the same time as the Group's quarterly and annual reports at www.danskebank.com/ir.

3.2 MINIMUM CAPITAL REQUIREMENT

The regulatory minimum capital requirement under Pillar I of the Capital Requirements Directive (CRD) is defined as 8% of RWA for credit risk, market risk and operational risk. Besides being used to determine the Group's capital requirement, the RWA figure is also used as the denominator in key risk measures such as the capital ratios and the solvency need ratio, which according to Danish law is the solvency need (under Pillar II) divided by RWA.

METHODS OF CALCULATING RWA	
Credit risk	To calculate RWA for credit risk, the Group uses mainly the advanced IRB approach with its own conservative risk parameters. It uses downturn parameters for loss given default (LGD) and the conversion factor (CF) as well as through-the-cycle probabillities of default (PD). For certain exposures, the Group makes an exception to the IRB approach and uses the standardised approach of the CRD.
Market risk	In calculating RWA for market risk, Danske Bank distinguishes between general and specific risk and between holdings in the trading book and holdings outside the trading book. It uses an internal VaR model to calculate RWA for general risk for items in the trading book and to calculate foreign exchange risk for items outside the trading book. Commodity risk is not covered by the internal model but is calculated according to the standardised approach of the CRD. The Group uses the standardised approach to calculate RWA for specific risk.
Operational risk	Danske Bank uses the standardised approach to calculate RWA for operational risk. The calculation is based on a single indicator: income. RWA are calculated as a percentage of the average income in the past three years. The percentage ranges from 12% to 18%, depending on the rate for the various business activities defined in the CRD.

RWA for credit risk (including counterparty risk) amounted to 83.5% of total RWA, making credit risk the single 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.

The Danish FSA has granted the Group an exemption from the A-IRB approach for exposures to government bonds and equities. The exemption also applies to the exposures at the legal entities Northern Bank Limited (in Northern Ireland) and Danske Bank Finland and to retail exposures at Danske Bank Ireland branch. For these exposures, the Group uses the standardised approach. The Group plans to submit an application to regulators to use the foundation IRB approach at Danske Bank Finland in 2013. The Group is also preparing an application to the Danish FSA to use an internal model for calculating the capital requirement for counterparty risk.

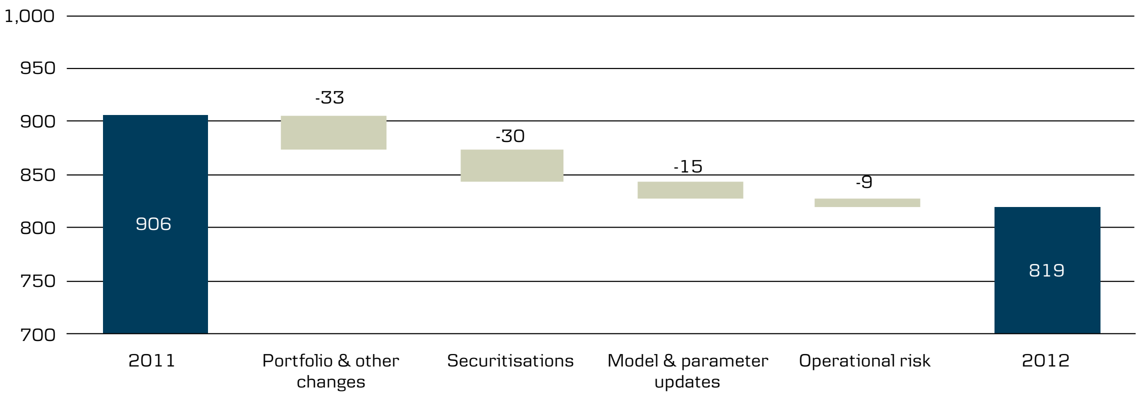
RWA for market risk amounted to 7.3% of RWA. The Group uses an internal VaR model for general risk on items in the trading book and for foreign exchange risk on items outside the trading book. The Group currently uses the standardised approach for specific market risk. As part of its strategy to use more advanced approaches in all material risk areas, however, the Group is in the process of expanding the internal model to include specific market risk.

RISK-WEIGHTED ASSETS AND RISK WEIGHTS

At 31 December (DKK millions)	2012		2011	
	Risk-weighted assets	Average risk weights (%)	Risk-weighted assets	Average risk weights (%)
Credit risk				
IRB approach:				
Institutions	12,313	18	13,502	16
Corporate customers	268,495	36	281,317	37
Retail exposure secured by real property	94,034	14	114,934	17
Other retail exposure	37,504	25	34,051	25
Other	25,915	95	51,185	120
IRB approach, total	438,261	26	494,989	29
Standardised approach for credit risk, total	195,838	42	213,383	46
Counterparty risk	50,361		44,508	
Credit risk, total	684,460		752,880	
Market risk, total	59,789		63,686	
Operational risk, total	75,186		89,414	
Total risk-weighted assets	819,435		905,980	

At the end of 2012, the Group's RWA amounted to DKK 819 billion, against DKK 906 billion at the end of 2011.

CHANGE IN RWA, 2012
(DKK billions)



Note: "Model & parameter updates" includes the effects of initiatives to improve capital efficiency of DKK -39 billion and the effects of the annual update of credit risk parameters of DKK 24 billion. "Operational risk" in this chart represents the effects on RWA of lower earnings in the years used to calculate RWA for operational risk for 2012 than previously.

The reduction of RWA in 2012 was attributable mainly to the divestment of several securitisation positions. The Group is managing its portfolio of securitisations with a view to phasing it out.

In 2012, the Group carried out a number of initiatives to improve capital efficiency. The initiatives included revisions and improvements to models and parameters under the IRB framework and resulted in a further reduction of RWA.

Finally, RWA for operational risk came primarily down because earnings in the years used to calculate RWA for 2012 were lower than earnings in the years used to calculate RWA for 2011.

3.3 INTERNAL ASSESSMENT OF THE SOLVENCY NEED

The ICAAP under Pillar II includes the Group's calculation of its solvency need.

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 makes this evaluation in relation to both economic capital and Pillar I+ (see the detailed description below). It has established a process in which any add-ons are quantified on the basis of input from internal experts.

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.

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 does recognise, though, that a strong capital position and rating are necessary for maintaining a strong liquidity and funding position.

The Group assesses the overall capital need on the basis of internal models and ensures that it is using the proper risk management systems. The ICAAP also includes capital planning to ensure that the Group always has sufficient capital to support its chosen business strategy. Stress testing is an important tool for this objective.

An expanded ICAAP report is submitted to the Board of Directors for approval once a year, and the Board also receives quarterly ICAAP reports. As part of the ICAAP, the Board of Directors also evaluates an annual report that describes the Group's risk profile.

The solvency need

The solvency need is the capital base of the size, type and composition needed to cover the risks to which a credit institution is exposed. Danske Bank calculates it as the highest of the following measures:

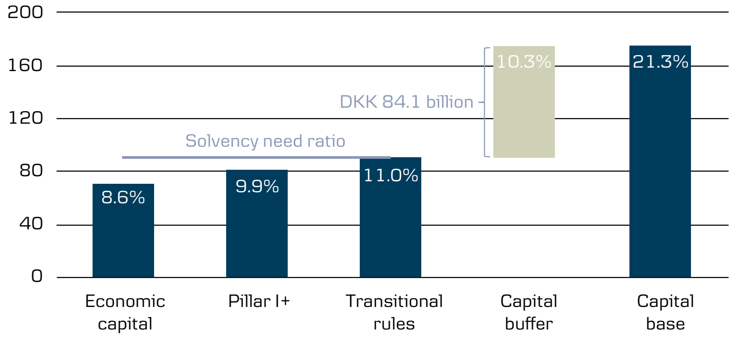
- The capital need according to the Group's internal economic capital models
- The capital requirement under Pillar I, plus a supplement to address the risks that are not covered by Pillar I (that is, Pillar I+)
- The capital requirement according to the Basel I transitional rules

At the end of 2012, the Group's solvency need was determined according to the capital requirement under the Basel I transitional rules and amounted to DKK 90.3 billion, or 11.0% of RWA. The capital base was DKK 174.4 billion, or 21.3% of RWA, which meant that the Group's capital buffer was DKK 84.1 billion.

According to the Basel I transitional rules, the capital requirement is 80% of the requirement under Basel I, or 6.4% of RWA calculated according to the Basel I rules. The transitional rules will apply in Denmark until the end of 2013. The revision of the CRD (CRD IV) contains a proposal to maintain the transitional rules for a number of years.

In December 2012, the Danish FSA published its revised guidelines on Danish credit institutions' solvency need calculations. The guidelines specify how the Danish FSA assesses various risks covered by a credit institution's solvency need. The revision is not expected to have any material effect on the Group's solvency need calculations.

SOLVENCY NEED AND CAPITAL BASE, END-2012
(DKK billions)



Danske Bank's two main approaches to calculating its solvency need are based on the economic capital method, which the Group uses internally to determine its capital need, and Pillar I+, which is based on the minimum regulatory capital requirements.

Economic capital is the capital needed to cover unexpected losses in the coming year. To calculate it, the Group uses a 99.9% confidence level, which is the level used to calculate the minimum regulatory capital requirement for credit risk.

The regulatory approach to the calculation of the minimum capital requirement for credit risk ignores the actual composition of the Group's portfolio. In contrast, the internal credit risk model used to calculate economic capital takes into account correlations between portfolios. Correlations can reveal concentration risk, which increases overall risk, or diversification, which reduces risk. The internal model for economic capital identifies sector and geographical concentrations, while the regulatory approach assumes that the portfolio consists of small exposures to many debtors.

Economic capital is a point-in-time (PIT) estimate and thus reflects the Group's current risk, unlike the regulatory capital requirement, which is based on through-the-cycle (TTC) and downturn parameters, which reflect an average over a macroeconomic cycle. Economic capital therefore tends to react more sharply to macroeconomic trends than does the regulatory capital requirement.

The Pillar I+ approach is based on the regulatory capital requirement, but it also takes into account other risks that are not included under Pillar I. The other risks include pension risk, business risk and insurance risk (risk at Danica Pension), and they are included in the calculations of both economic capital and the Pillar I+ capital need. The Group uses internal models to calculate the capital need for these risk types. Insurance risk is covered partly by a deduction from the capital base. The table below shows the approaches for economic capital and Pillar I+ broken down by Pillar I risks and additional risks.

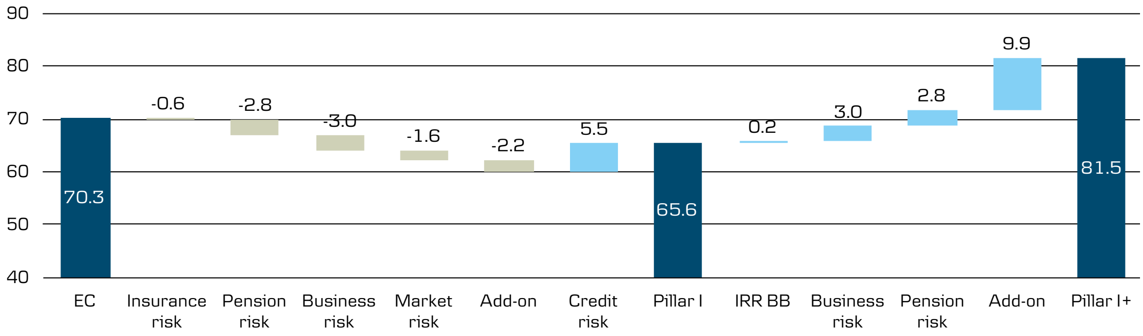
		PILLAR I+	ECONOMIC CAPITAL
Pillar I risks	Credit risk	Internal model Assumes granular portfolio One-factor model	Internal model Takes into account concentrations Country-specific factors
	Market risk	Internal model for general risk; standardised approach for specific risk and commodity risk	Internal model for general risk; standardised approach for specific risk and commodity risk
	Operational risk	Standardised approach	Standardised approach
Other risks	Pension risk	Internal model	Internal model
	Insurance risk	Part of credit risk	Internal model
	Business risk	Internal model	Internal model
	Interest rate risk outside the trading book	Internal model	Part of market risk

Note: Insurance risk under Pillar I+ 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 capital base is included in the RWA calculation at a 100% weight.

When determining the capital need under economic capital and Pillar I+, if the results of the model calculations do not appear sufficiently conservative, the Group 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 or economic capital calculation is not conservative enough or macroeconomic uncertainty raises similar doubts. At the end of 2012, the Group used capital add-ons primarily for the uncertainty about macroeconomic developments in Denmark, Ireland and Northern Ireland.

FROM ECONOMIC CAPITAL (EC) TO PILLAR I+

(DKK billions)



Note: "IRR BB" is interest rate risk on items outside the trading book. "Add-on" consists of possible capital supplements owing to model uncertainty or macroeconomic uncertainty, for example.

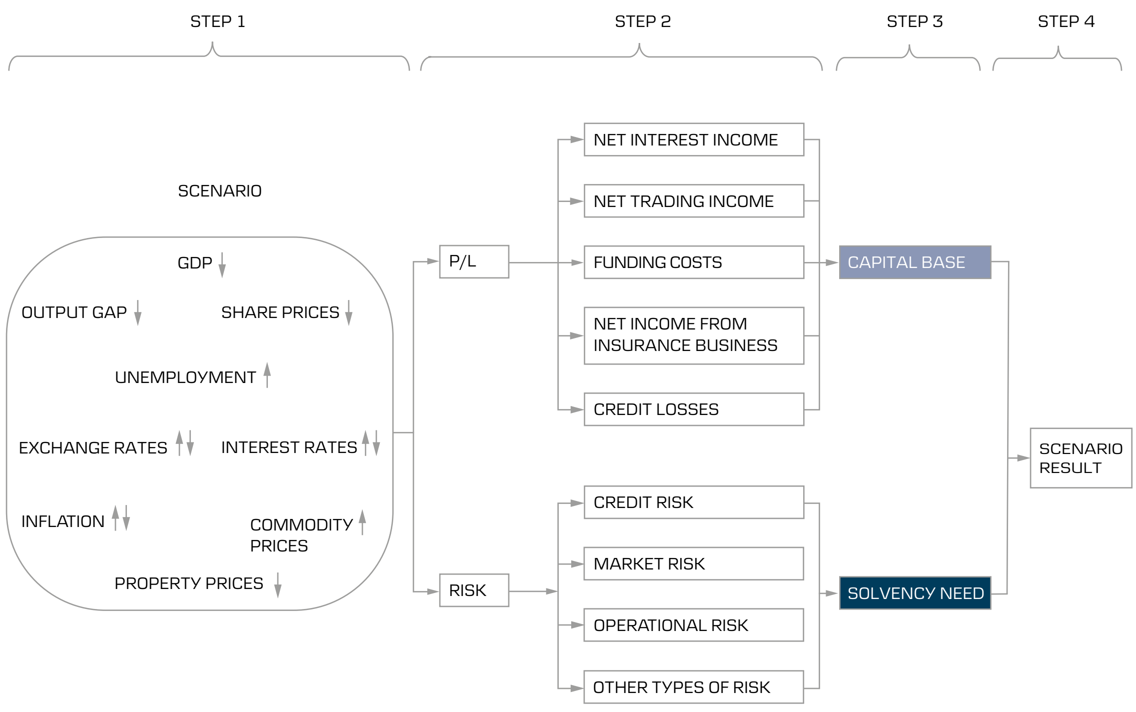
3.3.1 Stress testing

Danske Bank uses macroeconomic stress tests in the ICAAP in order to project its solvency need and actual capital in various unfavourable scenarios. Stress tests are an important means of analysing its 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 capital base. The tests support the Group's compliance with the regulatory capital requirement, and they are an important tool in internal capital planning. In 2012, the Group also took part in an update of the capital exercise from the EBA and the annual stress test initiated by the Danish FSA. The results showed that the Group had adequate capital in all the scenarios used.

Stress testing covers material risks and enables the Group to assess the effect that unfavourable economic trends will have on various risk types. The Group uses stress tests in the ICAAP and also for individual risk types (mainly in sensitivity analyses).

When the Group uses stress tests in capital planning, stress is applied to risks, income and cost structure. Stressing income and cost affects the Group's capital base, while stressing risk exposures affects the solvency need. This means that the stress tests quantify the effect on the capital buffer. 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. This is undertaken by Group Finance & Legal and Danske Research. Each scenario consists of a set of macroeconomic variables. The scenarios are generally used both at the group level and for subsidiaries, and scenarios are also developed specifically for subsidiaries. The scenarios are submitted to the All Risk Committee and the Board of Directors' Credit & Risk Committee for approval. The Group also has a base case scenario that represents its forecast of financial trends in the years ahead. It carries out a number of regulatory stress tests, the most important of which are shown in the table below.

DANSKE BANK'S MOST IMPORTANT STRESS TEST SCENARIOS

SCENARIO	DESCRIPTION
Mild recession	A geopolitical crisis dampens global demand temporarily. This scenario assumes slight economic contraction in the first year followed by a recovery. In the subsequent years, growth will be lower than assumed in the base case scenario.
Severe recession	The scenario assumes a deep international recession with a significant slump in global trade that entails lower export demand. Domestic investment, consumption and house prices fall. Central banks around the world adopt an accommodating monetary policy.
Regulatory scenarios	Danish FSA: Base case and stress scenario. European Banking Authority (EBA): Base case and adverse scenario.

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

The models are used to stress the probability of default (PD) for each customer, causing higher loan impairment charges and a higher solvency need. The exposure is stressed further by subjecting the customers' assets held as collateral to stress, that is, a reduction in value.

For other risk types, such as market risk, insurance risk and pension risk, the Group uses scenario-specific variations in the current market positions, and this can cause a decline in the market values. The changes in market value are considered losses that would reduce the Group's earnings and capital base.

The Group takes a holistic approach to stress testing and sees the effect of a change in the variables on the Group's earnings and capital as a whole. For example, a rise in yields will have an adverse effect on the Group's bond holdings and will also cause credit losses. On the other hand, it will also cause an increase in lending margins and therefore an increase in net interest income as well. The Group's stress tests entail an overall assessment of such opposing effects.

When the stress test scenarios have been translated into effects on risks, income and the cost structure, the Group can calculate its solvency need and capital base under each scenario in the third step. 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.

The financial crisis highlighted the need to further develop the stress test methodology. For example, Danske Bank's projections of loan impairment charges proved to be lower than the actual charges booked during the crisis. In the past year, the Group improved parts of the stress testing methodology, including the projection of loan impairment charges, losses on market risk and the stress applied to RWA, in order to improve the capital projections. The Group is also working to further disaggregate the results and thus improve the basis for management decisions and produce more detailed analyses.

Danske Bank uses the “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 considerations, the Group uses the “Severe recession” scenario to determine whether the capital level is satisfactory. If it concludes that its capital buffer is too small in the scenario’s worst year, it will consider changing the risk profile or raising capital.

Besides these two main scenarios, Danske Bank also uses various specialised scenarios. These scenarios give management an understanding of how the Group will be affected by specific events. They have proven very relevant in the past year, for example regarding the US credit rating downgrade and the debt crisis in southern Europe.

The stress tests show that the Group is robust in the event of the economic developments in the selected stress test scenarios.

Reverse stress test

In addition to a macroeconomic stress test, the Group also conducts a so-called reverse stress test. In this test, the Group identifies the types of event that can lead to a breakdown in the Group’s business operations. It then estimates the risk that such an event will take place and determines whether it accepts the risk in relation to its exposure to the event. If it considers the risk from an event unacceptable, it will initiate mitigation plans to reduce the risk to a satisfactory level.

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

3.4 CAPITAL BASE

At 31 December 2012, Danske Bank’s capital base amounted to DKK 174.4 billion, and the total capital ratio was 21.3%. The capital base consists of tier 1 capital and tier 2 capital. At 31 December 2012, tier 1 capital amounted to DKK 155.0 billion, or 18.9% of RWA, and core tier 1 capital amounted to DKK 119.1 billion, or 14.5% of RWA.

The various components of the capital base are shown below.

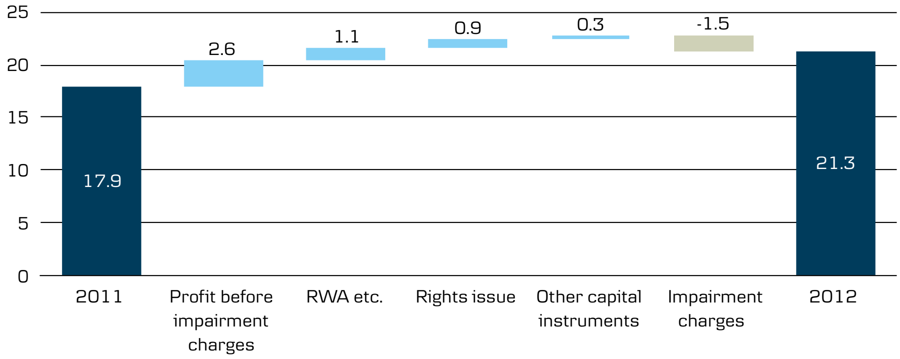
DANSKE BANK GROUP'S CAPITAL BASE

At 31 December (DKK millions)	2012	2011
Solvency calculations		
Shareholders' equity	138,234	125,855
Revaluation of domicile property	1,048	1,281
Pension liabilities at fair value	-235	348
Tax effect	-57	-58
Reserves in pro rata consolidated companies	3,002	2,991
Shareholders' equity calculated in accordance with the rules of the Danish FSA	141,992	130,417
Expected dividends	-	-
Intangible assets of banking operations	-21,279	-22,127
Deferred tax assets	-1,389	-1,600
Deferred tax on intangible assets	642	923
Revaluation of real property	-642	-743
Other statutory deductions	-227	-44
Core tier 1 capital	119,097	106,826
Hybrid capital	40,248	42,366
Difference between expected losses and impairment charges	-	-
Statutory deduction for insurance subsidiaries	-4,292	-4,175
Other statutory deductions	-19	-
Total tier 1 capital	155,034	145,017
Subordinated debt	23,009	20,480
Revaluation of real property	642	743
Difference between expected losses and impairment charges	-	-
Statutory deduction for insurance subsidiaries	-4,292	-4,175
Other statutory deductions	-19	-
Capital base	174,374	162,065
Risk-weighted assets	819,436	905,979
Core tier 1 capital ratio (%)	14.5	11.8
Tier 1 capital ratio (%)	18.9	16.0
Total capital ratio (%)	21.3	17.9

The Group's total capital ratio improved significantly in 2012, mainly because of an increase in earnings and a reduction of RWA. Furthermore, in October, the Group raised DKK 7.1 billion in new equity by means of an accelerated book-building process. This represented an increase of some 0.9 of a percentage point in the core tier 1 capital ratio at the end of 2012. The rights issue was carried out in order to accelerate rating improvements and was part of the ongoing adjustment of the capital structure to meet future requirements.

CHANGE IN TOTAL CAPITAL RATIO IN 2012

(%)



3.4.1 Core tier 1 capital

Tier 1 capital consists of core tier 1 capital plus hybrid capital less statutory adjustments. Starting from the Group's shareholders' equity calculated according to International Financial Reporting Standards (IFRS), the Group makes a number of adjustments in order to determine its core tier 1 capital.

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

- Domicile property is recognised at estimated fair value. Revaluation to a value above the cost of acquisition is recognised as tier 2 capital.
- The corridor method for treating pension obligations in accordance with IAS 19 is not used in the capital base calculations. Instead, pension obligations are recognised as the present value of expected future payments calculated by external actuaries.

In accordance with the Danish Executive Order on the Calculation of the Capital Base, shareholders' equity is then subject to certain deductions. These are the main deductions:

- Proposed dividend
- Carrying amounts of intangible assets, including goodwill
- Deferred tax assets

The Group's core tier 1 capital also includes special reserve funds totalling DKK 3.0 billion in two companies (LR Realkredit A/S and Danmarks Skibskredit A/S) that are consolidated on a pro rata basis in the solvency calculations but included as associates in the Group's accounts. These reserve funds cannot be distributed but can be used to cover any losses at the companies after their other reserves.

3.4.2 Statutory deductions from the capital base

The calculation of the capital base also entails several additional deductions in accordance with the Danish Executive Order on the Calculation of the Capital Base. The additional statutory deductions are divided equally between tier 1 and tier 2 capital.

Danske Bank's additional statutory deductions from the capital base in 2011 and 2012 were equal to the following:

- Danica's capital requirement less the difference between Danica's capital base and the carrying amount of Danske Bank's capital holdings in Danica. This method ensures that the Group's capital base is reduced fully with deductions made from Danica's capital base, among other things.
- Capital holdings in other credit and finance institutions that represent more than 10% of the share capital of the institutions, excluding capital holdings in subsidiaries and associates (certain financial institutions).

The deduction for Danica in 2012 was generally the same as in 2011.

CAPITAL BASE DEDUCTIONS FOR INSURANCE SUBSIDIARIES AND OTHER DEDUCTIONS

At 31 December (DKK millions)	2012	2011
Capital requirement at Danica	8,750	8,503
Less the difference between		
Danica's capital base	18,121	19,095
Danske Bank's capital holdings	18,235	19,193
Danica's holding of Danske Bank shares etc.	280	251
Deduction for insurance subsidiaries	8,584	8,350
Deductions for holdings in other credit institutions	38	-
Total deductions, divided equally between tier 1 and tier 2 capital	8,622	8,350

Note: The carrying amount of Danske Bank's capital holdings in Danica less the total deduction for Danica from the Group's capital base is included in the RWA calculation at a 100% weight. Danske Bank's capital holding in Danica at the end of 2012 reflects the deduction of a proposed dividend from Danica of DKK 750 million (end-2011: DKK 550 million).

3.4.3 Hybrid capital and subordinated debt

At the end of 2012, the Group's hybrid capital, which is included in its tier 1 capital, amounted to DKK 40.2 billion.

The amount includes the DKK 24.0 billion in hybrid capital that Danske Bank A/S raised from the Danish state in May 2009. This loan can be counted as up to 35% of tier 1 capital calculated before the deduction for Danica. The loan may not be redeemed early until 11 April 2014. The loan can then be redeemed at par until 10 May 2014, on the condition that the tier 1 capital ratio is at least 12.0% after the redemption or that the loan is replaced by other capital of the same or a higher loss-absorbing capacity. From 11 May 2014 to 10 May 2015, the loan can be redeemed early at a price of 105, and afterwards, at a price of 110.

The Group's other hybrid capital consists of loans of DKK 16.2 billion. These loans can be redeemed in 2014 and 2017 at the earliest, and they can be redeemed early only at the Group's initiative. The loans entail modest incentives for redemption. They can be counted as up to 15% of tier 1 capital before deductions, and they did not exceed this limit in 2011 and 2012.

Early redemption of the Group's hybrid capital in every case requires the Danish FSA's approval. At the end of 2012 and 2011, all of the hybrid capital could be counted as tier 1 capital except for certain minor issues from Sampo Bank that counted as tier 2 capital.

The Group's subordinated debt can be included in the capital base as tier 2 capital if tier 2 capital does not exceed 50% of the capital base. In September 2012, the Group issued DKK 5.7 billion in subordinated debt with final maturity in 2037 and a first option to redeem in 2017. At the end of 2012, subordinated debt amounted to DKK 23.0 billion.

In 2009, the EU introduced rules on hybrid capital in the CRD (CRD II). These stricter rules took effect in Denmark on 1 July 2010. The Group's existing hybrid capital instruments do not fulfil the provisions of the new rules but are covered by the transitional provisions in the Danish Executive Order on the Calculation of the Capital Base and must be phased out over a number of years. See also section 3.6 for a description of the coming EU regulations on capital instruments and the effects on Danske Bank.

The Danish Executive Order on the Calculation of the Capital Base was amended in 2012 to allow subordinated debt to be issued both with and without interest deferral. According to the executive order, the most important differences between hybrid capital and subordinated debt included in tier 2 capital are as follows:

- Subordinated debt is senior to hybrid capital.
- Hybrid capital may not mature until at least 30 years after issuance and in practice usually has perpetual maturity, whereas there is no minimum term for subordinated debt.
- Interest on hybrid capital will be cancelled if the capital requirements are not satisfied or if the Danish FSA or the institution deems such a cancellation necessary in order to maintain the financial health of the institution.
- Hybrid capital may not be subject to early redemption until at least five years after disbursement.

For a further description of the conditions for the individual issues of the Group's hybrid capital and subordinated debt, see note 31 in Danske Bank's Annual Report 2012.

3.5 CONSOLIDATION METHODS

Risk Management 2012 is based on the definition of Danske Bank Group used in Annual Report 2012. This definition complies with IFRS. According to IFRS, Danske Bank A/S's subsidiaries are the companies in which it has direct or indirect control over financial and operating policy decisions.

Danica is consolidated in the Group's IFRS financial statements. The Danish FSA currently designates the Group as a financial conglomerate because of its ownership of Danica. The Group is therefore subject to supplementary supervision as a financial conglomerate (at the group level). For this reason, the solvency calculations are consolidated according to the deduction method described in section 3.4.2.

In its solvency calculations, the Group consolidates Danmarks Skibskredit A/S and LR Realkredit A/S on a pro rata basis, whereas, for accounting purposes, it treats the two companies as associates, that is, in accordance with the equity method. The Group has holdings of 24% and 31%, respectively, in the two companies. Danmarks Skibskredit A/S offers shipowners and other shipping companies loans secured by mortgages on vessels. At mid-2012, the company had total assets of DKK 81.9 billion and a total capital ratio of 16.3%. LR Realkredit A/S provides mortgage loans primarily for subsidised housing and other subsidised properties. At mid-2012, the company had total assets of DKK 15.5 billion and a total capital ratio of 24.8%.

Companies that the Group has taken over as a result of defaulted obligations have been consolidated in the financial statements and will be sold as soon as market conditions permit. They are not included in the calculation of the capital base, but the holdings are included in the calculation of RWA. 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 UNITS UNDER DANSKE BANK A/S

	Consolidation in solvency calculations			Consolidation in 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)				•	

3.6 EFFECTS OF THE NEW CAPITAL REGULATIONS

Basel III will be implemented in the EU through a major revision of the CRD (CRD IV). Political deliberations on the content were extended several times in 2012, so the initial objective of implementing the rules on 1 January 2013 could not be met. The final rules and the date when they take effect are still pending adoption at the EU level. The following assessment of their effects is therefore a preliminary analysis based on our interpretation of drafts and political discussions on CRD IV.

Danske Bank Group estimates that its current core tier 1 capital ratio of 14.5% at the end of 2012 will be reduced by around 2.0 percentage points when it is calculated on the basis of CRD IV with fully loaded capital deductions (fully phased-in rules by 2018).

The Group estimates that 1.4 percentage points of the reduction will derive from deductions from core tier 1 capital, mainly expected deductions for Danica Pension and for net assets in defined benefit pension plans. The deductions are expected to be phased in such a way that they will be set at 20% in 2014 and rise in equal annual steps to 100% in 2018.

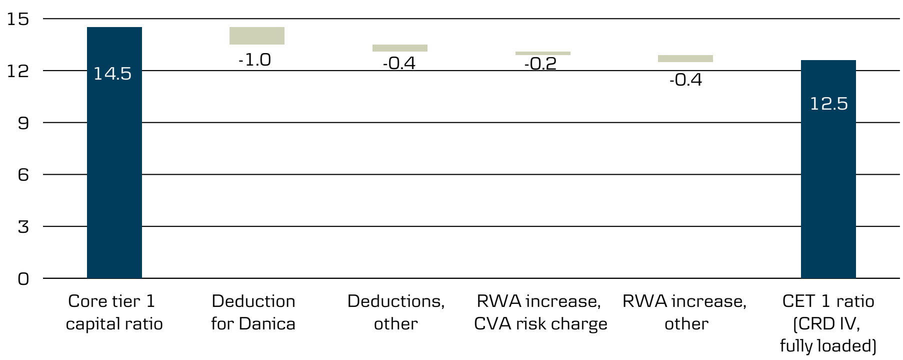
According to the Group's estimates, the remaining 0.6 of a percentage point of the reduction will come from a rise in RWA attributable to new capital requirements for derivative exposures in the form of the so-called Credit Valuation Adjustment (CVA) risk charge and RWA increases for credit risk relating to exposures to financial customers as well as the Group's investment in Danica Pension (see below).

The estimated increase in RWA may fluctuate over time, however, because of changes in market conditions and market positions. The effect of the CVA risk charge on the Group's core tier 1 capital ratio is based on the mitigating effect from the implementation of an internal model for counterparty risk. The Group is preparing an application to the Danish FSA to use such a model.

CRD IV will have an immediate effect on the Group's RWA when it takes effect. The effect on RWA from Danica Pension is expected to take place gradually, however, at the same pace at which the capital deduction for Danica Pension is phased in.

CORE TIER 1 CAPITAL RATIO, ADJUSTED FOR CRD IV

(%)



In its estimate of the effects of CRD IV, the Group assumes that it will still be designated as a financial conglomerate by the Danish FSA and that the current capital deduction for Danica Pension will be unchanged at DKK 8.6 billion. We assume, however, that the entire deduction will be made from core tier 1 capital instead of being split evenly between tier 1 capital and tier 2 capital. We also assume that the non-deductible part of the DKK 18.0 billion investment in Danica will be risk-weighted at 250% instead of the current 100%.

These assumptions are based on our interpretation of the recent consultation paper from the EBA, EIOPA and ESMA on their proposed Regulatory Technical Standards on uniform conditions for calculation methods under the Financial Conglomerates Directive.

If the Group is not designated as a financial conglomerate by the Danish FSA in the future, it must instead use the standard deduction rules for investments in insurance companies set out in the CRD IV proposal and Basel III. This entails a deduction for the part of the investment that exceeds 10% of the credit institution's core tier 1 capital. Again, a 250% risk weight must be used for the part of the investment that is not deducted from core tier 1 capital. If the investment in Danica of DKK 18.0 billion at the end of 2012 were treated according to that method, the Group estimates that this in itself would reduce the core tier 1 capital ratio by 0.7 percentage point.

The CRD IV proposal also contains stricter criteria for the inclusion of a capital instrument in the capital base. The intention is to ensure higher loss absorption for these instruments. This applies particularly to instruments under tier 1 capital that can be included as hybrid tier 1 capital (called "additional tier 1 capital") and instruments that can be included as tier 2 capital.

According to the definitions of additional tier 1 capital and tier 2 capital, these instruments may not have incentives for the issuer to redeem them, among other things. Most of Danske Bank's current hybrid capital and subordinated debt has moderate incentives for redemption in the form of interest rate step-up clauses. Partly for that reason, the capital instruments would qualify under the transitional rules proposed in CRD IV.

According to the CRD IV proposal, instruments that do not qualify as additional tier 1 capital or tier 2 capital and that were issued before the grandfathering cut-off date will be phased out over a 10-year period, assuming that the individual member states do not choose to shorten the phase-out period. In addition, the types of instruments that carry an incentive for redemption will be phased out at their effective maturity dates. Existing issues covered by state support programmes will be grandfathered until 31 December 2017.

The CRD IV proposal also includes a requirement for credit institutions to calculate their leverage ratio, defined as tier 1 capital as a percentage of total exposure. Credit institutions' leverage ratios will be assessed under Pillar II pending a subsequent political decision in the EU on whether this should be a Pillar I requirement beginning in 2018. On the basis of the preliminary definition, Danske Bank estimates that its leverage ratio at the end of 2012 was 4.6%.

Danske Bank expects that it will be designated a Danish SIFI and that it will be subjected to stricter requirements than Danish banks that are not designated as SIFIs. Danske Bank's position is that any requirements placed upon SIFIs in Denmark must be based on a clear set of international standards in order to avoid distortions of competition because of local differences in the treatment of SIFIs.

4. CREDIT RISK

Danske Bank Group offers loans, credits, guarantees and other products as part of its business model and thus takes on credit risk.

Credit risk is the risk of losses arising because debtors or counterparties fail to meet all or part of their payment obligations. Credit risk includes the risk of losses if a sovereign state encounters financial difficulties or because of political decisions regarding such matters as nationalisation and expropriation.

The risk of losses because of customers' default on derivatives transactions is called counterparty risk, and it is treated separately in section 5.

At the end of 2012, 77.4% of the Group's risk-weighted assets (RWA) related to credit risk, excluding counterparty risk. The total credit exposure for accounting purposes amounted to DKK 3,656 billion (end-2011: DKK 3,611 billion), with DKK 2,423 billion arising from lending activities (end-2011: DKK 2,299 billion) and DKK 921 billion from trading and investing activities (end-2011: DKK 1,020 billion). The remaining credit exposure came from insurance risk and contracts in which the full risk is assumed by customers.

This section is divided into two parts. The first describes the various aspects of the credit process, and the second describes the credit portfolio.

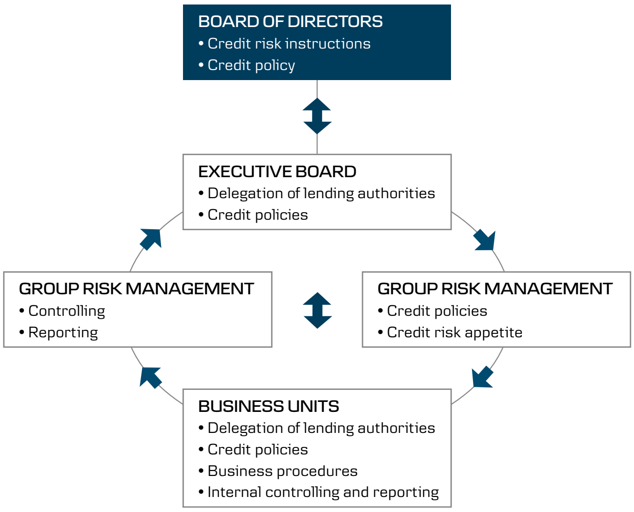
4.1 CREDIT PROCESS

At Danske Bank Group, credit risk management is an ongoing process. The overall credit policy and the credit risk instructions are issued by the Board of Directors. The Board of Directors also sets the lending authorities for the Executive Board, which delegates lending authorities to the business units and formulates general credit policies. Group Risk Management further elaborates the credit policies.

The business units delegate lending authorities to local credit departments and branches; formulate specific credit policies and business procedures within their own areas; and conduct internal controlling and reporting. Group Risk Management conducts controlling and reporting for the entire Group's credit activities. Various reports are delivered to the Executive Board, which presents them to the Board of Directors.

By monitoring of developments in customers' financial circumstances, the Group aims to assess whether the basis for granting the credit facility has changed. The facilities should match customers' creditworthiness, capital position and assets to a reasonable degree, and customers should be able to substantiate their repayment ability. In order to reduce credit risk, the Group generally requires collateral that corresponds to the risk for the product segment. It normally requires collateral for credit facilities with a long maturity (over five years) and for the financing of fixed assets.

DANSKE BANK GROUP'S CREDIT PROCESS



Danske Bank Group has a number of systems for measuring and controlling its credit risk. Among the most important are the Credit System (including the Delegated Lending Authorities System), the Collateral System, the Rating/Scoring System and certain follow-up systems.

4.1.1 The Credit System

The Credit System is the foundation of an efficient, automated credit process that allows easy access to details about a given facility. The system is used for all customer segments and products across all sales channels. The Credit System ensures that a basis for decision, including case comments, current credit exposure and financial statements, among other things, is created and stored. Credit exposure is based on real-time information, and a credit file is automatically routed to the appropriate decision level – either a person or a model. For the Personal Banking and Business Banking segments, the application data are reused for automatic document creation and booking entries, ensuring full consistency with the approval. Manual documentation is created at Group Operations.

The Delegated Lending Authorities System and the associated process ensure the efficient administration and control of the lending authorities delegated to managers and employees. If a delegated lending authority is exceeded, a report or verification will be sent to the local manager or local credit office.

4.1.2 Risk mitigation

The Group seeks to mitigate risks in the credit portfolio by entering into various collateral agreements in order to reduce loss in case of debtor default. The most important collateral types, measured by volume, are real property and financial assets in the form of shares and bonds.

Collateral received is registered and subject to valuation and periodical revaluation in the Collateral System. Ordinary monitoring and revaluation are carried out by advisers, external assessors or automatic valuation models. The Collateral Follow-up System ensures that the revaluation of collateral is undertaken in accordance with regulatory requirements.

The Group conducts backtests of its valuation models annually and supplements them with quarterly follow-ups. The Group also regularly evaluates the validity of the external inputs on which the valuation models are based.

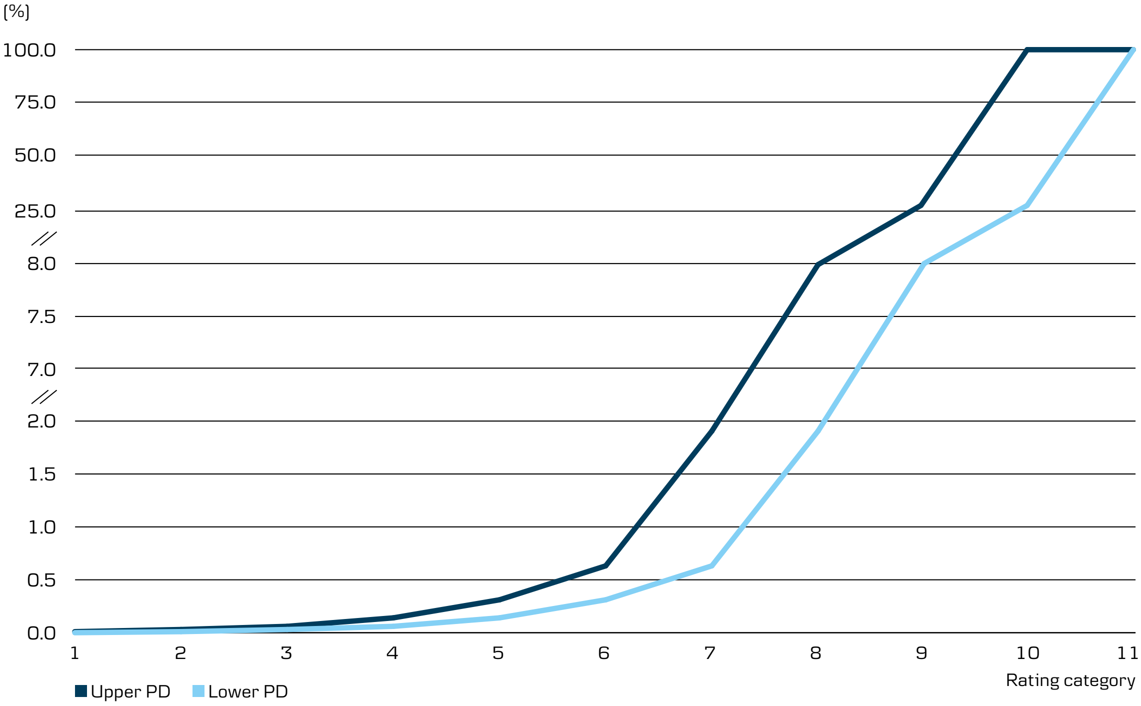
The current collateral value is subject to a haircut. The haircut reflects the risk that the Group will not be able to obtain the expected market value upon the sale of an asset. It includes maintenance costs, fees for external advisory services and any loss in value. The haircut applied depends on collateral type. For real property, it usually ranges from 20% to 40%. For listed securities, the haircut is calculated with an internal volatility-based model, and unlisted securities are subject to a 100% haircut.

4.1.3 Customer classification

Customers' credit quality is evaluated on a regular basis in the Rating/Scoring System to ensure that the risk classification is up to date. The risk classification is displayed in the Credit Application System. The main objectives of risk classification are to rank the Group's customers according to risk and to estimate the probability of default (PD) of each customer.

The Group's overall classification scale consists of 11 main rating categories. Most of the rating categories are divided into two or three sub-categories, making a total of 26 rating categories. In the following sections, the term "rating categories" refers to the 11 main rating categories of the overall scale, which covers both ratings and credit scores.

RATING CATEGORY AND PD BAND (PIT)



In the credit risk management process, the Group uses point-in-time (PIT) PD estimates for risk classification. These PIT PD estimates are based on inputs that are sensitive to the underlying business cycle, and the PD estimates will thus change over a business cycle. Since the underlying PD bands of the overall scale are fixed, the percentage of customers within each PD band will vary in accordance with the effects of the business cycle. During a recessionary period, a customer's PIT PD will thus increase and the customer will migrate to a lower rating category.

Rating process

The Group uses a number of rating models that it has developed for classifying customers in various segments. Group Risk Management is responsible for the overall rating process, including rating models. A specialised department within Group Risk Management is responsible for validation of the rating models and the rating process.

Customer ratings are reassessed periodically. The ratings of large business and financial customers are reassessed more frequently than those of smaller customers. The reassessments are based on new information, including financial statements, budgets and other information that affects customers' creditworthiness.

Group Risk Management rates the largest customers, while small customers are rated by the local units' credit departments. Group Risk Management ensures that the part of the process that is carried out locally follows the same overall guidelines as the process used at the head office for the largest customers. Two persons are always involved in a rating decision: a rating officer who recommends the rating and a senior rating officer with authority to approve the rating.

After approval, the rating applies until new information is received and the rating is reassessed again.

Rating of customers
Business and financial customers are rated with a model that builds primarily on the customer's financial statements. An assessment of the customer's prospects and qualitative information such as the earnings outlook for the industry and an evaluation of the company's management are also considered. Relationship managers and customer advisers can provide factual information for the process but have no influence on the outcome. On the basis of this input, the model proposes a rating, but the final rating is based on input from expert assessments as well.

The Group rates sovereign counterparties and central banks by converting external ratings from international rating agencies. Ratings of local governments and other local authorities are based on expert assessments. The Group follows rules that it has defined for each country on the basis of local conditions.

Credit scoring of customers
The Group assigns credit scores to customers that are not rated. These customers include personal customers and small business customers. The Group has developed statistical models based on the information it possesses about customers to predict the likelihood that a customer will default on payment obligations to the Group. Since the accessibility of data about personal customers varies from country to country, the Group has developed personal customer models for each market in which it operates. The models ensure that the Group always has an updated credit score for each customer. The score is based on either application data (for new customers) or behavioural data (for existing customers). Customer downgrades are made in accordance with certain rules, for example after a specific period of arrears. A limited number of customers are assigned scores based on more general statistics because the information is temporarily insufficient or outdated.

4.1.4 Monitoring and follow-up
The Group has a range of follow-up systems. Daily excess reports are automatically created and routed to customer advisers, branch managers and credit departments. A reminder system sends out letters to customers with excesses and notifies the customer adviser. Customers with a weak financial performance are identified by means of their ratings and scores, exposure and several other factors, and a risk signal and action plan signals are automatically sent to the customer adviser for execution.

The Group has the infrastructure to manage portfolios for individual industries by determining the credit risk appetite and limit for each industry on the basis of total exposure, credit quality and industry outlook. The portfolio monitoring and reporting system enables the Group to manage portfolios and to focus on specific industries and business units.

The Group also reviews and follows up on compliance with the minimum requirements for the rating system under the advanced internal rating-based (A-IRB) approach for calculating RWA. This annual process includes reporting to senior management as well as Internal Audit. In addition, the rating system is validated on a regular basis, independently from the rating process.

4.1.5 Impairment

The Group conducts impairment tests quarterly, assessing all credit facilities for objective evidence of impairment (OEI) in accordance with the rules 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 Group'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).

The accumulated impairment charges constitute the allowance account. Part of the allowance account is reserved for future interest income calculated according to the effective interest method.

The International Accounting Standards Board (IASB) is preparing a new set of rules on impairment charges for financial instruments. The Group is following this process, and a new exposure draft on the rules is expected to be announced in the first quarter of 2013, with final rules to take effect in 2015. Because of the uncertainty about the final form of the rules, it is still too early to assess their effect on the Group's future impairment charges.

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 exposure. In certain cases, OEI for one customer can be applied to other customers when the customers have a "financial relationship", for example if they are part of the same customer group. Impairment charges for all medium and large exposures with OEI are assessed by a senior credit officer.

The Group uses a set of criteria to identify OEI for a customer. A subset of these criteria is criteria for customers that are actually in default. The most frequently observed default events are that payments become 90 days overdue and business customers undergo financial restructuring or are declared bankrupt. All customers with OEI are downgraded to rating category 10 or 11.

Customers in default (with the probability of default set at 1) are downgraded to rating category 11 even if collateral values or other means of recovery exceed the exposure and hence no impairment charges are booked against the exposure.

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 flow appears insufficient to service their future obligations over a realistic period, their capital situation is unsatisfactory, and a restoration of sustainable earnings and capital levels cannot be expected.

Impairment charges against facilities to customers in rating category 11 are based on the exposure with a deduction of 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 ranging from 5% to 15% to cover the estimated realisation costs (this haircut is part of the general haircut to which collateral is subject and which is described in section 4.1.2).

The calculation of impairment charges against facilities 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 foundation for the impairment charge. On the other hand, 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. This is the case if the borrower's ability to repay depends significantly on the assets that have been provided as collateral (asset financing).

For loans measured at fair value, the calculation of individual impairment charges is made in accordance with principles similar to the principles 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 in the balance sheet as a new loan at a value equal to the present value of the payment agreement.

Collective impairment charges

Loans and advances 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 when a deterioration of the expected cash flow from the group has occurred but without an adjustment of the credit margin. The charges are based on a downgrade of customers' rating classifications over time (migration). Customers are divided into groups according to their current ratings. Groups of facilities to customers whose ratings have improved are included in the calculations.

When external market information indicates that an impairment event has occurred, even though it has not yet materialised 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, typically within 12 to 18 months.

4.1.6 Customers in default and repossessed assets

A default situation for a group of related customers requires an individual assessment of whether default should be registered for each customer in the group.

If a personal customer has an unauthorised excess or is in arrears, a file is set up and the customer's adviser decides whether or not to accept the unauthorised excess or arrears. If the excesses or arrears are deemed unacceptable, a reminder procedure is initiated. The procedure may lead to debt recovery proceedings through the courts of the country in question within 90 days of the claim.

Repossessed assets

If a customer shows signs of default, the Group will begin by seeking a solution that can improve the customer's financial situation, including restructuring the customer's finances and financing. If it is not possible to improve the customer's financial situation, 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 2012, the value of the Group's holdings of repossessed properties stood at DKK 374 million. The value of properties repossessed in Denmark amounted to DKK 265 million, and the value of such properties outside Denmark amounted to DKK 109 million. The Group's preferred method of taking possession of property in Ireland is by way of receivership, whereby the receiver takes possession of the property, sells or rents the property, and transfers the net proceeds to the Group. From a risk perspective, this method is preferable to repossessing properties directly. These properties are not included in the number stated above.

4.2 CREDIT PORTFOLIO

The Group's total credit exposure is defined as balance sheet items and off-balance sheet items that carry credit risk.

Most of the credit exposure derives from lending activities in the form of loans with and without collateral.

A segment of credit risk concerns OTC derivatives and securities financing instruments, and it is designated as counterparty risk. Counterparty risk is treated in section 5.

Furthermore, securities positions managed by the Group's trading and investment units also involve credit risk. For capital requirement purposes, credit risk on securities in the trading book is designated as part of market risk. Market risk is treated in section 6.

The overall management of credit risk thus covers credit risk from direct lending activities; credit risk from securities positions; and counterparty risk concerning OTC derivatives and securities financing transactions.

The risk on assets under pooled schemes and unit-linked investment contracts is borne solely by customers, and the risk on assets under insurance contracts is borne primarily by customers. The Group's risk on insurance contracts is described in section 9, which treats insurance risk.

At the end of 2012, the total carrying amount of the Group's credit exposure was DKK 3,656 billion. Some DKK 2,423 billion derived from lending activities; DKK 409 billion derived from the carrying amount of derivatives; and DKK 512 billion derived from other trading and investing activities, such as trading in bonds and other financial instruments.

In addition to the credit exposure from lending activities, the Group made loan offers and granted revocable credit commitments for DKK 323 billion in 2012. (2011: DKK 355 billion). These items are included in the calculation of RWA in accordance with statutory regulations.

BREAKDOWN OF CREDIT EXPOSURE (CARRYING AMOUNTS)

At 31 December 2012 (DKK millions)	Total	Credit exposure, lending activities	Counterparty risk (derivatives)	Credit exposure, other trading and investing activities	Insurance risk	Contracts, full risk assumed by customers
Balance sheet items:						
Demand deposits with central banks	86,032	86,032	-	-	-	-
Due from credit institutions and central banks	113,657	113,657	-	-	-	-
Repo loans with credit institutions and central banks	86,989	86,989	-	-	-	-
Trading portfolio assets	812,927	-	408,990	403,937	-	-
Investment securities	107,724	-	-	107,724	-	-
Loans and advances at amortised cost	941,628	941,628	-	-	-	-
Repo loans	220,188	220,188	-	-	-	-
Loans and advances at fair value	732,762	732,762	-	-	-	-
Assets under pooled schemes and unit-linked investment contracts	70,625	-	-	-	-	70,625
Assets under insurance contracts	241,343	-	-	-	241,343	-
Off-balance-sheet items:	-	-	-	-	-	-
Guarantees	80,115	80,115	-	-	-	-
Loan commitments < 1 year	54,230	54,230	-	-	-	-
Loan commitments > 1 year	107,440	107,440	-	-	-	-
Other unutilised commitments	550	-	-	550	-	-
Total	3,656,210	2,423,041	408,990	512,211	241,343	70,625

At 31 December 2011 (DKK millions)	Total	Credit exposure, lending activities	Counterparty risk (derivatives)	Credit exposure, other trading and investing activities	Insurance risk	Contracts, full risk assumed by customers
Balance sheet items:						
Demand deposits with central banks	18,015	18,015	-	-	-	-
Due from credit institutions and central banks	74,041	74,041	-	-	-	-
Repo loans with credit institutions and central banks	106,829	106,829	-	-	-	-
Trading portfolio assets	909,755	-	550,970	358,785	-	-
Investment securities	109,264	-	-	109,264	-	-
Loans and advances at amortised cost	977,284	977,284	-	-	-	-
Repo loans	149,198	149,198	-	-	-	-
Loans and advances at fair value	720,741	720,741	-	-	-	-
Assets under pooled schemes and unit-linked investment contracts	61,888	-	-	-	-	61,888
Assets under insurance contracts	230,668	-	-	-	230,668	-
Off-balance-sheet items:						
Guarantees	83,131	83,131	-	-	-	-
Loan commitments < 1 year	63,013	63,013	-	-	-	-
Loan commitments > 1 year	106,459	106,459	-	-	-	-
Other unutilised commitments	942	-	-	942	-	-
Total	3,611,228	2,298,711	550,970	468,991	230,668	61,888

4.2.1 Credit exposure from lending activities

Credit exposure from lending activities includes amounts due from credit institutions and central banks, guarantees and irrevocable loan commitments. The exposure is measured net of accumulated impairment charges and includes repo loans (reverse repo agreements).

At the end of 2012, the Group's total credit exposure from lending activities amounted to DKK 2,423 billion, against DKK 2,299 billion at the end of 2011. This represents an increase of 5.4%, mainly in the exposure to financial customers and public customers.

At the end of 2012, personal customers accounted for 37% of credit exposure from lending activities, business customers for 36%, and financial counterparties for 18%. The remainder was exposure to central banks and governments.

On 1 June 2012, Danske Bank Group implemented a new organisational structure with a clearer business segmentation in order to strengthen its focus on customers. The Group's future financial reporting will reflect this segmentation. Banking activities will be split into Personal Banking, Business Banking, and Corporates & Institutions. Danske Markets' performance will be reported under Corporates & Institutions. Group Treasury, Danske Capital, Danica Pension, other Group functions and Non-core business will each be reported separately.

The Non-core business unit is responsible for the controlled winding-up of certain customer segments that the Group no longer considers to be part of its core business. The Non-core activities consist of Irish property exposures and securitisation transactions.

Danske Bank Group's reporting in Risk Management 2012 and Annual Report 2012 is based on the old business units. It will be based on the new business segmentation beginning with the interim report for the first quarter of 2013.

This section focuses on the overall portfolio broken down by business units and industries while section 4.2.2 outlines the developments in credit quality in selected portfolios during the last five years.

Credit exposure declined slightly in the Nordic business units. In Denmark credit exposure declined by DKK 14.4 billion, mainly because of declining exposure to personal and SME customers. The quality of the personal loan portfolio at Retail Banking Denmark benefited from an improvement in the liquidity situation of households because of moderation in consumer spending and the Danish government's decision to allow people to opt out of the early retirement scheme and receive their savings in cash. Low interest rates also contributed. Realkredit Danmark saw a fall in the delinquency rate from 0.26% at 31 December 2011 to 0.24% at 30 September 2012.

At Retail Banking Sweden exposures declined by DKK 6.0 billion because of a reduction in exposure to SME customers. At Retail Banking Norway exposures increased by DKK 9.8 billion owing mainly to currency effects. Exposure at Retail Banking Finland was largely unchanged.

At Danske Markets and Treasury credit exposure increased by DKK 111 billion, or about 30%, mainly because of increased exposure to public customers with good credit quality.

Credit exposure at Banking Activities Northern Ireland declined by DKK 7.2 billion owing to a decrease in exposures to public customers. Exposure at Banking Activities Ireland, including Non-core Ireland, decreased by DKK 8.5 billion. Non-core Ireland will be described in detail in section 4.2.2.

CREDIT EXPOSURE FROM LENDING ACTIVITIES BROKEN DOWN BY INDUSTRY

At 31 December 2012	Retail Banking				Banking Activities							
(DKK millions)	Denmark	Finland	Sweden	Norway	Northern Ireland	Ireland	Baltics	CIB	Non-core Ireland	Danske Markets and Treasury	Other	Total
Central and local governments	13,428	4,484	1,614	796	3,939	2,168	713	3,454	78	130,158	55,357	216,189
Subsidised housing companies	107,045	7,226	4,858	2,257	999	88	-	370	52	2,574	243	125,712
Banks	13,957	827	3,733	677	203	7	2,005	12,912	-	103,018	10,527	147,866
Diversified financials	8,537	1,292	3,127	1,568	54	695	206	25,834	55	188,031	8,986	238,385
Other financials	1,114	251	161	218	383	10	34	332	37	43,114	4,226	49,880
Energy and utilities	4,053	2,736	1,128	6,315	72	20	1,292	20,745	16	2,775	532	39,684
Consumer discretionary	29,128	5,873	11,046	4,246	3,638	552	1,205	19,162	1,471	466	2,478	79,265
Consumer staples	64,327	4,201	4,032	7,883	6,162	3,078	787	21,431	1,483	1,588	3,903	118,875
Commercial property	118,209	14,472	50,977	32,597	6,697	403	1,564	16,687	7,268	1,565	1,674	252,113
Construction, engineering and building products	6,016	3,431	7,457	2,196	1,839	1,130	595	10,643	1,117	166	1,558	36,148
Transportation and shipping	5,232	2,070	3,525	2,259	640	133	796	47,609	10	300	2,244	64,818
Other industrials	18,284	4,246	6,871	6,094	989	243	688	26,376	172	511	6,615	71,089
IT	2,091	924	1,595	865	69	43	14	8,766	6	73	1,133	15,579
Materials	5,117	2,577	4,795	1,962	883	674	409	21,832	422	189	1,875	40,735
Health care	5,980	913	937	984	901	349	131	11,228	19	2,270	729	24,441
Telecommunication services	987	1,022	353	94	6	170	56	3,701	3	30	10	6,432
Personal customers	559,076	103,834	91,146	84,456	17,797	14,983	10,892	4	7,249	2	6,391	895,830
Total	962,581	160,379	197,355	155,467	45,271	24,746	21,387	251,086	19,458	476,830	108,481	2,423,041

At 31 December 2011	Retail Banking				Banking Activities							
(DKK millions)	Denmark	Finland	Sweden	Norway	Northern Ireland	Ireland	Baltics	CIB	Non-core Ireland	Danske Markets and Treasury	Other	Total
Central and local governments	15,060	4,674	2,170	1,818	9,982	2,241	1,120	4,580	-	61,679	19,171	122,495
Subsidised housing companies	102,994	6,978	6,642	2,340	799	204	-	293	-	2,729	182	123,161
Banks	15,174	1,666	5,359	952	61	23	1,011	15,354	-	130,502	8,676	178,778
Diversified financials	7,273	1,410	2,952	2,119	26	1,425	233	21,671	-	107,226	8,675	153,010
Other financials	1,293	177	222	530	418	63	37	2,407	-	50,551	1,217	56,915
Energy and utilities	7,447	2,405	1,175	5,019	71	591	1,595	20,552	-	1,441	402	40,698
Consumer discretionary	30,718	6,370	11,195	4,228	3,636	2,557	1,299	19,912	-	900	2,393	83,208
Consumer staples	64,866	4,488	4,277	7,101	6,008	5,265	835	19,453	-	2,354	3,019	117,666
Commercial property	116,047	14,143	56,715	30,566	7,704	11,398	1,776	14,846	-	2,796	1,276	257,267
Construction, engineering and building products	5,631	3,125	6,800	1,605	2,781	2,834	519	11,242	-	425	1,610	36,572
Transportation and shipping	6,865	2,418	2,965	2,026	703	223	843	52,894	-	775	2,112	71,824
Other industrials	21,764	3,451	9,681	6,879	1,348	586	809	25,859	-	1,024	6,594	77,995
IT	2,799	671	1,492	881	57	71	22	9,277	-	171	174	15,615
Materials	5,431	3,332	5,033	1,674	966	71	395	22,212	-	460	2,909	42,483
Health care	6,490	945	955	688	786	328	108	13,112	-	2,606	1,544	27,562
Telecommunication services	294	692	418	229	2	189	90	2,520	-	48	12	4,494
Personal customers	566,816	101,063	85,268	77,003	17,132	24,626	11,466	4	-	5	5,585	888,968
Total	976,962	158,008	203,319	145,658	52,480	52,695	22,158	256,188	-	365,692	65,551	2,298,711

At the end of 2012, the total amount of collateral received stood at DKK 1,565 billion, up from DKK 1,455 billion at the end of 2011. Haircuts applied to collateral at Realkredit Danmark were adjusted downwards during 2012 to make them more accurate. This adjustment accounted for DKK 54 billion of the increase in collateral values.

At Retail Banking Denmark, excluding the effect of haircut adjustments at Realkredit Danmark, collateral values increased, mainly because of updated valuation models.

At Retail Banking Sweden and Retail Banking Norway, collateral values increased more than credit exposure, and the portion of unsecured exposure thus decreased. This was attributable mainly to increasing property prices. Swedish residential property price growth slowed towards the end of 2012, however, and prices are forecast to fall in 2013. At Retail Banking Finland, collateral values increased slightly more than credit exposure.

At Banking Activities Ireland, including Non-core Ireland, the decrease in collateral values was less than the decrease in credit exposure. At Banking Activities Northern Ireland, collateral values were stable.

COLLATERAL RECEIVED AND CREDIT EXPOSURE

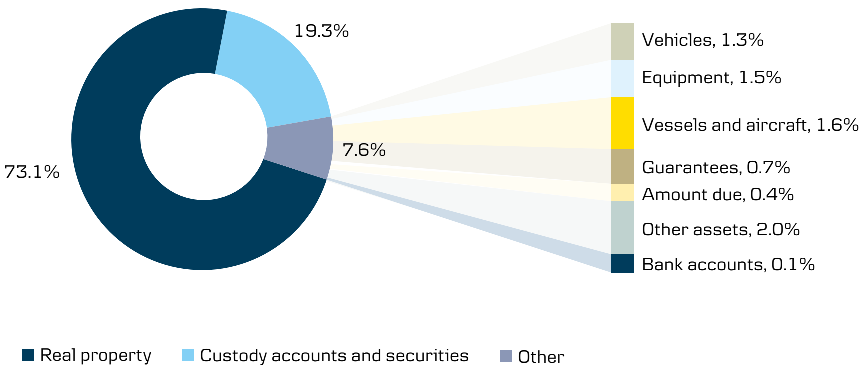
At 31 December 2012 (DKK millions)	Collateral Total	Collateral Real property	Collateral Other	Credit exposure	Total unsecured credit exposure	Unsecured portion (%)
Retail Banking Denmark	744,027	721,775	22,252	962,581	218,554	23
Segment from Realkredit Danmark	642,612	642,612	-	732,762	90,150	12
Retail Banking Finland	126,847	113,742	13,105	160,379	33,532	21
Retail Banking Sweden	157,201	123,464	33,737	197,355	40,154	20
Retail Banking Norway	121,397	109,957	11,440	155,467	34,070	22
Banking Activities Northern Ireland	32,269	30,298	1,971	45,271	13,002	29
Banking Activities Ireland	13,072	11,996	1,076	24,746	11,674	47
Banking Activities Baltics	15,396	11,169	4,227	21,387	5,991	28
Corporate & Institutional Banking	33,307	6,038	27,269	251,086	217,779	87
Non-core Ireland	13,770	13,698	72	19,458	5,688	29
Other	307,908	2,371	305,537	585,311	277,403	47
Total	1,565,194	1,144,508	420,686	2,423,041	857,847	35

COLLATERAL RECEIVED AND CREDIT EXPOSURE

At 31 December 2011 (DKK millions)	Collateral Total	Collateral Real property	Collateral Other	Credit exposure	Total unsecured credit exposure	Unsecured portion (%)
Retail Banking Denmark	666,947	640,609	26,338	976,962	310,015	32
Segment from Realkredit Danmark	561,370	561,370	-	720,741	159,371	22
Retail Banking Finland	121,791	107,460	14,331	158,008	36,217	23
Retail Banking Sweden	155,987	116,236	39,751	203,319	47,332	23
Retail Banking Norway	108,396	97,444	10,952	145,658	37,262	26
Banking Activities Northern Ireland	31,164	29,414	1,750	52,480	21,316	41
Banking Activities Ireland	30,680	29,114	1,566	52,695	22,015	42
Banking Activities Baltics	13,590	11,479	2,111	22,158	8,568	39
Corporate & Institutional Banking	36,706	4,758	31,948	256,188	219,482	86
Non-core Ireland	-	-	-	-	-	-
Other	289,440	2,254	287,186	431,243	141,803	33
Total	1,454,701	1,038,768	415,933	2,298,711	844,010	37

Note: Collateral values include haircuts (see section 4.1.2). “Other” collateral consists mainly of custody accounts and securities.

COLLATERAL OVERVIEW



Loan impairment charges amounted to DKK 12.5 billion in 2012. The charges related mainly to the commercial property portfolio at Non-core Ireland, the shipping portfolio at Corporate & Institutional Banking and the personal customer portfolio at Retail Banking Denmark.

Individual impairment charges per quarter fell during 2012 because of a decline in charges against facilities to personal customers and business customers. The individual charges were mainly adjustments of charges recognised in previous periods and a few new charges against facilities to shipping customers.

In the tables, "Impaired (OEI)" exposure is defined as exposure to customers for which objective evidence of impairment has been identified. This corresponds to exposures in rating categories 10 and 11. Even if objective evidence of impairment is identified for just one facility, the customer's downgrade applies to the entire customer exposure. The downgrade takes place even if the customer has provided full collateral.

Exposure in the category "Impaired (OEI) with charges made" consists only of loans in rating categories 10 and 11 for which impairment charges have been made; that is, it excludes exposures for which full collateral has been provided, for instance.

Rating category 10 comprises performing loans (not in default), whereas rating category 11 contains non-performing loans (in default).

IMPAIRED CREDIT EXPOSURE AND LOAN IMPAIRMENT CHARGES BROKEN DOWN BY BUSINESS UNIT

	Credit exposure							
			Impaired (OEI)		Impared (OEI) with charges made			
At 31 December 2012 (DKK millions)	Total	Past due	Performing	Non-performing	Performing	Non-performing	Allowance account	Loan impairment charges, 2012
Retail Banking Denmark	962,581	2,317	25,589	14,718	15,103	8,838	19,055	3,918
Retail Banking Finland	160,379	1,653	1,583	2,377	820	2,082	1,942	366
Retail Banking Sweden	197,355	4,792	1,199	1,491	789	910	1,450	414
Retail Banking Norway	155,467	1,306	1,619	1,236	991	1,121	1,227	219
Banking Activities Northern Ireland	45,271	127	757	2,129	547	1,935	6,592	1,425
Banking Activities Ireland	24,746	315	453	549	360	438	1,302	661
Banking Activities Baltics	21,387	588	981	1,086	801	943	1,651	-431
Corporate & Institutional Banking	251,086	45	3,068	24	2,381	22	2,544	1,094
Non-core Ireland	19,458	342	1,643	8,320	1,161	8,089	11,348	4,921
Other	585,311	6,749	935	534	134	496	682	-58
Total	2,423,041	18,234	37,827	32,464	23,087	24,874	47,793	12,529

	Credit exposure							
			Impaired (OEI)		Impared (OEI) with charges made			
At 31 December 2011 (DKK millions)	Total	Past due	Performing	Non-performing	Performing	Non-performing	Allowance account	Loan impairment charges, 2011
Retail Banking Denmark	976,962	7,736	22,616	12,208	9,063	6,490	18,180	4,316
Retail Banking Finland	158,008	2,061	1,136	2,821	639	2,349	1,974	186
Retail Banking Sweden	203,319	172	1,154	1,102	635	790	1,226	202
Retail Banking Norway	145,658	3,059	2,392	1,206	941	1,101	1,474	380
Banking Activities Northern Ireland	52,480	422	574	2,462	341	2,249	5,083	2,177
Banking Activities Ireland	52,695	905	5,439	7,506	4,188	7,002	13,820	6,334
Banking Activities Baltics	22,158	676	783	1,160	783	1,160	2,244	-254
Corporate & Institutional Banking	256,188	101	801	963	715	962	1,455	744
Non-core Ireland	-	-	-	-	-	-	-	-
Other	431,243	290	739	3,738	425	3,436	3,148	-900
Total	2,298,711	15,422	35,634	33,166	17,730	25,539	48,604	13,185

Note: "Impaired (OEI)" exposure contains exposures in rating categories 10 and 11. "Past due" exposure contains exposures with excesses but without OEI.

IMPAIRED CREDIT EXPOSURE AND LOAN IMPAIRMENT CHARGES BROKEN DOWN BY INDUSTRY

At 31 December 2012 (DKK millions)	Credit exposure						Allowance account	Loan impairment charges, 2012
			Impaired (OEI)		Impared (OEI) with charges made			
	Total	Past due	Performing	Non-performing	Performing	Non-performing		
Central and local governments	216,189	-	-	-	-	-	13	-1
Subsidised housing companies	125,712	454	1,583	3,042	1,142	1,388	1,027	313
Banks	147,866	-	4	152	4	150	99	-4
Diversified financials	238,385	90	1,124	681	961	608	1,157	25
Other financials	49,880	3	609	105	15	104	112	-
Energy and utilities	39,684	3,670	63	86	6	39	91	42
Consumer discretionary	79,265	365	2,565	1,473	1,737	1,162	4,307	790
Consumer staples	118,875	2,194	4,803	2,621	2,971	1,783	3,940	500
Commercial property	252,113	1,721	10,277	11,978	6,623	10,731	15,366	4,819
Construction, engineering and building products	36,148	124	694	1,992	306	1,874	4,554	1,519
Transportation and shipping	64,818	363	3,477	-	2,519	-	2,442	1,060
Other industrials	71,089	373	2,170	569	1,546	301	2,472	428
IT	15,579	23	70	18	51	1	419	-5
Materials	40,735	621	855	738	514	548	1,111	-234
Health care	24,441	26	68	5	56	3	142	11
Telecommunication services	6,432	6	346	3	286	-	182	99
Personal customers	895,830	8,201	9,119	9,001	4,350	6,182	10,359	3,167
Total	2,423,041	18,234	37,827	32,464	23,087	24,874	47,793	12,529

At 31 December 2011 (DKK millions)	Credit exposure						Allowance account	Loan impairment charges, 2011
			Impaired (OEI)		Impared (OEI) with charges made			
	Total	Past due	Performing	Non-performing	Performing	Non-performing		
Central and local governments	122,495	106	-	-	-	-	4	3
Subsidised housing companies	123,161	227	789	1,580	480	925	763	231
Banks	178,778	-	47	-	-	149	94	5
Diversified financials	153,010	402	1,540	3,901	1,323	3,546	3,872	-948
Other financials	56,915	33	2	186	-	158	136	7
Energy and utilities	40,698	24	100	28	35	27	62	24
Consumer discretionary	83,208	942	2,438	1,321	1,225	1,014	4,733	1,128
Consumer staples	117,666	745	5,381	1,770	1,148	581	3,867	1,392
Commercial property	257,267	1,775	10,823	10,382	5,714	8,685	15,614	6,370
Construction, engineering and building products	36,572	245	1,895	1,893	1,522	1,795	4,089	1,649
Transportation and shipping	71,824	336	941	2,019	670	1,833	1,682	788
Other industrials	77,995	397	3,505	1,654	2,740	1,455	2,857	782
IT	15,615	66	113	54	79	30	486	-93
Materials	42,483	138	358	-	230	-	1,253	46
Health care	27,562	144	80	39	50	11	136	36
Telecommunication services	4,494	3	550	15	171	7	114	43
Personal customers	888,968	9,839	7,072	8,324	2,343	5,323	8,842	1,722
Total	2,298,711	15,422	35,634	33,166	17,730	25,539	48,604	13,185

Note: "Impaired (OEI)" exposure contains exposures in rating categories 10 and 11. "Past due" exposure contains exposures with excesses but without OEI.

4.2.2 Trends in selected portfolios

This section describes developments in credit quality in selected lending portfolios during the past five years.

The tables show the trend in gross credit exposure, defined as credit exposure plus the allowance account, since 2008. They also show the unsecured exposure and the Group's write-offs in each year. Next appears the part of the portfolio that has weak credit quality (customers in rating categories 8 to 11; see section 4.1.3 on the Group's customer classification). The allowance account includes individual and collective impairment charges.

The Group subjects collateral to haircuts to take into account uncertainty about its future value (see section 4.1.2). A large portion of the unsecured exposure in rating categories 8-11 is owing to these haircuts.

Collateral is calculated at values that the Group estimates could be realised within six months. In calculating impairment charges against assets with OEI, the Group applies a haircut ranging from 5% to 15% to cover the costs of realisation (see also section 4.1.5). In calculating RWA according to the Capital Requirements Directive (CRD), the Group usually applies a haircut of about 20% to 40%. This means that the unsecured exposure calculated will be larger than the accumulated impairment charge against a given facility.

In addition, for facilities with OEI to customers that are not in default, the Group recognises an impairment charge according to a scenario which usually assumes a restructuring of the customer and in which the Group will not lose the full unsecured amount of the exposure.

Because of these factors, the unsecured amounts in the tables will usually be higher than the accumulated impairment charges.

TREND IN THE TOTAL CREDIT PORTFOLIO

Year	Total portfolio			Portfolio, rating categories 8-11				
(DKK millions)	Gross credit exposure	Unsecured	Write-offs	Gross credit exposure	Unsecured	Unsecured, categories 8 & 9	Unsecured, categories 10 & 11	Allowance account
2008	2,535,728	914,264	1,490	230,338	92,032	70,032	22,000	15,858
2009	2,338,515	845,294	5,291	320,096	155,756	108,608	47,148	37,095
2010	2,407,225	793,276	8,914	330,946	144,111	86,707	57,404	43,769
2011	2,347,315	892,613	11,166	319,542	146,432	82,419	64,013	48,604
2012	2,470,834	905,640	14,980	281,699	111,324	53,644	57,680	47,793

The tables below for each selected lending portfolio exclude exposures at Banking Activities Baltics.

Non-core Ireland

In 2012, part of the Irish loan portfolio was transferred to a new, separate business unit, Non-core Ireland, which is responsible for the controlled winding-up of these loans.

At the end of 2012, the gross credit exposure at Non-core Ireland was DKK 30.8 billion, or 1.2% of the Group's total gross credit exposure. The allowance account amounted to DKK 11.3 billion, or 23.7% of the Group's total allowance account.

The portion of gross credit exposure in rating categories 8-11 represented 86% of the total gross credit exposure at Non-core Ireland.

Since Non-core Ireland was segregated, negative rating changes have outweighed positive rating changes slightly. Quarterly impairment charges declined a little during 2012.

The credit exposure at Non-core Ireland is dominated by exposures to the property market. In 2012, the credit quality of the property-related portfolio remained weak because of high vacancy rates and a low number of transactions. While commercial property prices continued to decline slightly, residential property prices stabilised in 2012, albeit at a low level.

NON-CORE IRELAND PORTFOLIO BROKEN DOWN BY INDUSTRY

At 31 December 2012 (DKK millions)	Total portfolio			Portfolio, rating categories 8-11				
	Gross credit exposure	Unsecured	Write-offs	Gross credit exposure	Unsecured	Unsecured, categories 8 & 9	Unsecured, categories 10 & 11	Allowance account
Personal customers	9,026	3,936	221	5,109	2,656	830	1,826	1,777
Commercial property	13,872	8,322	4,756	13,777	8,313	636	7,677	6,604
Diversified financials	107	75	193	107	76	2	74	52
Banks	-	-	-	-	-	-	-	-
Subsidised housing companies	52	34	-	49	34	1	33	-
Consumer staples	2,013	888	297	1,924	874	235	639	542
Central and local governments	78	4	-	78	3	3	-	-
Consumer discretionary	2,336	1,612	214	2,232	1,583	594	989	853
Other financials	63	37	-	66	37	7	30	26
Other industrials	378	288	34	374	287	33	254	206
Transportation and shipping	38	24	4	38	25	1	24	28
Energy and utilities	21	17	-	8	7	-	7	5
Materials	493	346	100	489	341	7	334	71
Construction, engineering and building products	2,241	1,384	1,055	2,240	1,384	36	1,348	1,124
Health care	41	28	2	41	27	5	22	22
IT	13	7	-	12	7	-	7	7
Telecommunication services	34	32	29	34	32	-	32	31
Total	30,806	17,034	6,905	26,578	15,686	2,390	13,296	11,348

TREND IN THE NON-CORE IRELAND PORTFOLIO

Quarter (DKK millions)	Total portfolio			Portfolio, rating categories 8-11				
	Gross credit exposure	Unsecured	Write-offs	Gross credit exposure	Unsecured	Unsecured, categories 8 & 9	Unsecured, categories 10 & 11	Allowance account
2012Q2	38,144	22,903	247	19,517	19,518	2,670	16,848	14,078
2012Q3	31,102	16,529	7,075	15,010	15,011	2,944	12,067	9,730
2012Q4	30,806	17,034	6,905	26,578	15,686	2,390	13,296	11,348

Gross credit exposure related to the segments property development, investment property, personal customers' investment housing loans (buy-to-let) and contractors amounted to DKK 22.3 billion, or 72% of Non-core Ireland's total gross credit exposure, at the end of 2012. The allowance account for these segments stood at DKK 8.8 billion, or 78% of the total allowance account for Non-core Ireland.

During the economic boom, it was a common practice for personal customers to be active investors in the Irish housing and property markets. Personal customers' investment properties were mainly in the buy-to-let segment. These investment properties were adversely affected by the decline in property prices. Low property values and high unemployment continued to keep the credit quality of this segment weak in 2012.

At the end of 2012 total gross credit exposure to personal customers housing loans, including buy-to-let, was DKK 8.7 billion, or about 28% of total gross credit exposure at Non-core Ireland.

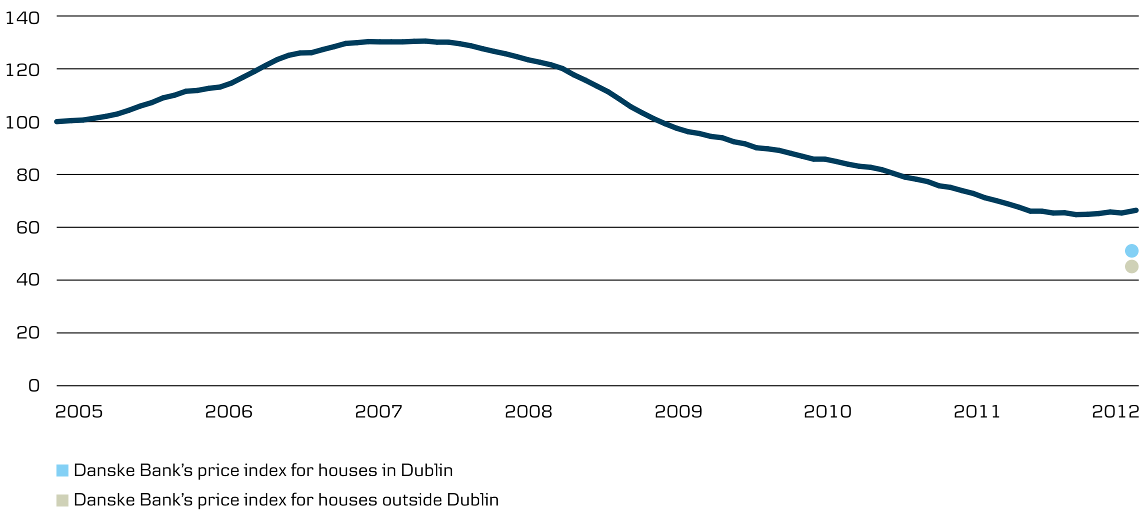
The gross credit exposure related to personal customers' owner-occupied housing loans amounted to DKK 2.8 billion, or about 9% of total gross credit exposure. The allowance account for the segment stood at DKK 0.7 billion, or about 6% of the total allowance account for Non-core Ireland. A geographical breakdown of the portfolio shows that almost half of the residential mortgage loans are based on properties in Greater Dublin.

Because of the very low number of home sales in the Irish market, the general Irish house price index tends not to be very representative. The Group therefore decided in 2011 to stop using the general Irish house price index and to use its internal, more conservative price index instead. Combined with falling house prices in recent years, this caused the average loan-to-value (LTV) ratio to increase to 120% at the end of 2012, against 84% at the end of 2010. At the end of 2011 the average LTV was 122%.

Of the total gross credit exposure to personal customers' housing loans, DKK 2.8 billion was above the 100% LTV ratio level at the end of 2012.

Personal customers' interest-only housing loans have higher LTV ratios than housing loans with repayment of principal. For interest-only loans, the allowance account represented 27% of the gross credit exposure to interest-only loans, and for loans with repayment of principal, it represented only 12%. The latter accounted for 54% of the portfolio related to personal customers' housing loans.

HOUSE PRICE INDICES, IRELAND
Index 100 = March 2005



Source: Own data and Central Statistics Office (Ireland) (ESRI/CSO index).
Note: At Banking Activities Ireland, collateral is indexed on the basis of CSO values with a quarterly adjustment determined by Danske Bank.

The percentage of personal customers' housing loans at Non-core Ireland that were more than 90 days past due rose from 3.0% at the end of 2011 to 3.3% at 30 September 2012. The trend was the same in the entire Irish market for housing loans, where the percentage of loans past due rose from about 9% at the end of 2011 to about 11.3% at 30 September 2012.

Commercial property

The commercial property portfolio represented 11% of the Group's total gross credit exposure and 31% of the Group's total allowance account.

The portfolio consists mainly of facilities for residential and commercial property leasing, construction projects and leasing administration. In addition to this portfolio, the Group is exposed to commercial property indirectly through collateral held against lending to commercial customers outside the commercial property industry.

Commercial property values were affected by the general downturn during and after the financial crisis, and since then, the portfolio has been subject to higher impairment charges than any other. Gross credit exposure to customers in rating categories 8-11 decreased from DKK 70.9 billion in 2011 to DKK 62.6 billion in 2012.

Retail Banking Denmark (including Realkredit Danmark) had 46% of the total gross credit exposure to the commercial property portfolio. Falling rental prices and occupancy rates in the Danish property sector in recent years have reduced property values and cash flows, resulting in high impairment charges. The allowance account for the portfolio at Retail Banking Denmark (including Realkredit Danmark) stood at DKK 4.2 billion and represented 3.4% of the gross credit exposure to the commercial property portfolio at Retail Banking Denmark.

Vacancy rates in Denmark vary considerably according to the type of property and location. The retail property market in central Copenhagen had a vacancy rate of 3.3%, while the vacancy rate for office properties in Greater Copenhagen was 9.5%. Retail and office properties represented about 50% of the total gross credit exposure of DKK 106 billion to commercial property at Realkredit Danmark.

Activities in Ireland accounted for 45% of the allowance account in the commercial property portfolio because of a large decline in property values. Some 96% of the Irish commercial property portfolio was at the Non-core Ireland unit.

Banking Activities Northern Ireland has been adversely affected by falling property prices as well, although less severely than Ireland. Commercial property prices in Northern Ireland are starting to stabilise at a low level, with significant regional variation.

COMMERCIAL PROPERTY PORTFOLIO BROKEN DOWN BY BUSINESS UNIT

Business unit	Total portfolio			Portfolio, rating categories 8-11				
At 31 December 2012 (DKK millions)	Gross credit exposure	Unsecured	Write-offs	Gross credit exposure	Unsecured	Unsecured, categories 8 & 9	Unsecured, categories 10 & 11	Allowance account
Retail Banking Denmark	122,399	23,888	489	32,501	8,398	2,866	5,532	4,190
Retail Banking Finland	14,547	2,943	6	2,504	319	186	133	75
Retail Banking Sweden	51,190	7,699	11	1,999	488	185	303	213
Retail Banking Norway	33,057	5,852	219	3,502	1,033	502	531	460
Banking Activities Ireland	506	384	6	268	165	101	64	103
Banking Activities Northern Ireland	9,883	3,897	16	7,817	3,530	962	2,568	3,186
Corporate & Institutional Banking	16,694	10,889	-	116	98	97	1	7
Non-core Ireland	13,872	8,344	4,756	13,777	8,313	636	7,677	6,604
Other	3,273	2,245	3	107	88	59	29	34
Total	265,421	66,141	5,506	62,591	22,432	5,594	16,838	14,872

TREND IN THE COMMERICIAL PROPERTY PORTFOLIO

Year	Total portfolio			Portfolio, rating categories 8-11				
(DKK millions)	Gross credit exposure	Unsecured	Write-offs	Gross credit exposure	Unsecured	Unsecured, categories 8 & 9	Unsecured, categories 10 & 11	Allowance account
2008	207,759	66,439	34	26,125	9,397	5,686	3,711	2,913
2009	248,560	77,969	297	64,661	25,351	13,054	12,297	9,123
2010	254,580	78,696	1,888	69,857	29,239	13,075	16,164	11,150
2011	270,481	84,494	2,331	70,885	32,666	12,546	20,123	14,990
2012	265,421	66,141	5,506	62,591	22,432	5,594	16,838	14,872

Note: Adjustments of haircuts applied to collateral values at Realkredit Danmark in 2012 accounted for DKK 13.6 billion of the reduction in the total unsecured exposure and for DKK 3.3 billion of the reduction in the unsecured exposure in rating categories 8-11.

The portfolio remains sensitive to the economic climate, and the commercial property market is generally subject to high vacancy rates. While development sites still saw low demand, the rents and yields on office, retail and industrial properties started to stabilise in the capital regions.

The Group has become more stringent in both its credit policy and ongoing follow-up on loans for commercial property.

Personal customers
Personal customers accounted for 36% of the Group's total gross credit exposure and for 20% of the Group's total allowance account.

Exposure to personal customers consisted primarily of loans secured on real property, and a small portion consisted of consumer loans and credit facilities. The personal customer portfolio was well diversified by loan type, geography, amount and maturity. Total gross credit exposure to personal customers rose DKK 9.2 billion in 2012 to DKK 894.6 billion (2011: DKK 885.4 billion).

At the end of 2012, total residential property loans, measured by gross credit exposure, amounted to DKK 816 billion, with DKK 431 billion granted by Realkredit Danmark. The losses were still relatively limited and involved mainly consumer loans and home loans that had high LTV ratios when they were approved. The Group has made its credit policy for home loans with high LTV ratios more stringent, and new pricing initiatives, along with low interest rates, created incentives for customers to convert to fixed-rate loans.

Considering the economic downturn since the financial crisis, the rise in losses on personal customers has been moderate. In Denmark, unemployment has not risen significantly, and modest consumer spending has left a significant portion of personal customers with relatively good liquidity.

PERSONAL CUSTOMER PORTFOLIO BROKEN DOWN BY BUSINESS UNIT

Business unit	Total portfolio			Portfolio, rating categories 8-11				
At 31 December 2012 (DKK millions)	Gross credit exposure	Unsecured	Write-offs	Gross credit exposure	Unsecured	Unsecured, categories 8 & 9	Unsecured, categories 10 & 11	Allowance account
Retail Banking Denmark	564,136	112,963	1,640	56,745	21,389	14,502	6,887	5,060
Retail Banking Finland	104,754	7,752	84	15,329	3,482	2,519	963	920
Retail Banking Sweden	91,472	8,529	16	6,203	1,106	812	294	326
Retail Banking Norway	84,626	6,196	118	4,183	702	543	159	170
Banking Activities Ireland	15,879	4,938	-	4,677	1,995	1,337	658	896
Banking Activities Northern Ireland	18,248	3,649	28	4,690	1,464	1,184	280	451
Non-core Ireland	9,026	3,926	221	5,109	2,656	830	1,826	1,777
Other	6,472	80	11	1,407	345	278	67	80
Total	894,613	148,033	2,118	98,343	33,139	22,005	11,134	9,680

TREND IN THE PERSONAL CUSTOMER PORTFOLIO

Year	Total portfolio			Portfolio, rating categories 8-11				
(DKK millions)	Gross credit exposure	Unsecured	Write-offs	Gross credit exposure	Unsecured	Unsecured, categories 8 & 9	Unsecured, categories 10 & 11	Allowance account
2008	835,168	150,546	732	74,677	21,699	19,257	2,443	1,425
2009	851,659	178,596	1,338	83,285	27,453	22,545	4,908	4,229
2010	867,321	172,333	1,601	110,117	34,418	28,716	5,702	6,178
2011	885,446	207,341	1,001	104,355	38,309	28,559	9,748	7,945
2012	894,613	148,033	2,118	98,343	33,139	22,005	11,134	9,680

Note: Adjustments of haircuts applied to collateral values at Realkredit Danmark in 2012 accounted for DKK 31 billion of the reduction in the total unsecured exposure and for DKK 2.4 billion of the reduction in the unsecured exposure in rating categories 8-11.

In 2012, the unsecured exposure in rating categories 8-11 declined despite a general worsening of the economies in the Group's markets. The unsecured exposure related primarily to Retail Banking Denmark and was largely the result of declining house prices since the beginning of the financial crisis. In 2012, however, the level of arrears at Realkredit Danmark remained low and declined further. High unemployment and lower disposable income had adverse effects on the credit quality of mortgage loans in Ireland and Northern Ireland, although these markets showed signs of stabilising in the second half of 2012.

The credit quality of personal customers depends on several factors, particularly the level of interest rates, disposable income, unemployment and house prices. The unsecured exposure in rating categories 8-11 makes the portfolio sensitive to changes in these factors, with unemployment and property prices posing the most immediate risks. On the other hand, low interest rates have a positive effect on credit quality.

LTV RATIO: LOANS TO PERSONAL CUSTOMERS BROKEN DOWN BY BUSINESS UNIT

At 31 December 2012 (DKK millions)	(%) 0-20	20-40	40-60	60-80	80-100	> 100	Gross credit exposure, total	Avg. LTV ratio 2012 (%)
Retail Banking Denmark	150,101	137,365	110,659	75,344	33,658	13,316	520,443	74
Segment from Realkredit Danmark	132,660	118,867	92,791	59,116	21,591	6,283	431,308	73
Retail Banking Finland	33,759	27,063	19,070	9,968	2,641	703	93,205	64
Retail Banking Sweden	24,706	21,182	15,779	9,048	2,226	930	73,872	68
Retail Banking Norway	27,483	24,659	17,036	7,078	1,167	879	78,303	62
Banking Activities Northern Ireland	5,658	4,168	2,922	1,897	1,025	934	16,604	78
Banking Activities Ireland	3,458	3,035	2,550	2,050	1,551	2,500	15,144	109
Banking Activities Baltics	3,020	2,534	1,920	1,253	694	712	10,133	79
Non-core Ireland	1,536	1,387	1,193	992	831	2,805	8,743	120
Total	249,721	221,393	171,129	107,630	43,793	22,779	816,447	72

At 31 December 2011 (DKK millions)	(%) 0-20	20-40	40-60	60-80	80-100	> 100	Gross credit exposure, total	Avg. LTV ratio 2011 (%)
Retail Banking Denmark	144,935	133,142	107,042	74,575	37,597	21,044	518,335	77
Segment from Realkredit Danmark	127,485	114,797	89,663	58,714	25,384	11,338	427,381	76
Retail Banking Finland	31,224	24,959	16,980	8,253	2,214	703	84,333	63
Retail Banking Sweden	20,633	17,695	13,299	8,149	2,654	1,096	63,526	71
Retail Banking Norway	23,251	21,204	14,760	6,372	1,154	784	67,525	63
Banking Activities Northern Ireland	5,306	3,814	2,613	1,678	954	801	15,166	77
Banking Activities Ireland	5,263	4,632	3,902	3,142	2,410	4,757	24,106	110
Banking Activities Baltics	2,992	2,548	1,994	1,387	879	925	10,725	84
Non-core Ireland	-	-	-	-	-	-	-	-
Total	233,604	207,994	160,590	103,556	47,862	30,110	783,716	75

Note: In the breakdown, every krone lent is categorised according to its seniority in the total debt on the individual property. For each property, the average LTV ratio is calculated on the basis of the last krone lent. Collateral is included before haircuts.

The Group uses the LTV ratio, among other measures, to manage its credit exposure in the residential property loan portfolio. The total LTV ratio for personal customers rose from 54% at the end of 2008 to 72% at the end of 2012.

Agriculture

The agriculture portfolio represented 2.9% of the Group's total gross credit exposure and 6.8% of the Group's total allowance account.

It was one of the portfolios in which credit quality declined the most from the beginning of the financial crisis until 2010 because of the very difficult conditions for the industry. Whilst falling agricultural land values have had a negative effect on the Group's total collateral in the portfolio, the size of the gross credit exposure in rating categories 8-11 has decreased since 2010.

Danish plant growers had a good year in 2012, with a fine harvest and high grain prices as the US suffered its worst drought in half a century. Pig breeders' earnings also improved as pork prices reached new heights. Some of the gains were eroded by higher feed prices, however. This was especially the case for pig breeders with little feed production of their own. Milk producers were hit by weaker market conditions as milk prices declined and feed prices increased. For all types of farming, there was a wide range in net profit between worst- and best-performing businesses, depending on efficiency, debt level and other factors.

Retail Banking Denmark accounted for 78% of the Group's agriculture portfolio, with a gross credit exposure of DKK 55.7 billion. Of this amount, Realkredit Danmark accounted for DKK 45.8 billion. Agricultural exposure at Corporate & Institutional Banking related primarily to producers of feeds and seed products. At Banking Activities Northern Ireland, most of the credit exposure was to milk producers.

Total gross credit exposure increased 1.4% in 2012, owing mainly to increased exposure to non-farming customers. Generally, the Group has a very cautious approach to financing new projects, but it supports existing customers' continuing operations to some degree.

AGRICULTURE PORTFOLIO BROKEN DOWN BY BUSINESS UNIT

Business unit	Total portfolio			Portfolio, rating categories 8-11				
At 31 December 2012 (DKK millions)	Gross credit exposure	Unsecured	Write-offs	Gross credit exposure	Unsecured	Unsecured, categories 8 & 9	Unsecured, categories 10 & 11	Allowance account
Retail Banking Denmark	55,731	10,377	140	23,469	5,671	2,458	3,213	2,794
Retail Banking Finland	434	162	-	237	69	62	7	5
Retail Banking Sweden	1,536	214	-	175	65	61	4	3
Retail Banking Norway	1,277	185	-	551	17	15	2	3
Banking Activities Ireland	98	25	-	51	13	10	3	3
Banking Activities Northern Ireland	4,295	716	1	1,477	293	197	96	83
Non-core Ireland	1,674	644	27	1,572	632	209	423	335
Other	6,586	5,943	3	22	10	9	1	2
Total	71,631	18,266	171	27,554	6,770	3,021	3,749	3,228

TREND IN THE AGRICULTURE PORTFOLIO

Year	Total portfolio			Portfolio, rating categories 8-11				
(DKK millions)	Gross credit exposure	Unsecured	Write-offs	Gross credit exposure	Unsecured	Unsecured, categories 8 & 9	Unsecured, categories 10 & 11	Allowance account
2008	68,846	20,846	69	11,780	4,033	3,651	382	250
2009	72,124	21,070	40	25,271	8,259	6,493	1,766	1,159
2010	70,856	20,055	89	31,652	9,078	6,314	2,764	1,792
2011	70,673	24,305	223	30,793	11,206	7,088	4,118	2,969
2012	71,631	18,266	171	27,554	6,770	3,021	3,749	3,228

Note: Adjustments of haircuts applied to collateral values at Realkredit Danmark in 2012 accounted for DKK 2.7 billion of the reduction in the total unsecured exposure and for DKK 0.4 billion of the reduction in the unsecured exposure in rating categories 8-11.

At the end of 2012, the allowance account at Retail Banking Denmark's portfolio stood at DKK 2.8 billion, with Realkredit Danmark accounting for DKK 0.4 billion of this amount. At Retail Banking Denmark (excluding Realkredit Danmark), 39% of total gross credit exposure to the agricultural industry was impaired. The allowance account for pig breeders at Retail Banking Denmark (excluding Realkredit Danmark) stood at DKK 1.0 billion, yielding an accumulated impairment ratio of about 34%.

The average LTV ratio for the total portfolio rose from 50% at the end of 2008 to 64% at the end of 2012, and the allowance account was up from DKK 0.3 billion to DKK 3.2 billion.

The EU long-term budget (2014-20) and the EU's Common Agricultural Policy (CAP) are under negotiation. The outcome may entail a smaller overall budget allocated to the CAP, a redistribution of agricultural subsidies among countries, regions, types of farming business, and so on. The negative effect of reduced subsidies may affect Danske Bank's agricultural customers – milk producers most significantly. These customers are based mainly in Denmark and in Northern Ireland. Farmland prices and thus collateral values could also be adversely affected.

Shipping

The shipping portfolio represented 1.8% of the Group's total gross credit exposure and 4.1% of the Group's total allowance account.

The portfolio has been adversely affected by very difficult market conditions. Demand dropped sharply after the financial crisis in 2008 as world trade fell significantly. Since then, low freight rates, overcapacity and decreasing prices for both new and second-hand ships have caused credit quality to deteriorate.

The market outlook for 2013 is still negative. The supply of new vessels is still larger than the current demand can accommodate, although demand is increasing.

The increase in the allowance account in 2012 related mainly to a few customers in Corporate & Institutional Banking.

SHIPPING PORTFOLIO BROKEN DOWN BY BUSINESS UNIT

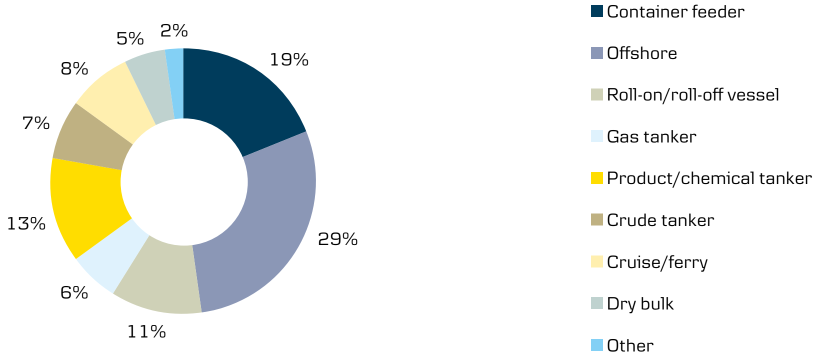
Business unit	Total portfolio			Portfolio, rating categories 8-11				
At 31 December 2012 (DKK millions)	Gross credit exposure	Unsecured	Write-offs	Gross credit exposure	Unsecured	Unsecured, categories 8 & 9	Unsecured, categories 10 & 11	Allowance account
Retail Banking Denmark	798	605	35	596	452	70	382	354
Retail Banking Finland	257	45	-	211	25	2	23	49
Retail Banking Sweden	279	126	111	24	12	11	1	1
Retail Banking Norway	1,009	214	8	24	14	3	11	9
Banking Activities Northern Ireland	68	41	-	64	41	-	41	42
Corporate & Institutional Banking	43,194	19,399	141	8,049	3,636	1,729	1,907	1,495
Non-core Ireland	2	2	1	2	2	-	2	2
Other	2	1	-	1	-	-	-	1
Total	45,609	20,433	296	8,971	4,182	1,815	2,367	1,953

TREND IN THE SHIPPING PORTFOLIO

Year	Total portfolio			Portfolio, rating categories 8-11				
(DKK millions)	Gross credit exposure	Unsecured	Write-offs	Gross credit exposure	Unsecured	Unsecured, categories 8 & 9	Unsecured, categories 10 & 11	Allowance account
2008	47,883	24,780	-	3,680	2,022	1,996	26	210
2009	44,876	21,291	69	7,739	3,321	2,106	1,215	916
2010	51,750	24,326	153	7,294	3,429	2,408	1,021	854
2011	49,487	23,085	483	9,696	4,283	2,561	1,722	1,159
2012	45,609	20,433	296	8,971	4,182	1,815	2,367	1,953

Because of the negative developments in the industry, the Group has set up a credit unit to specialise in shipping. Market conditions and customers are thus monitored closely. All credit applications from shipping customers are processed by this unit. The Group has tightened the credit policy, placing stricter limits on LTV ratios, on weightings of each segment to limit concentration and on the age of ships held as collateral, among other things.

SEGMENTATION OF THE SHIPPING PORTFOLIO



Financial customers

In this section, “financial customers” refers to banks, investment banks, brokerages, mortgage providers, insurance companies, pension companies and investment companies. It excludes conduits, corporate customers’ financing companies and other entities (in contrast to the treatment of financial customers in Danske Bank’s Annual Report 2012 and section 4.2.3).

The portfolio represented 15% of the Group’s total gross credit exposure and 0.5% of the Group’s total allowance account.

In the years preceding the financial crisis, the Group developed substantial business activity with a number of large international financial groups. The Group’s business customers increased their exports significantly in this period. This trend supported business volume at Danske Markets.

The exposure to customers in rating categories 8-11 peaked in 2008, and since then it has been reduced significantly. The credit quality of the financial customer portfolio has improved since 2009.

FINANCIAL CUSTOMER PORTFOLIO BROKEN DOWN BY SEGMENT

Segment	Total portfolio			Portfolio, rating categories 8-11				
At 31 December 2012 (DKK millions)	Gross credit exposure	Unsecured	Write-offs	Gross credit exposure	Unsecured	Unsecured, categories 8 & 9	Unsecured, categories 10 & 11	Allowance account
Investment management companies	115,543	15,322	-	404	105	-	105	38
Credit institutions	88,329	43,460	-	871	727	480	247	92
Life insurance and pension funds	34,866	6,260	6	-	-	-	-	-
Mortgage credit institutions	39,069	12,929	-	272	272	272	-	-
Broker-dealers	9,791	6,345	98	35	32	1	31	19
Insurance companies	5,129	3,895	-	2	2	2	-	-
Other	70,861	6,140	31	926	270	102	168	84
Total	363,588	94,351	135	2,510	1,408	857	551	233

TREND IN THE FINANCIAL CUSTOMER PORTFOLIO

Year	Total portfolio			Portfolio, rating categories 8-11				
(DKK millions)	Gross credit exposure	Unsecured	Write-offs	Gross credit exposure	Unsecured	Unsecured, categories 8 & 9	Unsecured, categories 10 & 11	Allowance account
2008	500,112	125,027	37	32,639	20,146	15,008	5,138	1,539
2009	301,359	10,306	1,602	11,894	7,605	2,495	5,110	2,946
2010	353,360	46,574	641	8,215	6,921	1,761	5,160	3,918
2011	287,170	64,333	3,448	3,496	2,004	1,104	900	375
2012	363,588	94,351	135	2,510	1,408	857	551	233

The Group's direct exposure to small Danish banks is limited. Its exposure to group 2-4 banks, as defined by the Danish FSA, was DKK 2.4 billion at the end of 2012.

Conduits

The portfolio represented 0.7% of the Group's total gross credit exposure.

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. At the end of 2012, the Group had reduced the portfolio to DKK 17.6 billion. The percentage of the exposure in rating categories 8-11 was also reduced significantly in the period. Sales of conduit holdings reduced the allowance account for the portfolio significantly, and the remaining portfolio has much better credit quality. The portfolio is managed with a view to closure.

Previously, the Group's strategy was to acquire only securitisation assets that had (or were expected to obtain) a triple-A rating from one of the major rating agencies. Although the credit quality of the portfolios of financed assets has declined in recent years, the Group has been fairly well protected against losses in most of the individual tranches.

TREND IN THE CONDUIT PORTFOLIO

Year	Total portfolio			Portfolio, rating categories 8-11				
(DKK millions)	Gross credit exposure	Unsecured	Write-offs	Gross credit exposure	Unsecured	Unsecured, categories 8 & 9	Unsecured, categories 10 & 11	Allowance account
2008	56,498	25,231	66	18,809	13,034	13,027	7	-
2009	48,143	22,515	2	13,656	11,014	6,930	4,084	4,000
2010	40,373	16,346	1,123	8,052	3,437	1,034	2,403	2,473
2011	31,307	12,065	-	6,803	2,796	295	2,501	2,420
2012	17,624	6,819	2,472	1,295	950	366	584	-

Note: "Unsecured" exposure generally represents both uncollateralised exposure and a shortfall in the value of assets held as collateral. In the case of conduits, the securities are backed by collateral.

The key risk on the portfolio is related to credit risk on underlying exposures, which consist mainly of mortgage loans. The underlying exposure to US subprime loans was very limited (DKK 21 million at the end of 2012).

4.2.3 Concentration risk

Concentration risk is calculated and monitored for large individual exposures, for exposures at the portfolio level and for collateral. If the Group finds that concentration risk is excessive, it uses various mitigation measures to reduce the risk. Concentration risk arises in the credit portfolio as an inevitable consequence of the Group's business strategy.

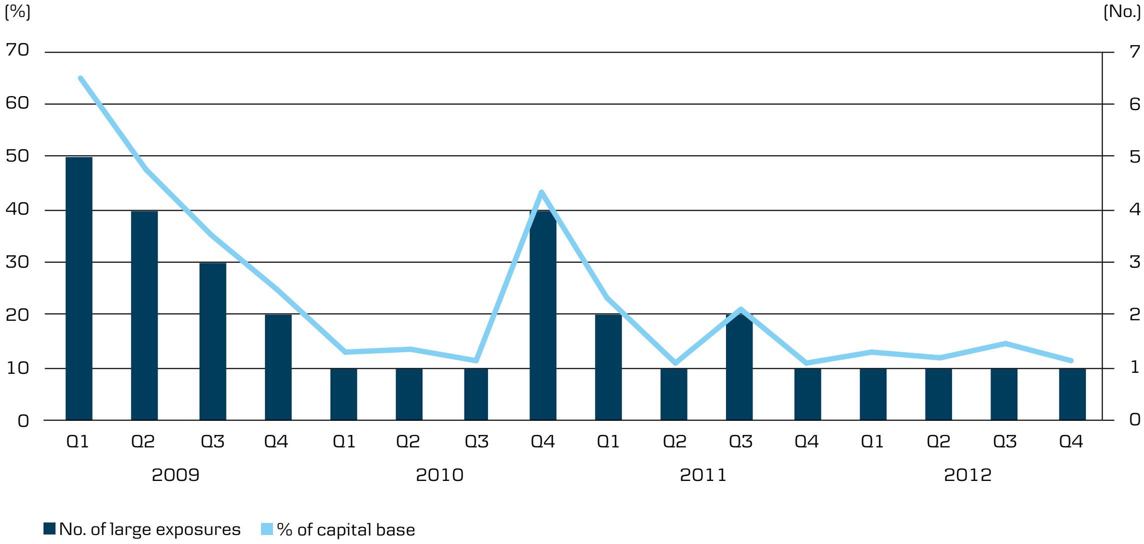
Single-customer concentrations

According to section 145 of the Danish Financial Business Act, exposure to a single customer or a group of related customers – after the deduction of particularly secure claims – may not exceed 25% of the capital base. In addition, according to the Danish FSA's Supervisory Diamond, the sum of exposures that each equal or exceed 10% of the capital base may not be more than 125% of the capital base.

The Group's All Risk Committee has introduced portfolio limits that are stricter than the statutory limits:

- 95% of the capital base for the sum of individual exposures that equal or exceed 10% of the capital base
- 150% of the capital base for the sum of exposures ranging from 5% to 9.99% of the capital base – that is, the largest individual exposures that are not covered by the Danish rules on large exposures

DANSKE BANK GROUP'S LARGE EXPOSURES



Note: The rise at the end of 2010 was owing to changes in the rules for calculating large exposures. For example, the weight of exposures to credit institutions increased from 20% to 100%. A large exposure is defined as an exposure that exceeds 10% of the capital base.

The Group's risk profile for large exposures is reported quarterly to the Board of Directors in accordance with internal guidelines. Both the number and the sum of exposures that exceed 10% of the capital base have been substantially reduced in recent years. At the end of 2012, eight exposures exceeded 5% of the capital base. Of these, one exposure also exceeded 10% of the capital base. The Group is thus well within regulatory limits.

Portfolio concentrations

It is a logical consequence of the Group's business model that credit exposure from lending activities is concentrated especially in the personal customer and business customer segments. At the end of 2012, lending to personal customers represented 37% of the Group's total credit exposure (end-2011: 39%), while lending to business customers represented 36% (end-2011: 39%), with SMEs representing 68% of the exposure to business customers (end-2011: 68%).

Most of the exposure to SMEs involved property financing or exposure collateralised with property. The rest involved mainly operating financing.

Most of the Group's lending to personal customers is lending secured on real property. At the end of 2012, property-related lending to personal customers amounted to DKK 812 billion (end-2011: DKK 781 billion), with DKK 431 billion of the loans made through Realkredit Danmark (end-2011: DKK 427 billion).

GEOGRAPHICAL BREAKDOWN OF CREDIT EXPOSURE

At 31 December 2012 (DKK millions)	Personal customers	Business customers	Financial customers	Central and local governments	Total
Denmark	554,728	425,256	168,482	120,970	1,269,436
Sweden	91,514	148,999	32,745	28,825	302,083
Finland	103,587	86,928	5,904	26,865	223,284
Norway	84,967	105,546	6,675	8,131	205,319
UK	20,368	30,588	89,117	8,288	148,361
Ireland	22,137	20,248	5,988	7,009	55,382
North America	1,158	17,155	27,655	-	45,968
Luxembourg	297	377	57,389	74	58,137
Germany	594	12,799	10,921	12,937	37,251
Estonia	5,111	4,130	173	168	9,582
Lithuaina	4,667	2,823	197	545	8,232
France	594	1,465	8,510	-	10,569
Belgium	334	1,773	3,902	-	6,009
Asia	1,548	2,708	3,640	1,362	9,258
Other	4,226	14,096	14,833	1,015	34,170
Total	895,830	874,891	436,131	216,189	2,423,041

At 31 December 2011 (DKK millions)	Personal customers	Business customers	Financial customers	Central and local governments	Total
Denmark	561,918	428,731	188,286	62,721	1,241,656
Sweden	85,567	158,662	27,727	16,812	288,768
Finland	100,937	88,684	4,369	6,800	200,790
Norway	77,395	104,493	8,062	8,930	198,880
UK	19,968	33,535	66,088	16,802	136,393
Ireland	24,543	25,169	9,966	7,430	67,108
North America	1,106	18,082	26,905	-	46,093
Luxembourg	272	316	27,957	151	28,696
Germany	545	12,389	2,180	390	15,504
Estonia	5,553	4,545	145	336	10,579
Lithuaina	4,723	3,211	554	784	9,272
France	581	1,742	3,147	-	5,470
Belgium	273	1,175	3,131	-	4,579
Asia	1,458	3,149	7,069	335	12,011
Other	4,129	14,662	13,117	1,004	32,912
Total	888,968	898,545	388,703	122,495	2,298,711

Customers domiciled in Denmark accounted for 52% of the Group's total credit exposure (2011: 54%), with much more than half of the loans made through Realkredit Danmark. Credit exposure to customers in the other Nordic countries accounted for 30% (end-2011: 30%).

Credit exposure to customers domiciled in Portugal, Italy, Greece and Spain amounted to DKK 2.6 billion (end-2011: DKK 1.9 billion). Most of it was exposure to personal customers. In addition, in the trading book, the Group has bond holdings issued by counterparties from those countries, including governments (see section 6).

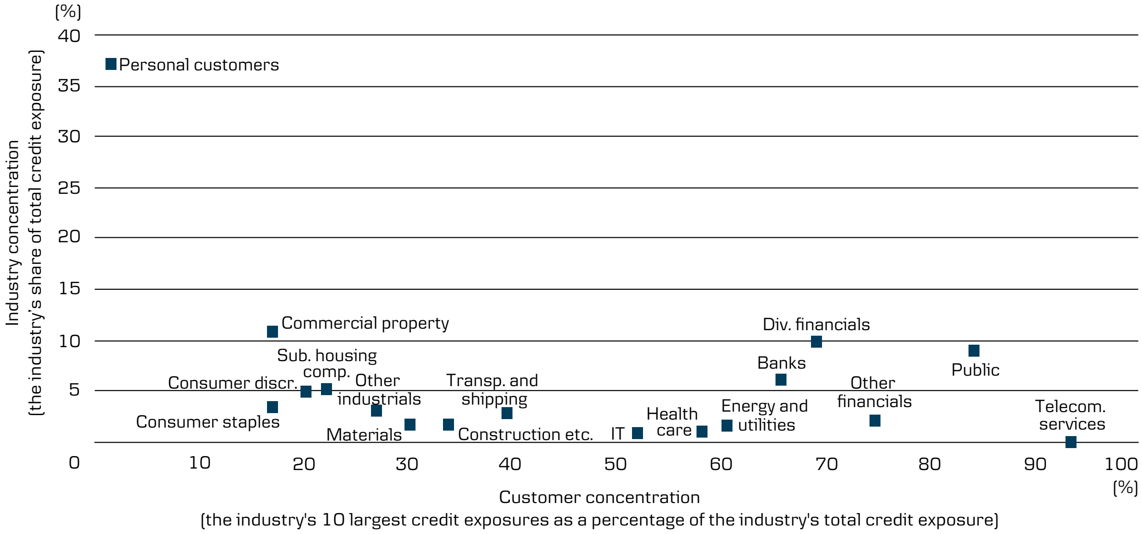
Customer concentration and industry concentration are risk management parameters, and they are managed by means of portfolio and customer limits. These measures prevent a single industry or customer from constituting an excessive share of the Group's total exposure.

The Group's customer concentration, measured as the sum of the Group's 10 largest customer exposures in an industry as a percentage of the Group's total credit exposure in that industry, is highest in the telecommunications portfolio, followed by the public sector, banking and other financials portfolios. The main reason for the high customer concentrations in these portfolios is the structure of the industries and sectors.

The Group's industry concentration, measured as the total credit exposure to an industry or a sector as a percentage of the Group's total credit exposure, is highest for personal customers, as mentioned above.

There are no industries with a high industry concentration in which the Group also has a high customer concentration. This is a consequence of the Group's internal limits on large exposures, among other things, as mentioned above. The largest exposures in the various industries are monitored frequently.

CUSTOMER AND INDUSTRY CONCENTRATIONS, END-2012



Collateral concentration

The Group's collateral stock is naturally concentrated in real property, which makes up 73% of the total collateral of DKK 1,565 billion (without Realkredit Danmark, it makes up 54%).

The concentration in real property is highest at Realkredit Danmark and lowest at Corporate & Institutional Banking, Danske Markets and Danske Capital. Collateral at Corporate & Institutional Banking consists predominantly of ships and other vessels, while at Danske Capital it consists mainly of securities.

5. COUNTERPARTY RISK

Danske Bank Group enters into transactions involving OTC derivatives and securities financing instruments, for example, repurchase (repo) and reverse repo agreements, and thus takes on counterparty risk. Only 6.1% of the Group's total risk-weighted assets (RWA) are allocated to counterparty risk.

The Group's counterparty risk management is intended to reduce the financial loss if the counterparty to a transaction goes bankrupt before the final settlement of the transaction. Counterparty risk entails a risk of financial loss for both parties to a transaction. This is because the market value of a transaction changes over time with changes in underlying market factors. The market values can thus fluctuate between positive and negative amounts. The Group incurs a financial loss if the counterparty goes bankrupt and the value of the transactions, after netting and the realisation of collateral, is positive.

In the Group's financial statements, derivatives are measured at fair value in the trading portfolio, while repo and reverse repo–like agreements are treated as loans against collateral. In the credit exposure overviews in section 4, reverse repo–like agreements are thus treated as loans against collateral.

5.1 COUNTERPARTY RISK MANAGEMENT

The Group has a fully implemented system for internal counterparty risk management. The system covers many aspects of the risk management process: assignments of lines, monitoring and control of line utilisations, management of master agreements, management reporting, and so on.

The Group uses an internal simulation model to calculate counterparty risk exposure. The model runs a Monte Carlo simulation that simulates 1,000 scenarios of changes in the market values of each customer's portfolio of transactions (in this section, "transactions" are to be understood as OTC-traded derivatives, securities lending, repo and reverse repo–like agreements).

The netting of the market values and of the calculated changes in these values is based on legally binding master agreements that the Group has signed with the 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 risk exposure, 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 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.

5.1.1 Risk mitigation

To mitigate counterparty risk, the Group generally requires closeout netting agreements.
This enables the Group to net the positive and negative replacement values of contracts if the counterparty defaults. For professional counterparties, collateral management agreements are often attached to the master agreements as well, in order to reduce the counterparty risk on unsecured financial transactions. The Group's policy is to promote the use of closeout netting agreements and mutual collateral management agreements that cover an increasing number of products and counterparties in order to reduce counterparty risk.

Mutual collateral management agreements specify threshold amounts and a minimum amount for the transfer of collateral. 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. At the end of 2012, more than 89% 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 Germany, France, Denmark, Belgium, the Netherlands and Sweden.

The table below shows the effect of netting and collateral on the exposure (measured as PFE).

POTENTIAL FUTURE EXPOSURE (PFE) AFTER NETTING AND COLLATERAL

At 31 December (DKK millions)	2012	2011
PFE gross	717,437	876,335
PFE after netting	323,796	410,104
PFE after netting and collateral	133,600	142,506

Note: PFE is based on all derivatives, repos and reverse repos with counterparty risk.

5.2 CAPITAL REQUIREMENTS

The Group calculates the regulatory capital requirement for counterparty risk on derivatives in accordance with the mark-to-market method. The exposure on a specific transaction thus equals the sum of the current exposure, which is defined as the higher of the replacement cost and zero, and a supplementary regulatory measure of the PFE determined as a percentage of the notional value of the contract. The percentage is stipulated by the Danish FSA, and it depends on the product type and the time to maturity.

If there is a master agreement, the positive and negative replacement costs are netted. If there is a collateral agreement, the exposure can be further reduced.

In the financial statements, the positive fair value of derivatives amounted to DKK 409 billion at the end of 2012 (end-2011: DKK 551 billion). The difference between this amount and the value of derivatives for capital requirement purposes is owing mainly to the PFE add-on that is included in the value of derivatives for capital requirement purposes and also to the difference in netting methodologies used.

The capital requirement for repo and reverse repo-like agreements is based on the carrying amount, in the form of the principal amount of the transaction less collateral value.

COUNTERPARTY RISK EXPOSURE (EAD)

At 31 December (DKK millions)	2012			2011		
	Derivatives	Repos	Total	Derivatives	Repos	Total
EAD before netting	743,571	775,494	1,519,065	837,609	749,755	1,587,364
Netting benefits	503,272	-	503,272	585,032	-	585,032
EAD after netting	240,299	775,494	1,015,793	252,577	749,755	1,002,332
Collateral received	59,979	708,802	768,781	48,289	635,721	684,010
EAD after netting and collateral	180,320	66,692	247,012	204,288	114,034	318,322

Note: Counterparty risk exposure (EAD) is based on derivatives, repos and reverse repo-like agreements ("Repos" includes securities lending). "EAD" stands for "exposure at default". It is the exposure used to determine the regulatory capital requirement based on Loss Given Default (LGD) and Probability of Default (PD) for the counterparty.

At the end of 2012, the 20 largest counterparties, measured by exposure at default (EAD) after netting, accounted for 11% of total EAD after netting for counterparty risk.

Measured by EAD after netting, counterparty risk for derivatives, securities lending, repos and reverse repos amounted to 31% of total credit risk. Measured by RWA and taking into account netting agreements and collateral received, it amounted to 7.4% of total credit risk. In the Group's reporting, counterparty risk is a part of credit risk.

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

COUNTERPARTY RISK EXPOSURE (EAD) AFTER NETTING FOR DERIVATIVES ACCORDING TO THE MARK-TO-MARKET METHOD, BY RATING CATEGORY

At 31 December (DKK millions)	2012	2011
1	21,604	18,817
2	51,720	57,626
3	94,909	111,425
4	27,859	28,152
5	23,139	15,411
6	14,678	13,751
7	3,955	4,496
8	1,084	1,580
9	332	427
10	694	659
11	325	233
Counterparty risk exposure (EAD) after netting	240,299	252,577

Note: The table does not include securities lending, repos and reverse repos.

5.3 COUNTERPARTY RISK MANAGEMENT IN THE FUTURE

The Group has a fully implemented system for counterparty risk management from both the technical and the process perspectives. The Group intends to submit an application to the Danish FSA to use the internal simulation model for the capital requirement calculation of counterparty risk.

In 2012, the Group increased derivatives clearing through central counterparties (CCPs). This initiative will continue, especially because of a new regulation (EMIR). The new regulation stipulates that standardised OTC derivatives transactions must be cleared through a central clearing counterparty. In addition, the Group aspires to be an executing broker as well as a clearing broker.

6. MARKET RISK

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

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 the largest trading and position-taking volumes, followed by listed 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 2012, 7.3% of the Group's risk-weighted assets related to market risk.

6.1 POLICY AND AUTHORISATIONS

The Group's market risk management covers 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 overall 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 focus on wholesale and retail banking and on providing all of its products to Nordic customers and core products to customers outside the Nordic region. Advanced products are traded mainly with professional customers.

Besides the exposure to market risk arising from servicing customers, the Board of Directors has set authorisations that allow the Group's trading unit in the Corporates & Institutions business unit (the "trading unit") to take positions for its own account and at its own risk. The Group also takes on market risk as part of treasury management that supports the procurement and day-to-day management of liquidity. On the basis of the overall risk limits, the Executive Board sets market risk limits for the trading unit and Group Treasury.

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

The Group's overall market risk limits do not apply to the market risks associated with life insurance and pension plans. 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 is treated in sections 9 and 10.

6.2 MONITORING

Risk policies lay the foundation for business procedures as well as reconciliation and control procedures for the relevant business units.

The Group carries out market risk measurement, monitoring and management reporting on a daily basis. It also conducts intraday spot checks of the risks in the trading unit and Group Treasury. The Group calculates current market risk exposures in internally developed systems that are linked to the trading systems and cover all of its risk positions.

Risk monitoring includes setting limits for the trading unit, Group Treasury and sub-units.

In recent years, the Group has improved its control environment for market risk activities by streamlining and automating processes. In the spring of 2012, the new market risk control system was further improved to handle a more sophisticated feature for intraday limit control.

6.3 USE OF MODELS

The Group uses both conventional risk measures and mathematical and statistical measures, such as Value at Risk (VaR), to calculate market risk exposures as well as economic 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
- Day-to-day management at the business units

The Group also develops 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 6.11 for a description of the validation of these models.

6.4 MARKET RISK EXPOSURES

When calculating the capital requirement, the Group distinguishes between risk exposure in and outside the trading book. In the day-to-day monitoring and risk management, however, the two segments are treated as a single portfolio.

The table below shows the Group's total market risk at the end of 2012 and the end of 2011, calculated according to conventional risk measures (except for foreign exchange risk, for which VaR is used).

MARKET RISK EXPOSURE, CONVENTIONAL MEASURES

At 31 December (DKK millions)	2012	2011
Interest rate risk (parallel shift of the yield curve of 1 percentage point)	386	870
Interest rate basis risk (scenarios based on historical yield curve changes)	30	199
Foreign exchange risk (VaR, confidence level of 95%, 10-day horizon)	37	24
Equity market risk, listed shares (net position)	199	252
Equity market risk, unlisted shares (net position)	4,404	3,921
Mortgage spread risk (basis point value)	63	67
Government spread risk (basis point value)	-6	-2
Credit spread risk on corporate bonds (basis point value)	4	1
Inflation rate risk (change in traded inflation of 1 percentage point)	4	37
Commodity risk (10% change in commodity prices)	2	-

The exposure to market risk in general declined from the end of 2011 to the end of 2012. Interest rate risk fell by more than half, and interest rate basis risk also declined considerably. The net position in listed shares fell, while the net position in unlisted shares increased. The overall bond spread risk (the sum of mortgage, government and credit spread risks) also declined.

6.5 INTEREST RATE RISK

Interest rate risk is the risk of losses caused by changing yields. It is calculated as the greatest loss upon a parallel shift in yields of 1 percentage point. Most of the Group's interest rate risk in the trading book derives from activities that involve marketing, trading and position-taking in 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 Danish kroner and euros. Interest rate risk outside the trading book is related to the Group's banking activities, which offer fixed rate deposits, loans and other interest-rate-related products. Much of the resulting interest rate risk is hedged and treated according to the rules of fair value hedge accounting. The interest rate risk on the following fixed rate items is not hedged in the accounts but is managed on a daily basis by Group Treasury:

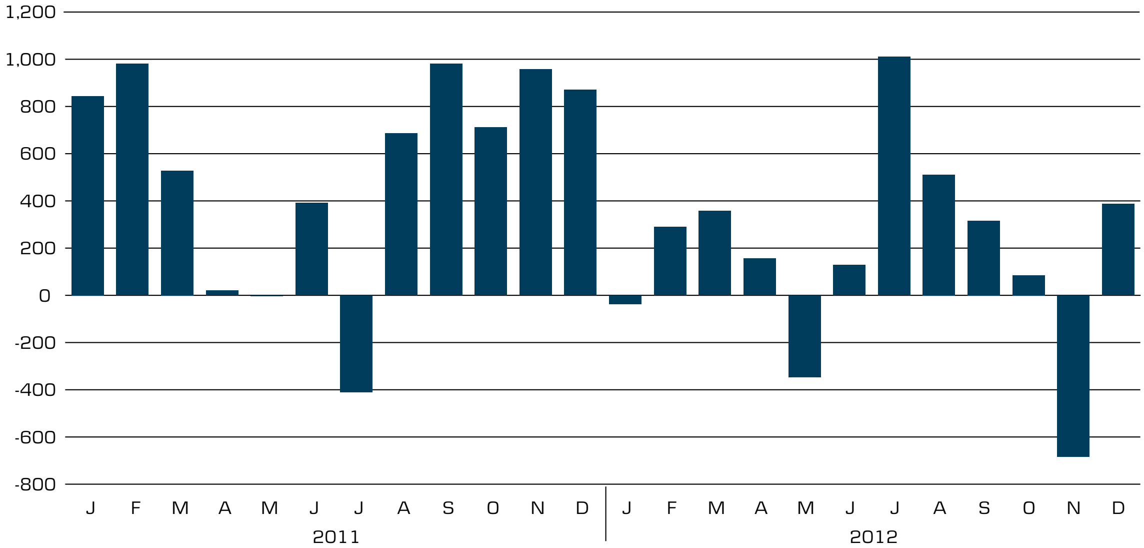
- A portfolio of fixed rate mortgage loans in Denmark
- Fixed rate loans and advances provided by Personal Banking and Business Banking in Finland, Ireland, Northern Ireland and the Baltics
- Operating leasing
- Positions resulting from interest rate payments on Realkredit Danmark loans (monthly interest 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 held-to-maturity portfolio

In addition, the Group has structural interest rate risk exposure at the Personal Banking and Business Banking units in Finland, Northern Ireland and Ireland and to a limited extent in Estonia and Lithuania. This risk derives from demand deposits. The exposure has an element of fixed interest rate risk because the interest rates have been stable at a very low level for a long time. The portfolio has been stable and is expected to remain so. The Group models this risk as a liability that is generally amortised over a five-year period. This results in an implicit average duration for the deposits of 2.5 years. The risk is included in the Group's interest rate risk calculations and thus in day-to-day monitoring and risk management.

At the end of 2012, interest rate risk outside the trading book on a parallel shift in the yield curve of 1 percentage point amounted to DKK 108 million.

The chart below shows the monthly trend in the Group's total interest rate risk, measured as the effect of a general rise in interest rates of 1 percentage point.

INTEREST RATE RISK AT GROUP LEVEL
(DKK millions)



When monitoring overall interest rate risk, the Group also measures yield curve risk, which is the risk of losses arising because yields for various maturities change independently of one another. For units that trade in interest rate options, the measures mentioned above are supplemented with a number of key figures that express the sensitivity of option values to underlying parameters such as vega, which expresses the sensitivity of option values to changes in the expected future volatility of the underlying asset, and theta, which expresses sensitivity to changes in time to expiry.

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 estimate interest rate basis risk are based on historical changes in the yield curves.

Interest rate risk on shareholders' equity

The 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 and is not included in the calculation of the Group's interest rate risk. The implied interest rate on the liquidity from shareholders' equity is the Group's standard variable Danish kroner rate (comparable to the overnight rate).

6.6 BOND HOLDINGS AND SPREAD RISK

6.6.1 Bond holdings

At the end of 2012, the Group's bond portfolio totalled DKK 505 billion (end-2011: DKK 465 billion), calculated as the carrying amount (including Danica Pension's holdings). In calculating its net risk on the bond holdings, the Group nets assets and liabilities and takes into account unsettled transactions and bond derivatives (CDSs and futures). Excluding the Group's holding of its own issues and Danica's bond holdings, this results in a net exposure of DKK 307 billion (end-2011: DKK 286 billion). Most of the bonds are covered bonds in the form of Danish mortgage bonds, Swedish covered bonds and other covered bonds under public supervision.

Government bond holdings amounted to about DKK 20 billion and consisted mainly of issues from the Nordic countries, Germany, the Netherlands and the US. The negative holding of German central and local government bonds was the result of sold government bond futures.

At the end of 2012, the Group's exposure to government bonds issued by Ireland, Portugal, Italy and Spain amounted to about DKK 3 billion (end-2011: DKK 1 billion). The Group's bond portfolio did not include government bonds issued by Greece.

About DKK 10 billion of the holdings consisted of short-dated instruments (commercial paper and the like) issued primarily by banks in Scandinavia and France. More than DKK 18 billion of the holdings were corporate bonds, including bonds issued by banks.

The tables below show the exposure from the bond holdings broken down by type, external rating and country. Altogether, the Group increased its exposure to bonds in 2012. The rise was due mainly to a higher exposure to central and local government bonds (a larger holding of Danish government bonds and a lower negative holding of German government bond futures). The increase was offset partly by a reduction of the exposure to Swedish covered bonds.

BOND PORTFOLIO BROKEN DOWN BY TYPE AND EXTERNAL RATING CATEGORY

At 31 December 2012 (DKK millions)	Central and local government bonds	Quasi-government bonds	Danish mortgage bonds	Swedish covered bonds	Other covered bonds	Short-dated bonds (CP etc.)	Corporate bonds	Total
AAA	10,767	4,887	190,443	31,199	11,625	299	2,326	251,546
AA+	1,852	197	-	-	523	160	37	2,769
AA	2,007	-	-	-	1,089	329	622	4,047
AA-	-80	-	110	-	97	158	898	1,183
A+	165	-	157	-	237	1,416	4,676	6,651
A	41	-	11,881	1	-	2,479	2,191	16,593
A-	132	-	-	-	1,962	224	1,176	3,494
BBB+	448	-	78	-	677	768	653	2,624
BBB	1,528	-	854	-	1,478	1,327	3,213	8,400
BBB-	1,161	-	-	-	412	264	221	2,058
Sub-investment-grade or not rated	2,115	12	-	112	172	2,485	2,396	7,292
Total	20,136	5,096	203,523	31,312	18,272	9,909	18,409	306,657

At 31 December 2011 (DKK millions)	Central and local government bonds	Quasi-government bonds	Danish mortgage bonds	Swedish covered bonds	Other covered bonds	Short-dated bonds (CP etc.)	Corporate bonds	Total
AAA	-18,327	8,725	104,576	46,774	12,734	132	3,268	157,882
AA+	202	51	92,673	-	1,859	112	119	95,016
AA	645	-	-	-	1,315	972	791	3,723
AA-	432	-	23	-	107	1,538	956	3,056
A+	661	-	-	-	72	2,379	1,994	5,106
A	164	-	669	-	221	1,258	2,334	4,646
A-	33	-	-	-	1,478	28	1,398	2,937
BBB+	-	-	-	-	224	101	872	1,197
BBB	188	-	-	-	682	1,937	2,119	4,926
BBB-	-	-	-	-	90	-	96	186
Sub-investment-grade or not rated	3,752	15	-	-	157	1,659	1,885	7,468
Total	-12,250	8,791	197,941	46,774	18,939	10,116	15,832	286,143

BOND PORTFOLIO BROKEN DOWN BY TYPE AND COUNTRY

At 31 December 2012 (DKK millions)	Central and local government bonds	Quasi-government bonds	Danish mortgage bonds	Swedish covered bonds	Other covered bonds	Short-dated bonds (CP etc.)	Corporate bonds	Total
Denmark	24,297	-	203,523	-	-	1,026	5,944	234,790
Sweden	47	-	-	31,312	-	2,815	2,456	36,630
UK	-442	21	-	-	6,968	388	538	7,473
Norway	2,678	-	-	-	5,901	2,796	3,005	14,380
USA	4,025	1,445	-	-	237	-20	1,397	7,084
Spain	-32	-	-	-	3,674	154	-	3,796
France	1,165	-	-	-	1,206	1,283	494	4,148
Luxembourg	-	3,522	-	-	-	-	563	4,085
Canada	-71	-	-	-	-	-	54	-17
Finland	2,984	108	-	-	85	216	647	4,040
Ireland	1,169	-	-	-	60	-	351	1,580
Italy	2,173	-	-	-	-	-	-	2,173
Portugal	88	-	-	-	-	-	-	88
Austria	1,999	-	-	-	-3	-	-	1,996
The Netherlands	5,995	-	-	-	41	921	1,993	8,950
Belgium	1,130	-	-	-	38	-	-	1,168
Germany	-27,233	-	-	-	-54	330	761	-26,196
Other	164	-	-	-	119	-	206	489
Total	20,136	5,096	203,523	31,312	18,272	9,909	18,409	306,657

At 31 December 2011 (DKK millions)	Central and local government bonds	Quasi-government bonds	Danish mortgage bonds	Swedish covered bonds	Other covered bonds	Short-dated bonds (CP etc.)	Corporate bonds	Total
Denmark	9,989	-	197,941	-	-	1,061	1,785	210,776
Sweden	4,412	-	-	46,774	-	2,929	3,384	57,499
UK	5,669	33	-	-	6,929	301	762	13,694
Norway	3,333	-	-	-	3,533	2,653	2,760	12,279
USA	-316	4,716	-	-	233	-48	2,704	7,289
Spain	555	-	-	-	4,964	120	217	5,856
France	681	-	-	-	2,889	1,810	111	5,491
Luxembourg	-	4,041	-	-	-	-	558	4,599
Canada	2,836	-	-	-	-	-	52	2,888
Finland	1,306	1	-	-	105	199	446	2,057
Ireland	787	-	-	-	90	-	266	1,143
Italy	-	-	-	-	-	7	-	7
Portugal	4	-	-	-	-	-	-	4
Austria	304	-	-	-	-	-	-	304
The Netherlands	-1,980	-	-	-	238	628	1,844	730
Belgium	-129	-	-	-	-	-	-	-129
Germany	-40,584	-	-	-	-80	420	870	-39,374
Other	883	-	-	-	38	36	73	1,030
Total	-12,250	8,791	197,941	46,774	18,939	10,116	15,832	286,143

Most of the bond holdings are included in the Group's liquidity reserve, which can be used as collateral for loans provided by central banks.

6.6.2 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 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 the credit quality and liquidity.

For internal management purposes, the Group divides bond spread risk into three sub-categories:

- Mortgage spread risk: bond spread risk on mortgage bonds and covered bonds
- Government spread risk: bond spread risk on government bonds and government-guaranteed bonds
- Credit spread risk: bond spread risk on corporate bonds

The Group's management of bond spread risk is based on the individual credit assessment and approval of issuer lines for nominal amounts of bond holdings. This is supplemented by limits on the price sensitivity to a change of 1 basis point in the bond spreads.

Besides the current rating, the Group's management of government spread risk includes an assessment of market information on expectations about future risk. Key factors are the rating agencies' expectations about future ratings (the rating outlook), the spread on credit default swaps for the issuer, and the spread to the yield on equivalent German government bonds. The assessment of government bond risk is thus based on additional criteria besides the current rating.

At the end of 2012, the total bond spread risk amounted to DKK 61 million and was thus lower than at the end of 2011 (end-2011: DKK 66 million). The decline was attributable mainly to lower spread risk to mortgage and government bonds.

For capital requirement purposes, bond spread risk is part of specific risk, for which the Group uses the standardised approach.

6.7 FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk of losses on foreign currency positions caused by changes in exchange rates. The Group measures and manages foreign exchange risk at the group level on the basis of a VaR calculation incorporating all currency positions, including options. 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 (see section 6.10).

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 calculates a number of key figures that express the sensitivity of option values to underlying parameters such as theta (time to expiry) and 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. At the end of 2012, foreign exchange risk totalled DKK 37 million, against DKK 24 million at the end of 2011.

6.8 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 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 theta (time to expiry) and vega (volatility).

For unlisted shares, the Group distinguishes between ordinary open positions, unutilised commitments to private equity funds, and banking-related investments. Banking-related investments comprise equity holdings in financial infrastructure and payment service businesses.

The Group reduced its position in listed shares in 2012, while the exposure to unlisted shares increased, mainly because of accounting revaluations.

6.9 OTHER MARKET RISKS

In addition to the types of transactions 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 2012, inflation rate risk amounted to DKK 4 million, against DKK 37 million at the end of 2011.

Commodity risk
Commodity risk 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 limited and relates primarily to energy products.

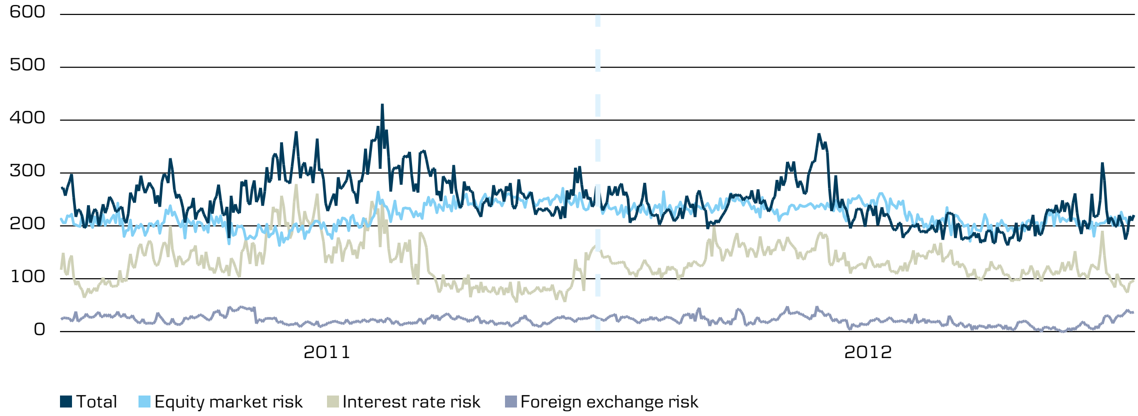
6.10 VALUE AT RISK

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 Group uses the standardised approach to calculate regulatory capital for specific risk). The model is also used for calculating economic capital. 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, as mentioned above.

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 ten-day scenario, ten 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.

The Group's daily VaR in 2011 and 2012, calculated on positions both in and outside the trading book, is shown in the chart below. Average total VaR was slightly lower in 2012 than in 2011, primarily because of a reduced exposure to changes in interest rates.

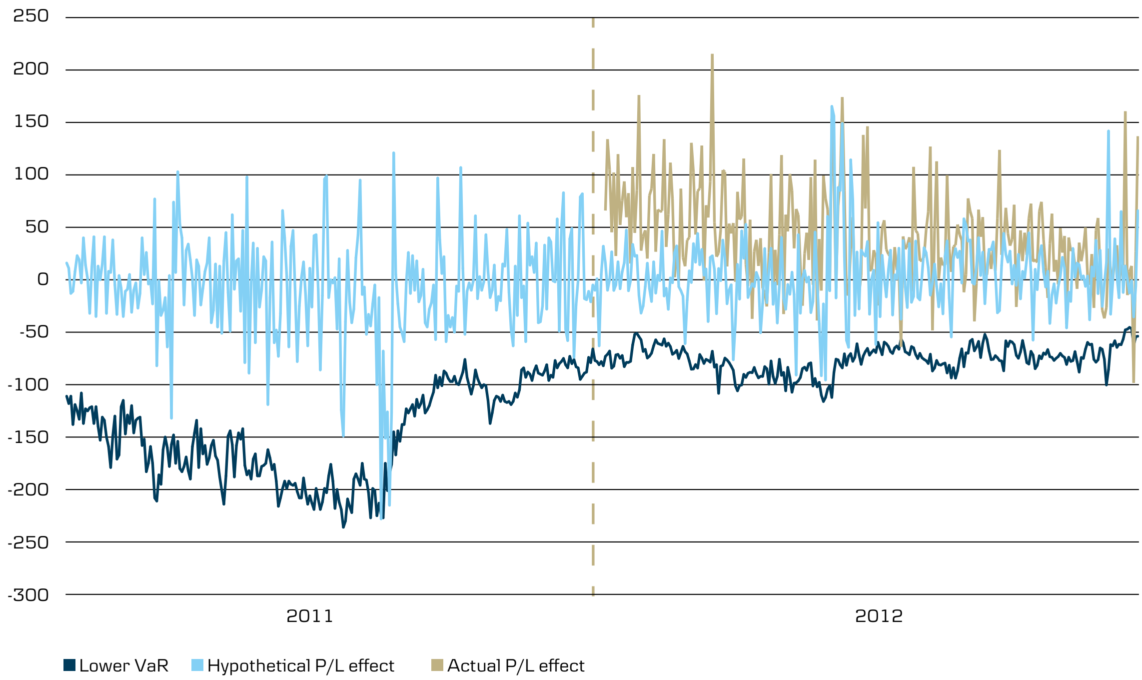
DAILY VaR 2011 AND 2012 (CONFIDENCE LEVEL OF 95%, 10-DAY HORIZON)
(DKK millions)



6.10.1 Backtesting

The Group conducts backtests daily to document the accuracy 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 backtesting 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 2011 and 2012 are shown in the chart below.

BACKTEST RESULTS, P/L EFFECT
(DKK millions)



In both 2011 and 2012, the VaR model showed two exceptions in the backtest, and this was acceptable in relation to the expected number of exceptions. An analysis of the individual exceptions in 2012 showed that they were caused by large changes in yields in the financial markets.

6.10.2 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 is subject to approval by the FSA; the period currently used is December 2008 to November 2009.

As a supplement to the daily calculation of VaR and 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. In addition, some scenarios are constructed so that they are consistent with the set of scenarios that is applied across the Group's business units.

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.

6.11 MODEL VALIDATION

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 2012 (DKK millions)	Quoted prices	Observable input	Unobservable input	Total
Financial assets				
Derivatives	2,843	390,406	15,741	408,990
Trading portfolio, bonds	384,075	16,666	-	400,741
Trading portfolio, shares	2,675	-	521	3,196
Investment securities, bonds	85,317	11,013	-	96,330
Investment securities, shares	52	-	3,032	3,084
Assets held for sale	-	-	-	-
Loans and advances at fair value	-	732,762	-	732,762
Assets under pooled schemes and unit-linked investment contracts	70,625	-	-	70,625
Assets under insurance contracts, bonds	149,514	2,133	586	152,233
Assets under insurance contracts, shares	48,442	647	6,641	55,730
Assets under insurance contracts, derivatives	2,397	3,696	-	6,093
Total	745,940	1,157,323	26,521	1,929,784
Financial liabilities				
Derivatives	3,313	369,475	15,908	388,696
Obligations to repurchase securities	142,965	189	10	143,164
Liabilities held for sale	-	-	-	-
Bonds issued by Realkredit Danmark	614,325	-	-	614,325
Deposits under pooled schemes and unit-linked investment contracts	-	78,741	-	78,741
Total	760,603	448,405	15,918	1,224,926

At 31 December 2011 (DKK millions)	Quoted prices	Observable input	Unobservable input	Total
Financial assets				
Derivatives	3,948	529,305	17,717	550,970
Trading portfolio, bonds	348,141	9,953	-	358,094
Trading portfolio, shares	348	-	343	691
Investment securities, bonds	86,374	8,772	-	95,146
Investment securities, shares	133	-	2,587	2,720
Assets held for sale	-	-	-	-
Loans and advances at fair value	-	720,741	-	720,741
Assets under pooled schemes and unit-linked investment contracts	61,888	-	-	61,888
Assets under insurance contracts, bonds	144,855	2,491	151	147,497
Assets under insurance contracts, shares	43,524	526	4,728	48,778
Assets under insurance contracts, derivatives	1,085	3,528	-	4,613
Total	690,296	1,275,316	25,526	1,991,138
Financial liabilities				
Derivatives	4,368	510,721	18,972	534,061
Obligations to repurchase securities	163,092	743	17	163,852
Liabilities held for sale	-	-	-	-
Bonds issued by Realkredit Danmark	557,699	-	-	557,699
Deposits under pooled schemes and unit-linked investment contracts	-	69,211	-	69,211
Total	725,159	580,675	18,989	1,324,823

Group Market Risk in Group Finance & Legal is responsible for validating the models developed by the Group. 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.

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 the end of each month and once during the month.

The results and potential corrections from the market data validation process are submitted to the managements of Group Finance & Legal 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 the Executive Board.

7. LIQUIDITY RISK

Liquidity risk is the risk of losses arising because funding costs increase disproportionately, lack of funding prevents the Group from establishing new business, or lack of funding prevents the Group from meeting its obligations.

7.1 REVIEW OF 2012

In the first half of 2012, the financial markets were under pressure because of the ongoing European sovereign debt crisis and continuing attention on the issue of liquidity in the international banking system. This occasionally caused tensions in the funding markets.

The strong involvement of the European Central Bank (ECB) and other central banks in handling the sovereign debt crisis helped improve market sentiment in the second half of 2012. In July 2012, the ECB said that it undoubtedly had sufficient means to handle the crisis, and in September 2012, it introduced a sovereign debt purchase programme. The ECB had previously intervened with its three-year Longer-Term Refinancing Operation (LTRO) in December 2011 and February 2012. At the end of 2012, the Group had drawn a total of about DKK 40 billion on the LTRO facility.

Following the ECB, the Danish central bank supplemented its monetary policy instruments with a temporary opportunity for banks and mortgage banks to raise liquidity through a three-year lending facility. Danske Bank borrowed DKK 15 billion and DKK 20 billion at auctions in March 2012 and September 2012, respectively.

These initiatives enhanced European banks', including Danske Bank's, access to longer-term financing. In the second half of 2012, spreads tightened further, and the funding markets eased even further.

7.1.1 Rating situation

In February 2012, some 114 European banks, including Danske Bank, were put on review for a downgrade by Moody's Investor Service (Moody's). Danske Bank was on review for up to a three-notch downgrade. Because of this outlook, Danske Bank initiated a number of mitigating actions.

From April to June 2012, Moody's downgraded several European banks, including Danske Bank. On 30 May 2012, Danske Bank's long-term rating was downgraded two notches, from A2 to Baa1, and the short-term rating was downgraded one notch, from P-1 to P-2. Moody's changed the Bank's outlook from negative to stable.

At the same time, Danske Bank's long- and short-term ratings were downgraded one notch by Standard & Poor's (S&P), from A/A-1 to A-/A-2, respectively. S&P's rating outlook was also changed from negative to stable.

The need to monitor funding sources particularly sensitive to rating downgrades became clearer. This included a close monitoring of the trend in the issuance of commercial paper (CP), unsecured deposits from central banks, interbank funding and time deposits from large corporate customers.

In order to mitigate a potential loss of short-term funding capacity and to ensure compliance with liquidity requirements, the Group undertook mitigation initiatives such as senior bond and covered bond issuance. However, the effect of the downgrades was less severe than the scenario on which the mitigation plan was based, although some short-term money market deposits as well as short-dated bonds were not renewed.

In the beginning of November 2012, after the Group's issuance of both tier 2 capital and new equity, S&P changed Danske Bank's rating outlook from stable to positive.

DANSKE BANK'S RATINGS, END-2012

CREDIT RATING TYPE	Moody's	Standard & Poor's	Fitch Ratings
Short-term	P-2	A-2	F1
Long-term	Baa1	A-	A
Outlook	Stable	Positive	Negative
Covered bonds	Not rated	AAA	AAA

7.1.2 Funding

Danske Bank continued to issue long-term debt throughout 2012 in order to maintain and continually build up its liquidity reserve. It issued senior unsecured debt totalling DKK 33 billion and covered bonds totalling DKK 28 billion, excluding covered bonds issued to enhance its liquidity buffer. In addition, Realkredit Danmark issued DKK 22 billion of senior debt. The Group redeemed its remaining state-guaranteed bond issues as planned at the end of July 2012.

Danske Bank also issued about DKK 6 billion of subordinated debt (tier 2 capital) in September 2012 as a step in the ongoing adjustment of its capital structure to the future European capital requirements for banks.

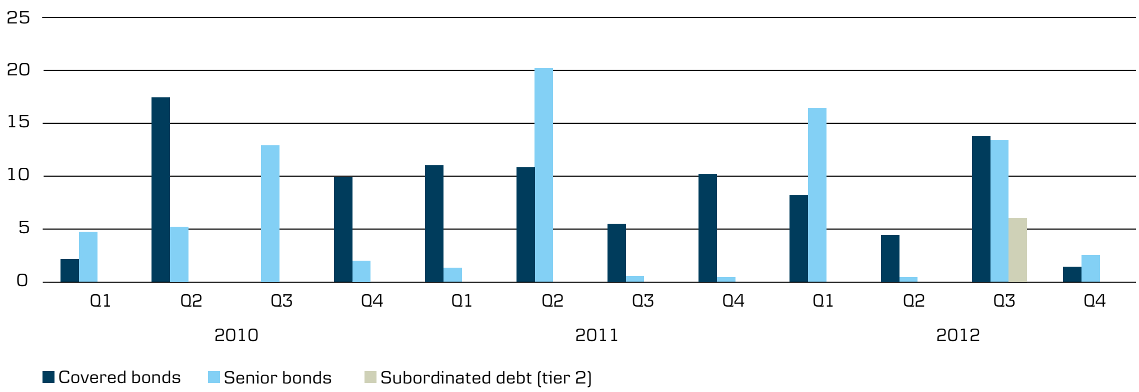
As a result of the downgrade of the Group's ratings and the nervous market sentiment, Danske Bank made an agreement with the Danish Financial Supervisory Authority (FSA) to accelerate compliance with the expected EU rules on the Liquidity Coverage Ratio (LCR) in 2012 and to take other measures. From 2013, Danske Bank will ensure that it has an LCR of at least 110%.

It is important to emphasise, however, that Danske Bank's liquidity level remained strong throughout 2012.

At the end of 2012, the Group's LCR was 121%, and the Group therefore achieved compliance with the requirement. The Group met the requirement by lengthening its funding profile, changing the composition of its liquidity buffer, and counting holdings of covered bonds and Danish mortgage bonds, including own issued bonds. The Group will include these holdings in the ratio until the European Banking Authority's (EBA) final guidelines are announced before implementation in 2015.

Moreover, the Group will continue to ensure that it has a prudent ratio between lending and long-term funding.

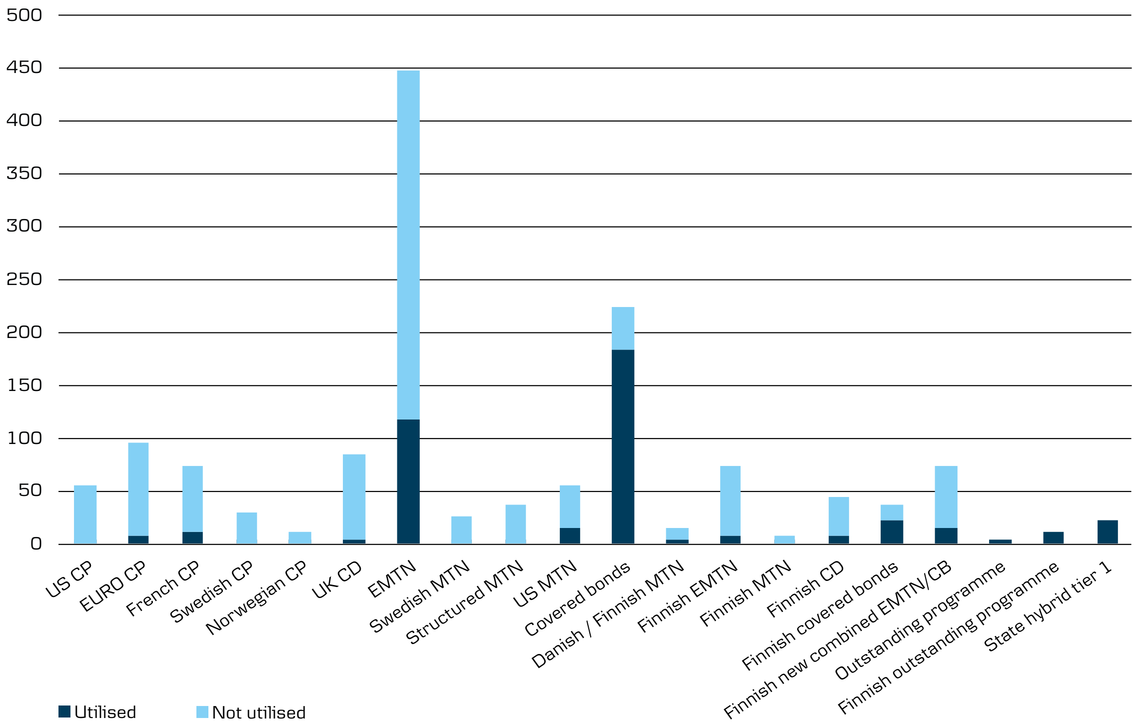
DEBT ISSUANCE, BY QUARTER
(DKK billions)



At the end of 2012, the Group's total amount of outstanding long-term funding was DKK 355 billion, against DKK 378 billion at the end of 2011, excluding senior debt issued by Realkredit Danmark. The funding consisted of DKK 120 billion of senior unsecured debt (end-2011 DKK 162 billion), DKK 68 billion of subordinated debt (end-2011 DKK 66 billion) and DKK 167 billion of covered bonds (end-2011 DKK 150 billion).

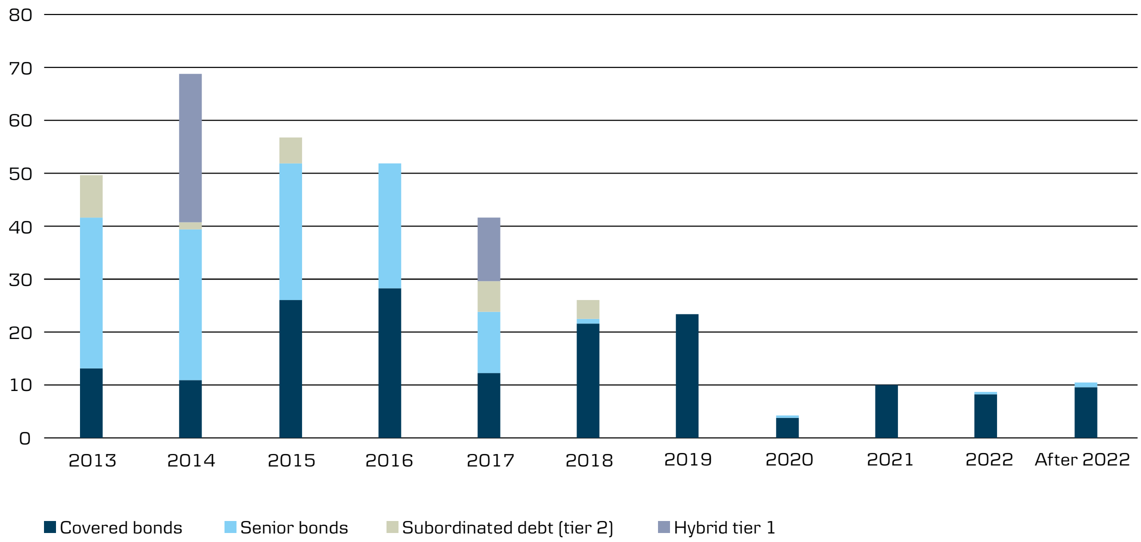
In 2013, funding will be raised through Danske Bank's medium- and long-term funding programmes. For long-term funding, the most important programmes are the European Medium Term Note (EMTN) and covered bond programmes, including the one at Danske Bank's subsidiary in Finland. Covered bonds are generally used for maturities longer than five years, while senior funding is used for shorter maturities.

UTILISATION OF LONG- AND SHORT-TERM PROGRAMMES AVAILABLE, END-2012
(DKK billions)



Danske Bank 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 the markets come under pressure. The maturity profile for 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 FOR LONG-TERM FUNDING, END-2012
(DKK billions)



7.1.3 Liquidity strategy 2013

The Group follows developments in the regulatory environment closely in order to optimise its liquidity management framework and liquidity position and to remain in compliance with regulatory standards.

Funds Transfer Pricing (FTP) has also gained much attention in the Group because of the coming regulations on liquidity buffer requirements (CRD IV) and the EBA's guidelines for FTP. The overall purpose of the revision of the Group's FTP model that was implemented in January 2013 was to distribute liquidity costs in a closer proportion to the origination of the costs across relevant business units, products and customers. The pricing of assets and liabilities must reflect both their normal and stressed behaviour.

7.2 LIQUIDITY RISK MANAGEMENT

Taking on liquidity risks is an integral part of Danske Bank's business strategy.

The Board of Directors determines the overall approach to liquidity risk, including the Group's liquidity risk exposure profile and liquidity risk limits. The approach addresses the following:

- A certain survival horizon is required to ensure that the Group's liquidity buffer is large enough to cover cash obligations in the near future and to withstand a prolonged period of liquidity stress
- The Group's market reliance will be determined by a set of funding metrics

The daily management of liquidity is monitored by Group Treasury and is anchored in two committees: the Asset & Liability Management Committee and the All Risk Committee. Corporates & Institutions is responsible for day-to-day liquidity management, while Internal Audit reviews the effectiveness of the Group's risk management on a regular basis.

Realkredit Danmark and Danica Pension each manage their liquidity separately and are thus not included in the Group's liquidity reporting. At Realkredit Danmark, the financing of mortgage loans by the issuance of listed mortgage bonds with matching conditions has eliminated liquidity risk in all material respects. Danica's balance sheet contains 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.

7.2.1 Internal measures

At the group level, internal liquidity management is based on the monitoring and management of the Group's short- and long-term liquidity risks.

Liquidity triggers are a vital part of the daily liquidity management, since they are used as early warning indicators of a possible liquidity crisis. The triggers are monitored by various functions across the Group depending on the type of trigger. In addition, liquidity management is structured by the framework described in the following sections, although it is not limited to this framework.

Survival horizon

The Group's short-term risk management is intended principally to ensure that the Group always has a liquidity buffer that, in the short term, is sufficient to absorb the net effects of known future receipts and payments from current transactions. Bond holdings that can be used in repo agreements with central banks are considered liquid assets. To take account of the potential risk of drawings under irrevocable loan commitments, 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 Asset & Liability Management Committee has set overnight targets for each key currency.

Survival horizon under stress

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 estimate liquidity risk in 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-fail" 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.

Most of the Group's unencumbered bond holdings can be used as collateral for loan facilities with central banks and are thus considered liquid assets. Scenario-specific haircuts are used on the bond portfolio.

Market reliance

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 analysis indicates that they are very stable over time.

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

COMPOSITON 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	2012 Total	2011 Total
Deposits from credit institutions and central banks	287	86	18	77	-	468	396
CDs and CP	14	13	10	-	-	37	69
Senior unsecured MTNs	2	2	24	88	4	120	162
Covered bonds	-	-	13	110	98	221	161
Subordinated liabilities	-	3	4	52	5	64	63
Total	303	104	69	327	107	910	851
Breakdown							
Secured	127	60	11	41	-	239	233
Unsecured	176	44	58	286	107	671	618

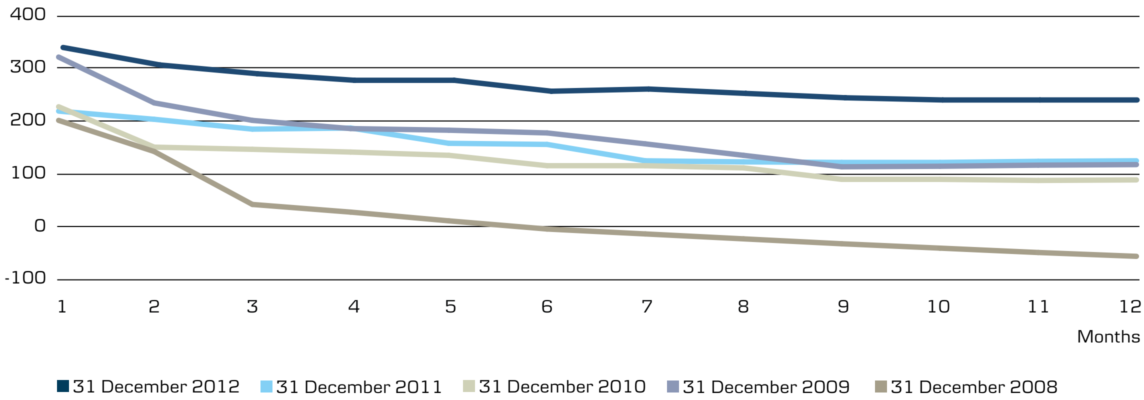
Note: Wholesale funding is measured at nominal values as opposed to the treatment in section 7.1, where it is measured at amortised cost. Covered bonds issued to enhance the Group's liquidity buffer are included. Repo transactions are not netted.

It is relevant to analyse on a ongoing basis the Group's survival without access to funding markets. The market-reliance analysis assumes the following:

- The Group is cut off from the 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.
- The stable deposit base will remain available as a funding source.
- 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 buffer is sufficient to close any liquidity gap if all capital markets are closed and refinancing is impossible. The Group monitors its liquidity buffer continually to ensure a survival period of at least 12 months in a scenario such as this one.

TWELVE-MONTH LIQUIDITY
(DKK billions)



Liquidity buffer

The Group manages its liquidity buffer so as to ensure compliance with international and national regulatory requirements and internal limits determined by stress tests.

The Group's liquidity buffer is defined as the assets available to 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 buffer without haircuts. The liquidity value of the buffer depends on the specific purpose. For regulatory purposes, the haircuts applied to determine the liquidity value are defined by regulators, whereas for internal stress testing purposes, the haircuts are defined on the basis of a set of given parameters depending on the specific scenario in question.

NOMINAL VALUE OF THE LIQUIDITY BUFFER AVAILABLE TO THE GROUP

(DKK billions)	
Cash and holdings at central banks	102
Securities issued or guaranteed by sovereigns, central banks or multilateral development banks	58
Covered bonds (including mortgage bonds)	243
issued by other institutions	175
own issued	68
Other	22
2012 total	425
2011 total	385

The Group's bond holdings are considered highly liquid, not least because most of them can be used in repo agreements with central banks. Central bank eligibility is vital for intraday liquidity needs and overnight liquidity facilities and also for defining liquidity in markets during stressed periods. While central bank eligibility is a positive factor, it is not necessarily the only parameter used to define the liquidity value of a buffer. External credit ratings are another parameter.

Asset encumbrance

Asset encumbrance, or the percentage of assets that has been 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.

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

The Group's asset encumbrance comes from a number of activities:

- 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 transactions. The Group's repo activity consists of business-driven transactions that can be wound down 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 derivative and clearing transactions, where pledging collateral is an operational requirement to support business activities.

The table below shows asset encumbrance as percentages 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 order to avoid double counting.

ASSET ENCUMBRANCE AS A PERCENTAGE OF TOTAL ASSETS

	Assets pledged as collateral for			Assets pledged through		
At 31 December 2012 (%)	Covered bond issuance	Repo transactions	Derivatives and clearing transactions	Realkredit Danmark	Danica	Total
Danske Bank A/S	11.3	17.5	6.7			35.5
Danske Bank Group	8.7	9.4	3.4	23.1	8.2	52.8

Note: In this table, Danske Bank Group means the entire group as presented in Annual Report 2012. When asset encumbrance is measured as a percentage of total assets, total assets exclude the amount of derivatives with positive fair value that could be netted under master netting agreements according to the Capital Requirements Directive. The methodology used for asset encumbrance in this table is consistent with the methodology used in Annual Report 2012, notes 37 and 38.

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 are not effectively issued.

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 derivative postings.

Assets that Danske Bank A/S has received as collateral through reverse repo transactions represent 15.3%, and assets received through derivative postings represent 3.1%.

Assets that Danske Bank Group has received as collateral through reverse repo transactions represent 9.6%, and assets received through derivative postings represent 2.2%.

Additional contractual obligations

Through a number of mutually binding agreements, the Group has undertaken to provide collateral if the fair value of current transactions changes to its detriment.

The Group has entered into agreements in which the counterparty has made it a condition that the Group maintain its present rating. A downgrade could mean that the obligations under the contracts in question must be fulfilled before maturity or that collateral must be provided in the form of securities or cash. 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 PRESENT RATINGS ARE DOWNGRADED, END-2012

	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	P-2	A-2	F1	Baa1	A-	A	
Scenario 1	P-2	A-2	F1	Baa2 (▼1)	BBB+ (▼1)	A- (▼1)	4.5
Scenario 2	P-2	A-2	F1	Baa3 (▼2)	BBB (▼2)	BBB+ (▼2)	4.7
Scenario 3	P-3 (▼1)	A-3 (▼1)	F2 (▼1)	Baa3 (▼2)	BBB (▼2)	BBB+ (▼2)	4.7
Scenario 4	P-3 (▼1)	A-3 (▼1)	F2 (▼1)	Ba1 (▼3)	BBB- (▼3)	BBB (▼3)	6.9

7.2.2 Regulatory measures

The regulatory focus on liquidity management continued throughout 2012 at the international and national levels.

International regulations

Internationally, attention remained focused on the Basel Committee's liquidity ratios, that is, the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

The LCR stipulates that banks must have a liquidity buffer that ensures a survival horizon of at least 30 calendar days in the case of a seriously stressed liquidity situation.

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.

In Europe, the revision of the Capital Requirements Directive (CRD IV) is moving ahead. The focus is on the LCR, but the definition of the LCR is still awaiting additional technical guidance from the EBA. Nevertheless, it is of great significance in the measurement of the Group's liquidity buffer with the LCR that the CRD IV proposal enables most of the Group's holdings of covered bonds, including Danish mortgage bonds, to be classified as level 1 liquid assets, on par with Danish government bonds, for example.

In January 2013, the Basel Committee issued revisions to its guideline for the LCR. The revisions include a phasing-in of the minimum requirement in which it will be set at 60% in 2015 and rise in equal annual steps to 100% on 1 January 2019. The revisions also include an expansion of the pool of level 2 liquid assets that can be counted in the liquidity buffer and a reduction of the weights assigned to certain liquidity outflows.

In the context of CRD IV, it is unclear how the EU authorities will choose to incorporate or modify the Basel Committee's revisions to the LCR. The Basel Committee's revisions are therefore not incorporated in the Group's reported LCR. If the Basel Committee's revisions are to be incorporated in CRD IV, and if CRD IV still enables most of the Group's holdings of covered bonds, including Danish mortgage bonds, to be classified as level 1 liquid assets, these revisions are expected to have a positive effect on the Group's LCR.

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 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 capital base

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 2012, Danske Bank A/S's excess liquidity coverage ratios were 170% and 167%, respectively, above the regulatory requirements.

As early as in the second half of 2011, the Danish central bank expanded the eligible collateral to include banks' Danish credit claims of good quality. The Group identified eligible credit claims amounting to a loan value of DKK 27 billion. These credit claims are included in the calculation of the percentages required under section 152, even though they are not actually pledged to the central bank.

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 under 1.00. At the end of 2012, Danske Bank A/S's ratio was 0.68.

8. OPERATIONAL RISK

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.

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.

The Group's operational risk management process involves a structured and uniform approach across the Group. It includes risk identification and assessments, the monitoring of risk indicators, controls and risk mitigation plans for key operational risks.

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 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 2012, operational risks accounted for 9.2% of the Group's risk-weighted assets. In 2012, the Group focused on the adequacy of key controls to mitigate group-wide operational risks and also continued to expand day-to-day operational risk management in all subsidiaries, business units and support functions.

The Group's chief operating officer (COO) is the chairman of the Operational Risk Committee. The committee's general responsibilities are, on behalf of the Executive Board, to issue guidelines and make decisions that support a group-wide operational risk management framework. Danske Bank's Board of Directors is involved in important decisions about operational risks, including instances of significant operational losses. The Board of Directors also receives reporting on the Group's operational risks 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 sets 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's 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: Customers, products and business practices; Business disruption and system failures; External fraud; and Internal fraud.

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 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 risks, which is signed off by the Operational Risk Committee. When risk owners are determined, the process begins for reviewing and documenting detailed assessments of each risk's key controls and identifying key risk indicators 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, audit remarks, and other relevant risk indicators.

RISK ASSESSMENT PROCESS FROM RISK IDENTIFICATION TO RESPONSE

UNIT	PROCESS
Business units, subsidiaries and support functions	Risk identification and assessment
Group Operational Risk	Compilation of list of key risks and determination of risk owner
Operational Risk Committee	Sign-off on key risks
Risk owner	Identification of key controls; Documentation of business processes and procedures; Identification of key risk indicators
Business units, subsidiaries and support functions	Performance of key controls; Registration of losses
Group Operational Risk	Review and risk reporting escalation

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.

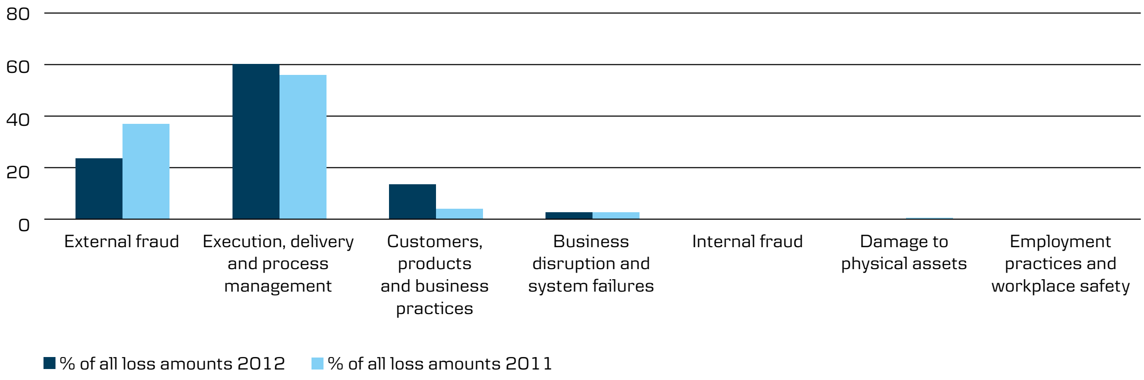
The Group's operational risk losses are registered in the Operational Risk Information System (ORIS). Losses are categorised according to the Basel II event categories for operational risk. Operational risk events that entail losses of DKK 25,000 or more are registered in ORIS.

Measured by the number of events, External fraud and Execution, delivery and process management accounted for most of the losses in 2012. External fraud accounted for 59%, and Execution, delivery and process management accounted for 35% of total loss events, respectively, against 61% and 33% in 2011. External fraud consists of events such as 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 NUMBER OF LOSS EVENTS
(%)

Measured by amount, External fraud accounted for 24% and Execution, delivery and process management for 60% of the total operational risk loss in 2012, against 37% and 56%, respectively, in 2011.

BREAKDOWN OF LOSS AMOUNTS
(%)



9. INSURANCE RISK

Insurance risk in Danske Bank Group consists of all the 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 the 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 mortality, disability, critical illness and the like.

The decline in interest rates that the market experienced in 2011 continued in the first six months of 2012. Long European yields fell to a record low. Investor interest in Danish government bonds lowered the yields on these bonds further. The low yields increased pension companies' need for hedging, and since the European market for long-dated bonds was not liquid, this demand pushed long yields further down. Because of this, Danish insurance companies saw a substantial rise in life insurance provisions.

The Danish Ministry of Business and Growth therefore made an agreement with the insurance and pension industry to change the discount yield curve used for long yields. This aligns the Danish rules more closely with the expected Solvency II rules. The agreement took effect on 12 June 2012, and the change reduced Danica Pension's life insurance provisions by DKK 1.0 billion at 31 December 2012.

The agreement also placed a ceiling of 2% on the rate of interest on policyholders' savings until 1 January 2014, and it limited the possibility of distributing dividends to shareholders.

In addition, Danica Pension is still levying a charge on the transfer and surrender of pension savings for the Low Guarantees interest rate group.

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 on the income statement. 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 contribution group's collective bonus potential and bonus potential of paid-up policies, however, funds will be allocated from equity. The funds allocated will be deferred to a shadow account and booked in a year when the technical basis permits (see explanation below).

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 risk allowance permits it and the bonus potential of paid-up policies is not used for loss absorption. The technical basis for 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 deferred to a shadow account and booked in a year when the technical basis for risk allowance so permits. All profits and losses after interest payments to policyholders, risk allowance and changes in insurance provisions are added to the collective bonus potential.

According to the Danish FSA's Executive Order on the Contribution Principle, Danica Traditionel insurance policies must be divided into groups with generally the same interest rates (the "interest rate groups"), insurance risk and expenses. In addition, the policyholders' capital buffer, also called the collective bonus potential, is divided among these groups. Danica therefore has individual investment and hedging strategies for each group. Finally, 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 THE DANICA GROUP

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

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, with unit-linked policies in Denmark, Sweden and Norway accounting for a smaller share.

TWO TYPES OF LIFE INSURANCE PRODUCTS 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 rate of interest set and the return on policyholders' savings in a given year is added to the collective bonus potential and can be used as a buffer.

Danica's with-profits policies are called *Danica Traditionel*.

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

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-linked 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 with financial derivatives.

Danica's foreign activities account for 11% 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 2012 (DKK billions)	With-profits policies						
	New customers	Low guarantee	Medium guarantee	High guarantee	Unit-linked	Health and accident insurance	Other
Collective bonus potential	0.1	-	0.5	-	-	-	0.3
Bonus potential of paid-up policies	1.8	0.1	0.1	0.1	-	-	-
Other provisions	47	23.1	16.3	92.5	65.4	8.7	1.5
Provisions for insurance and investment contracts	48.9	23.2	16.9	92.6	65.4	8.7	1.8

At 31 December 2011 (DKK billions)	With-profits policies						
	New customers	Low guarantee	Medium guarantee	High guarantee	Unit-linked	Health and accident insurance	Other
Collective bonus potential	-	-	0.1	0.1	-	-	0.2
Bonus potential of paid-up policies	3.6	-	0.2	0.2	-	-	-
Other provisions	46.1	22.1	15.7	92.5	51.8	8.4	1.5
Provisions for insurance and investment contracts	49.7	22.1	16.0	92.8	51.8	8.4	1.7

9.3 CONTROL AND MANAGEMENT

Danica's Board of Directors defines the overall principles for Danica's risk management, and the 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. The 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, property values, credit spreads and market liquidity as well as by 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 interest rate instruments. The bond portfolio therefore consists of a broad range of interest-based 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 euro swaps, for example.

The exposure to government bonds issued by Ireland, Italy and Spain is managed on an ongoing basis. At the end of 2012, it amounted to DKK 8.1 billion (2011: DKK 7.3 billion). The bond portfolio contained no Greek government bonds.

Credit spread risk is limited. At the end of 2012, about 74% 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 9% of the portfolio was invested in non-investment-grade bonds. This risk is managed in a way similar to the way 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 not covered by the bond portfolio is hedged with financial derivatives.

Early transfer or surrender by policyholders may force Danica to sell some of its holdings 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 and counterparty 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 Danish kroner and euros, and almost all non-euro currency risk is hedged.

BOND HOLDINGS BROKEN DOWN BY COUNTRY

At 31 December 2012 (DKK millions)	Central and local government bonds	Quasi-government bonds	Danish mortgage bonds	Swedish covered bonds	Other covered bonds	Short-dated bonds (CP etc.)	Corporate bonds	Total
Denmark	14,568	17	46,399	-	5,003	-	3,432	69,419
Sweden	119	-	-	924	-	-	3,956	4,999
UK	253	-	-	-	1,633	-	1,686	3,572
Norway	110	-	-	-	640	-	2,134	2,884
USA	482	-	-	-	16	-	7,908	8,406
Spain	1,326	667	-	-	1,021	-	776	3,790
France	8,735	76	-	-	2,731	-	2,255	13,797
Luxembourg	-	915	-	-	-	-	1,247	2,162
Canada	30	-	-	-	22	-	220	272
Finland	517	-	-	-	608	-	289	1,414
Ireland	373	287	-	-	151	-	485	1,296
Italy	6,418	-	-	-	349	-	458	7,225
Portugal	8	-	-	-	-	-	16	24
Austria	1,380	75	-	-	207	-	46	1,708
The Netherlands	2,874	-	-	-	1,216	-	2,557	6,647
Germany	6,530	980	-	-	504	-	1,280	9,294
Other	7,260	70	-	-	62	-	7,932	15,324
Total	50,983	3,087	46,399	924	14,163	-	36,677	152,233

At 31 December 2011 (DKK millions)	Central and local government bonds	Quasi-government bonds	Danish mortgage bonds	Swedish covered bonds	Other covered bonds	Short-dated bonds (CP etc.)	Corporate bonds	Total
Denmark	10,341	26	56,598	-	5,112	-	681	72,758
Sweden	220	-	-	845	-	-	433	1,498
UK	-	-	-	-	1,399	-	1,456	2,855
Norway	-	-	-	-	372	-	156	528
USA	-	-	-	-	15	-	5,888	5,903
Spain	1,477	1,183	-	-	534	-	771	3,965
France	9,915	5	-	-	1,469	-	1,222	12,611
Luxembourg	26	2,066	-	-	-	-	716	2,808
Canada	-	-	-	-	36	-	165	201
Finland	653	-	-	-	486	-	62	1,201
Ireland	281	246	-	-	-	-	268	795
Italy	5,513	226	-	-	243	-	341	6,323
Portugal	-	-	-	-	-	-	33	33
Austria	-	-	-	-	-	-	70	70
The Netherlands	2,364	-	-	-	968	-	1,925	5,257
Germany	12,355	1,393	-	-	425	-	656	14,829
Other	6,642	93	-	-	185	-	7,136	14,056
Total	49,787	5,238	56,598	845	11,244	-	21,979	145,691

BOND HOLDINGS BROKEN DOWN BY RATING

At 31 December 2012 (DKK millions)	Central and local government bonds	Quasi-government bonds	Danish mortgage bonds	Swedish covered bonds	Other covered bonds	Short-dated bonds (CP etc.)	Corporate bonds	Total
AAA	35,375	2,241	35,273	924	8,637	-	548	82,998
AA+	-	-	-	-	109	-	299	408
AA	2,074	-	-	-	33	-	123	2,230
AA-	47	34	1,539	-	210	-	1,285	3,115
A+	85	-	46	-	143	-	1,641	1,915
A	884	-	15	-	559	-	2,466	3,924
A-	6,928	-	-	-	690	-	2,425	10,043
BBB+	861	-	-	-	75	-	2,042	2,978
BBB	2,154	701	-	-	3,603	-	2,847	9,305
BBB-	1,127	-	-	-	86	-	1,377	2,590
Sub-investment-grade or not rated	1,448	111	9,526	-	18	-	21,624	32,727
Total	50,983	3,087	46,399	924	14,163	-	36,677	152,233

At 31 December 2011 (DKK millions)	Central and local government bonds	Quasi-government bonds	Danish mortgage bonds	Swedish covered bonds	Other covered bonds	Short-dated bonds (CP etc.)	Corporate bonds	Total
AAA	38,850	4,010	32,606	845	8,180	-	384	84,875
AA+	1,628	-	5,870	-	126	-	81	7,705
AA	34	-	-	-	69	-	184	287
AA-	1,477	1,183	-	-	-	-	1,116	3,776
A+	5,513	8	-	-	-	-	588	6,109
A	565	11	-	-	2,869	-	1,302	4,747
A-	381	-	-	-	-	-	1,215	1,596
BBB+	414	-	-	-	-	-	1,267	1,681
BBB	228	-	-	-	-	-	2,133	2,361
BBB-	304	-	-	-	-	-	994	1,298
Sub-investment-grade or not rated	393	26	18,122	-	-	-	12,715	31,256
Total	49,787	5,238	56,598	845	11,244	-	21,979	145,691

Unit-linked business

Approximately 85% 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, of which most are related to Danica Balance, the policyholders have an investment guarantee against negative returns. The guarantee is paid for by an annual fee and cannot be exercised until the time of retirement.

In *Danica Link*, Danica manages the risks on the guarantees by hedging with derivatives, for example, and by adjusting the investment allocation during the last five years before maturity.

In *Danica Balance*, it manages the risks on the guarantees by adjusting the allocation of equities and alternative investments for the individual policies. The adjustments ensure that the policy investments can withstand a substantial decline in equities and alternative investments without bringing the guarantee in the money.

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 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 obligations and make relevant business adjustments. For life insurance policies, Danica calculates the insurance obligations 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 obligations 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 and business risks

Operational risk is the risk of losses resulting from inadequate internal processes, human or system errors, or external events. It includes legal risk. Danica manages operational risk through internal controls and standard operating procedures that are updated regularly to reflect the current business environment. Business risk is defined as strategic risk, reputational risk and other risks related to external factors. 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. Model risk is the risk of losses arising because models, methods and parameters used for risk management are less efficient or accurate than expected. Danica monitors model risk by comparing model results with actual market results on an ongoing basis.

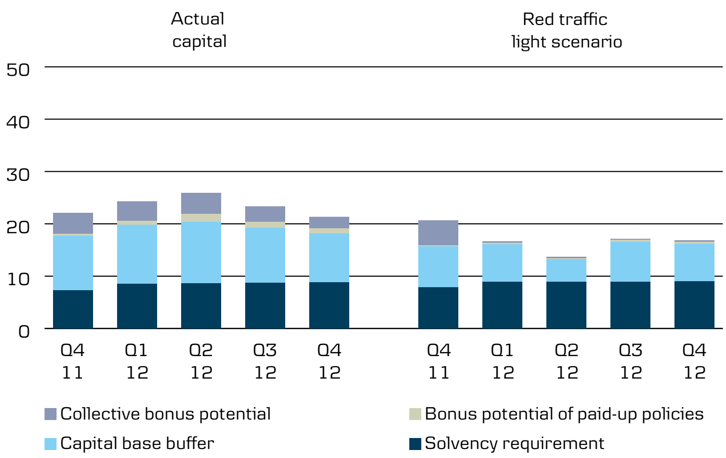
9.4 STRESS TESTING

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 risk. A company is said to have red light status if its capital base makes up less than 1% of the 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 capital base, as well as on the collective bonus potential and the bonus potential of paid-up policies, caused by each of the stress tests in the red traffic light scenario. Credit 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 2012 (DKK billions)	Change in collective bonus potential	Change in bonus potential of paid-up policies	Change in capital base	Total
Interest rate increase of 0.7 of a percentage point	-0.3	-1.4	-0.9	-2.6
Interest rate decline of 0.7 of a percentage point	-0.6	-0.1	-1.8	-2.5
Decline in equity prices of 12%	-0.3	-1.1	-0.4	-1.8
Decline in property prices of 8%	-0.2	-0.4	-0.8	-1.4
Foreign exchange risk (VaR 99.5%)	-0.2	-0.2	-0.2	-0.6
Loss on counterparties of 8%	-0.3	-0.7	-1.1	-2.1
Increase in credit spreads of 1.0 percentage point	-0.3	-0.5	-0.5	-1.3
Decrease in mortality of 10%	-0.2	-0.1	-1.6	-1.9
Increase in mortality of 10%	1.7	-	-	1.7
Increase in disability of 10%	-	-	-0.1	-0.1

At 31 December 2011 (DKK billions)	Change in collective bonus potential	Change in bonus potential of paid-up policies	Change in capital base	Total
Interest rate increase of 0.7 of a percentage point	-0.2	3.1	-0.5	2.4
Interest rate decline of 0.7 of a percentage point	0.9	-2.5	0.1	-1.5
Decline in equity prices of 12%	-0.1	-0.8	-0.3	-1.2
Decline in property prices of 8%	-0.2	-0.5	-0.8	-1.5
Foreign exchange risk (VaR 99.5%)	-0.1	-0.1	-0.1	-0.3
Loss on counterparties of 8%	-0.2	-0.6	-1.2	-2.0
Increase in credit spreads of 1.0 percentage point	-0.1	-0.3	-0.4	-0.8
Decrease in mortality of 10%	-0.2	-0.2	-1.5	-1.9
Increase in mortality of 10%	1.6	0.1	-	1.7
Increase in disability of 10%	-0.1	-	-	-0.1

For example, a 12% decline in equity prices results in a total loss of DKK 1.8 billion, of which the collective bonus potential and the bonus potential of paid-up policies absorb DKK 1.4 billion. The remaining loss of DKK 0.4 billion is covered by equity included in the capital base.

9.5 CAPITAL REQUIREMENT

Danica is subject to the capital requirement in the solvency rules for insurance companies. At 31 December 2012, Danica's capital requirement was DKK 8.8 billion, against DKK 8.5 billion at the end of 2011.

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 a capital base equal to or greater than the larger of the regulatory capital requirement and the solvency need.

Danica has developed a model for stress testing 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. Because of Danica's decision to convert to the new discount yield curve, the Danish FSA requires that Danica's solvency need calculations also include stress testing for a 250-day moving average of the Danish-German government yield spread of 0 basis points. At 31 December 2012, the solvency need was DKK 10.4 billion, against DKK 9.4 billion at the end of 2011.

Danica Pension has an obligation to allocate part of the margin by which Danica Pension's equity exceeds the statutory solvency requirement to certain policyholders who were previously policyholders of Statsanstalten for Livsforsikring (now part of Danica Pension). This applies if the margin exceeds the margin in Statsanstalten for Livsforsikring before the privatisation in 1990. In addition, it is the intention for Danica Pension not to distribute dividends for a period of at least 25 years from 1990. Paid-up capital and interest thereon may, however, be distributed.

Furthermore, under the agreement reached between the Danish Ministry of Business and Growth and the insurance and pension industry in June 2012, Danica Pension may distribute dividends until 1 January 2014 only if its solvency exceeds the minimum requirement by 175%.

Solvency II

Solvency II is the European risk-based solvency regime for insurance companies. It is officially expected to take effect on 1 January 2014, but the exact date of implementation and the possible transitional rules are still being debated. A postponement until 1 January 2015 is thus very likely. The European Commission has suggested that a postponement until 1 January 2016 is also a possibility. A possible solution could be to implement part of the Solvency II reporting regime first and defer the implementation of the new capital requirement methodology. The new capital requirements will be more volatile than the current requirements because they are based on the level of risk rather than volume.

The principles of the final Solvency II rules are relatively certain, even though there is still uncertainty about the valuation of liabilities and the definition of the discount curve for liabilities. These issues may have a large effect on the results. For this reason, it is not yet possible to predict Danica's capital requirement under Solvency II. But Danica does not expect its excess capital base to change significantly under the new rules and their implementation.

10. PENSION RISK

Pension risk consists of the risk that the Group will be liable for additional contributions to defined benefit pension plans for current and former employees. Valuation is uncertain because this type of pension plan entails protracted obligations and is based on actuarial assumptions. 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 because of higher wage growth and pension adjustments
- Longer-than-expected longevity among members

The Group's risk management is intended to reduce risk partly by defining the business objectives, including limits of exposure as measured by Value at Risk (VaR). For accounting purposes, defined benefit pension plans are valued according to IFRS (IAS 19). Before making the year-end IFRS valuation of its pension obligations, Danske Bank Group conducts a full review of the assumptions underlying the calculation. At the end of 2012, the Group made a revaluation of the parameters it uses, including inflation and the discount rate, so that they reflect the current market conditions.

10.1 PENSION PLANS

Basically, there are two types of pension plan: defined contribution and defined benefit pension plans. These two types are described as follows:

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. Accordingly, the employee bears the risk relating to the future pension benefits. The benefits may be influenced, for example, by unfavourable developments in the financial markets that affect the pension assets under management. The Group thus has no pension risk on defined contribution plans, and expenses for contributions to such plans are expensed at the time they are made.

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 upon 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 is typically payable for the rest of the employee's life, and this increases the employer's uncertainty about the amount of the future obligations. The employer's gross obligation, less the value of plan assets, is recognised as a net obligation. The obligation and pension expenses are measured actuarially.

The Group's defined benefit pension obligations consist of pension plans in pension funds in Northern Ireland, 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 2012		Northern Ireland	Ireland	Denmark	Sweden
Pension plan for new employees		Defined contribution	Cash balance	Defined contribution	Hybrid
Status of defined benefit pension plan		Closed to new members in 2004	Closed to new members in 2008	Closed to new members	Open to new members
Gross liability (DKK billions)		8	3	2	2
Assets at fair value (DKK billions)		9	3	2	1
Net assets/net liabilities (DKK billions)		1	0	0	-1
Number of members:	Active	1,299	499	7	1,293
	Deferred	2,033	789	-	1,155
	Pensioners	1,715	402	203	510
	Total	5,047	1,690	210	2,958

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 0.1 billion at 31 December 2012.

More than half of the Group's pension obligations are attributable to the Northern Bank Limited (in Northern Ireland) pension plan. The plan was closed to new members in 2004, and all new hires have since been enrolled in a defined contribution plan. Since then, the defined benefit pension plan has been subject to certain benefit changes, including a change in the future accrual basis from final salary to career average and a change in the basis of funding and awarding discretionary pension increases for pensions in payment.

Future benefit accruals under the Danske Bank Ireland plan were seized in 2010, when all staff were transferred to a so-called "cash balance" plan. The defined benefit plan had been closed to new members since 2008. The cash balance plan can be understood as a defined contribution plan with defined investment returns. Employer and employee contributions are invested on behalf of each member, and a minimum investment return is guaranteed at the outset.

10.2 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 pension funds' boards of directors 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 and inflation risks. 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 2012, VaR was DKK 2,992 million (end-2011: DKK 2,966 million).

The Group's aggregate net pension obligation at the end of 2012 according to IFRS was DKK -906 million, against DKK -155 million a year before. The change was owing mainly to cash contributions and an extraordinary curtailment gain through an adjustment of the Group's pension plans.

DEFINED BENEFIT PENSION PLANS

(DKK millions)	2012	2011
Present value of unfunded pension obligations	214	236
Present value of fully or partly funded pension obligations	14,566	13,167
Fair value of plan assets	15,451	13,945
Net pension obligations at 31 December	-671	-542
Actuarial gains/losses not recognised in the net pension obligations	-235	387
Net pension obligations according to IFRS at 31 December	-906	-155

Average actuarial assumptions at 31 December (%)	2012	2011
Discount rate	4.0	4.7
Return on plan assets	4.0	4.8
Inflation rate	2.1	2.7
Salary adjustment rate	3.3	3.6
Pension adjustment rate	2.4	2.9

Note: Life expectancies of members at 31 December 2012 were assumed to be 86.7 years for a 60-year-old man (end-2011: 86.6 years) and 88.5 years for a 60-year-old woman (end-2011: 88.4 years).

The difference between the Group's net pension obligation (non-corridor) and the net pension obligation according to IFRS was owing to accumulated negative market value adjustments of DKK -235 million. These adjustments included changes in actuarial assumptions, such as a revised discount rate and new inflation and salary growth estimates, which are not taken into account in the IFRS obligation because the Group uses the corridor principle set out in IAS 19.

In June 2011, the IASB reissued IAS 19, Employee Benefits. The amended standard eliminates the option of deferring the recognition of actuarial gains and losses on defined benefit pension plans, which is known as the "corridor principle". The present value of pension obligations and the fair value of pension plan assets must be recognised in the balance sheet instead. The amended standard will be implemented on 1 January 2013. At 31 December 2012, the new requirements would have reduced shareholders' equity by DKK 0.2 billion (the amount deferred under the corridor method, net of tax). The effect on net profit will be immaterial because actuarial gains and losses are recognised in Other comprehensive income. The Other comprehensive income and shareholders' equity items will become more volatile, though. The statement of capital will not be affected since it is already prepared without the corridor method.

10.3 USE OF MODELS

The Group's defined benefit pension obligation is calculated as the present value of the pension benefits earned to date. The calculation is based on several factors.

FACTORS USED TO CALCULATE DEFINED BENEFITS

DEMOGRAPHIC FACTORS	FINANCIAL FACTORS
Mortality rate	Interest rate
Staff turnover rate	Future salary and benefit levels
Disability rate	Inflation rate
Early retirements	Expected returns on plan assets

Defined benefit plans are exposed particularly to interest rate and investment risks and increases in life expectancy because the benefits will typically be payable many years into the future. The Group determines its pension obligations by using various calculation methods that each serve a specific purpose, for example compliance with the local authorities' minimum requirements and the compilation of the consolidated accounts according to IFRS.

METHODS OF CALCULATING THE GROUP'S PENSION OBLIGATIONS

	THE PENSION FUND'S INTERNAL CALCULATION METHOD	IFRS RULES FOR CONSOLIDATED FINANCIAL STATEMENTS	CAPITAL MANAGEMENT PRINCIPLES	RISK MANAGEMENT PRINCIPLES
Purpose	Compliance with local funding requirements	Measurement of the operating effects and obligation included in consolidated accounts	Inclusion in solvency requirements	Follow-up on "business objectives" and monitoring
Discount factor	Primarily a differentiated discount rate	Yield on corporate bond with AA rating and the same duration as the pension obligation	Yield on corporate bond with AA rating and the same duration as the pension obligation	Swap curve
Comment	Provides basis for the amount of the Group's contributions	The net obligation is adjusted for the corridor	The net obligation is not adjusted for the corridor	VaR is used as an indicator

Actuarial assumptions other than the discount rate may vary from method to method.

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 (20%) and the correlation between interest rates and equity prices (25%) are set at values reflecting normal market data. The duration of the pension obligations is reduced by half since empirical data show that inflation risk reduces the interest rate risk on the obligations by about 50% over the long term. It has been determined that the values of the volatility and correlation parameters are set appropriately.

Danske Bank Markets 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 IFRS. 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.

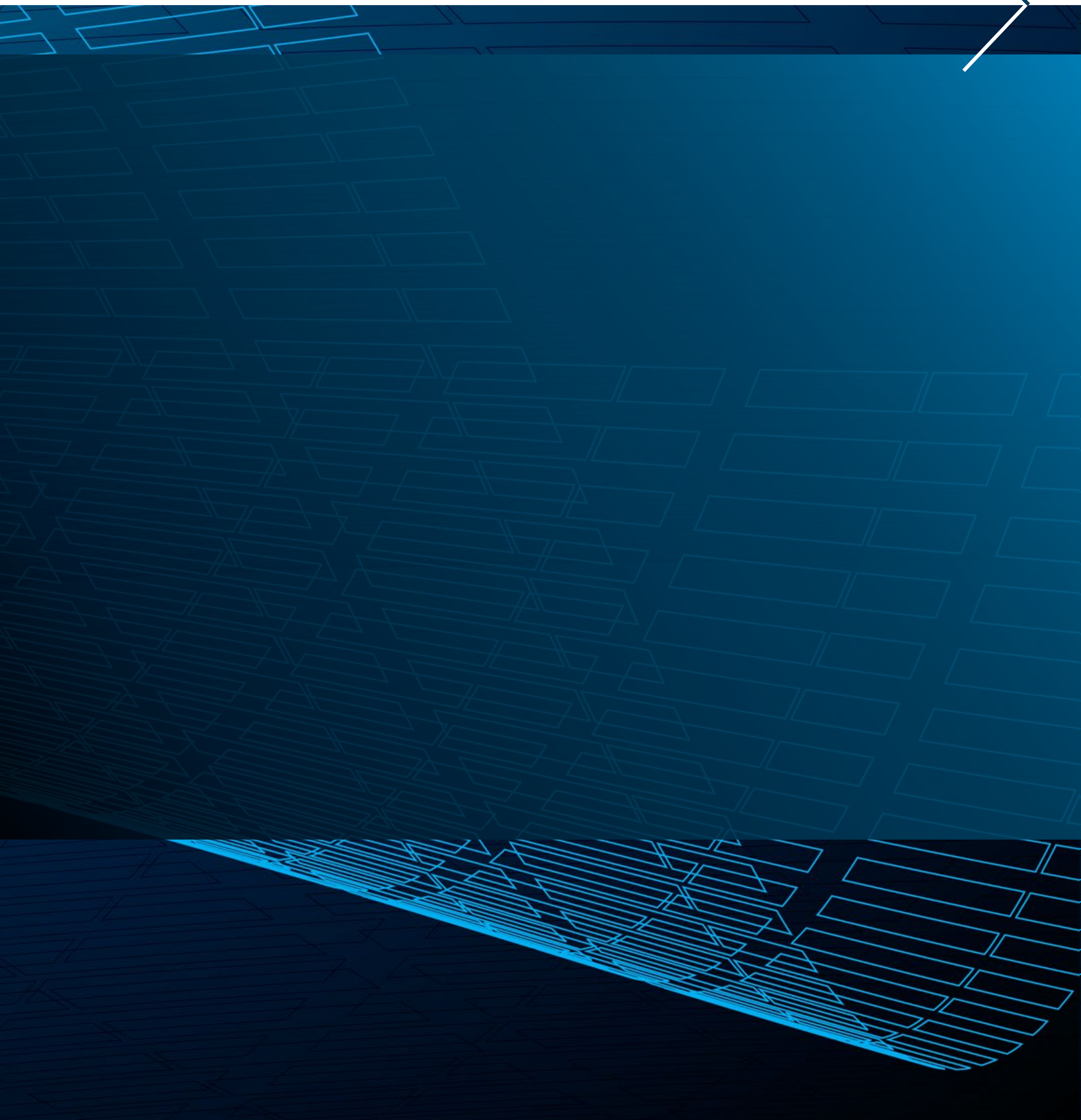
In addition, for each pension plan, the calculations include the sensitivity of the net obligation to changes in interest rates, equity prices and life expectancy (see the table below).

SENSITIVITY ANALYSIS OF NET OBLIGATION

(DKK millions)	Change	Effect 2012	Effect 2011
Equity prices	-20%	-1,108	-950
Interest rates	+1/-1%	+1,198/-959	+798/-518
Life expectancy	+1 year	-446	-379

In accordance with the Danish FSA's rules, pension obligations are measured in the Group's solvency calculation at fair value. Accumulated actuarial gains or losses that are not included (according to the corridor method) are added to or deducted from shareholders' equity, after which the defined benefit pension obligations are included in the calculation as the net value of the obligations and associated assets. Pension risk is covered by the ICAAP, and it is measured by VaR (see section 3).

11. DEFINITIONS



ALCO
The Asset & Liability Management Committee (ALCO) is a forum for monitoring and discussing issues in the following areas:

- Asset and liability management: developments in the Group's balance sheet
- Liquidity risk: follow-up and models
- Funding: strategy, planning and decision making
- Market risk: reporting and follow-up on stress tests and backtests

To the extent necessary, ALCO refers these matters to the relevant bodies, such as the All Risk Committee. Group Risk Management; Group Finance & Legal, including Group Treasury; Corporates & Institutions are represented on ALCO.

All Risk Committee
The All Risk Committee is responsible for managing all risk types across the Group. Its responsibilities include the following:

- Setting targets for the capital ratios and capital composition
- Managing the balance sheet
- The overall funding structure
- Setting the general principles for measuring, managing and reporting the Group's risks
- Risk policies for business units
- The overall investment strategy
- Capital deployment

In addition, the committee evaluates risk reports to be submitted to the Board of Directors or one of its committees. The committee includes members of the Executive Board and the heads of Group Risk Management, Corporates & Institutions and Group Treasury (part of Group Finance & Legal). It meets 10 to 12 times a year.

Capital base
The capital base consists of tier 1 and tier 2 capital (see section 3 for full descriptions of each capital type).

Capital requirement
The regulatory minimum capital requirement is 8% of risk-weighted assets.

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

Conversion factor
The conversion factor (CF) is the expected utilisation of a given facility at the time of default and is used in the calculation of the exposure at default (EAD). The CF estimates are based on in-house default data. As in the LGD estimation, the Group makes estimates of both point-in-time (PIT) and downturn parameters.

Core tier 1 capital
Core tier 1 capital consists of shareholders' equity after certain statutory supplements and deductions.

Core tier 1 capital ratio
The core tier 1 capital ratio is defined as core tier 1 capital as a percentage of risk-weighted assets.

Corporates & Institutions
Corporates & Institutions is responsible for Danske Bank Group's activities in the financial markets.

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

Country risk
Country risk is the risk of losses arising from economic difficulties or political unrest in a country, including the risk of losses resulting from nationalisation, expropriation and debt restructuring.

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 CRD is based on the Basel II guidelines. The rules are being revised (CRD IV) as a consequence of the implementation of Basel III.

Credit risk
Credit risk is the risk of losses arising because debtors or counterparties fail to meet all or part of their payment obligations. Credit risk includes the risk of losses if a sovereign state encounters financial difficulties or because of political decisions regarding such matters as nationalisation and expropriation.

Credit spread risk
Credit spread risk is the risk of losses caused by changes in spreads on corporate bonds.

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 liabilities.

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 own 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.

The calculation of economic capital to cover credit risk is based on point-in-time parameters for PD, LGD and CF, and it will therefore fluctuate with the business cycle. Stress tests are intended to identify the effects of such fluctuations.

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

Floor risk
Floor risk is the risk of a loss of earnings on deposits because market interest rates approach zero. It is measured as the effect of a 1 percentage point drop in rates on net interest income over a 12-month period. Floor risk is included in business risk.

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 risk
General 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.

Government spread risk
Government spread risk is the risk of losses arising because of changes in spreads on government bonds and other government-guaranteed bonds.

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.

IFRS
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 in Danske Bank Group is defined as all types of risk in the Danica group, including market risk and life insurance risk.

Interest rate risk
Interest rate risk is the risk of losses caused by changes in interest rates.

Leverage ratio
The leverage ratio is defined as tier 1 capital as a percentage of total assets and off-balance-sheet items calculated according to CRD IV, which represents the implementation of Basel III in the EU. In contrast to the Basel II approach to calculating RWA, the leverage ratio does not take into account the fact that different activities on credit institutions' balance sheets have different degrees of risk.

Liquidity risk
Liquidity risk is the risk of losses arising because funding costs increase disproportionately, lack of funding prevents the Group from establishing new business, or lack of funding prevents the Group from meeting its obligations.

Loss given default
Loss given default (LGD) is the expected loss on an exposure calculated as the percentage of the expected facility utilisation that will be lost if a customer defaults. The Group makes a downturn adjustment to reflect the losses identified in a downturn period. The downturn adjustment reflects the most severe economic conditions in the estimation period, and these estimates are used in the calculation of the Group's risk-weighted assets.

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

Mortgage spread risk
Mortgage spread risk is the risk of losses arising because of changes in spreads on mortgage-related bonds.

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.

ORIS
Operational Risk Information System.

Pension risk
Pension risk arises because of the Group's liability for defined benefit pension plans. Valuation is uncertain because this type of pension plan entails protracted liabilities and is based on actuarial assumptions. 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
Probability of default (PD) is a credit risk parameter. Point-in-time (PIT) PD represents the probability that a customer will default on a loan within the next 12 months. The prediction of default is based on inputs that are sensitive to the underlying business cycle. This produces PD estimates that reflect changes in general economic factors. In a given portfolio, the overall PIT PD level thus changes over time. In the rating categories of the Group's classification scale, the underlying PD bands defining each rating category are fixed, and over time the percentage of customers within each rating category will vary according to the effect of the business cycle on the model input. The calculated PIT PD is converted to a through-the-cycle (TTC) PD, which is used in the calculation of the Group's risk-weighted assets. The TTC PD level is based on the average PIT PD over a long period.

Risk policies
To ensure that the Group's business units comply with the approved risk limits, the Board of Directors has adopted overall risk policies regulating all risk taking by the Group. On the basis of the overall risk policies, operational risk policies are prepared for the main business units and submitted to the Group's All Risk Committee for approval.

RWA
Risk-weighted assets calculated for credit risk, market risk and operational risk.

Settlement risk
Settlement risk is the risk arising when payments are settled, for example payments for currency transactions and trades in financial instruments, including derivatives. The risk arises when the Group remits payments before it can ascertain that the counterparty has fulfilled its obligations.

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

Solvency need
The solvency need is a capital base that is adequate in terms of size, type and composition to cover the risks to which an institution is exposed. Danske Bank calculates it as the highest of the following measures:

- The capital need according to the Group's internal economic capital models
- The capital requirement under Pillar I plus a supplement to address risks that are not covered by Pillar I (that is, Pillar I+)
- The capital requirement according to the Basel I transitional rules (80% of the capital requirement under Basel I)

Solvency need ratio
The solvency need as a percentage of risk-weighted assets.

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

SREP
Supervisory Review and Evaluation Process.

Tier 1 capital
Tier 1 capital consists of shareholders' equity after certain statutory supplements and deductions and hybrid capital less statutory deductions.

Tier 1 capital ratio
The tier 1 capital ratio is defined as tier 1 capital as a percentage of risk-weighted assets.

Tier 2 capital
Tier 2 capital consists of subordinated debt less statutory deductions.

Tier 2 capital ratio
The tier 2 capital ratio is defined as tier 2 capital as a percentage of risk-weighted assets.

VaR
Value at Risk. Used for calculating market risk, among other things.

DANSKE BANK A/S
HOLMENS KANAL 2-12
DK-1092 KØBENHAVN K
TEL. +45 33 44 00 00
CVR-NR. 61 12 62 28 - KØBENHAVN
WWW.DANSKEBANK.COM