

Interim report – first nine months 2017

Danske Bank Group



Contents

Management's report

Financial highlights - Danske Bank Group	3
Executive summary	4
Financial review	5

Business units

Personal Banking	11
Business Banking	13
Corporates & Institutions	15
Wealth Management	17
Northern Ireland	20
Non-core	22
Other Activities	24

Financial statements

Contents	26
Income statement	27
Statement of comprehensive income	28
Balance sheet	29
Statement of capital	30
Cash flow statement	33
Notes	34

Statements

Statement by the management	57
Supplementary information	58

Financial highlights – Danske Bank Group

Income statement (DKK millions)	Q1-Q3 2017	Q1-Q3 2016	Index 17/16	Q3 2017	Q2 2017	Index Q3/Q2	Q3 2016	Index 17/16	Full year 2016
Net interest income	17,392	16,239	107	5,961	5,692	105	5,492	109	22,028
Net fee income	11,087	10,151	109	3,494	3,743	93	3,414	102	14,183
Net trading income	6,280	6,284	100	1,762	1,814	97	2,549	69	8,607
Other income	1,171	2,383	49	328	487	67	589	56	3,140
Total income	35,930	35,057	102	11,544	11,736	98	12,044	96	47,959
Operating expenses	16,965	16,586	102	5,480	5,760	95	5,471	100	22,642
Profit before loan impairment charges	18,965	18,471	103	6,064	5,976	101	6,573	92	25,317
Loan impairment charges	-632	157	-	-166	-231	72	264	-	-3
Profit before tax, core	19,597	18,314	107	6,230	6,208	100	6,309	99	25,320
Profit before tax, Non-core	-39	5	-	6	-25	-	-42	-	37
Profit before tax	19,558	18,318	107	6,236	6,182	101	6,267	100	25,357
Tax	4,307	4,050	106	1,305	1,392	94	1,362	96	5,500
Net profit for the period	15,251	14,268	107	4,931	4,790	103	4,905	101	19,858
Attributable to additional tier 1 etc.	589	485	121	198	197	101	164	121	663

Balance sheet (end of period)

(DKK millions)

Due from credit institutions and central banks	244,051	222,344	110	244,051	286,541	85	222,344	110	200,544
Repo loans	230,134	231,599	99	230,134	225,869	102	231,599	99	244,474
Loans	1,726,397	1,675,034	103	1,726,397	1,707,291	101	1,675,034	103	1,689,155
Trading portfolio assets	467,607	552,920	85	467,607	489,463	96	552,920	85	509,678
Investment securities	324,181	335,425	97	324,181	331,817	98	335,425	97	343,337
Assets under insurance contracts	297,538	309,412	96	297,538	290,620	102	309,412	96	285,398
Total assets in Non-core	17,200	20,844	83	17,200	17,492	98	20,844	83	19,039
Other assets	240,677	200,991	120	240,677	223,625	108	200,991	120	192,046
Total assets	3,547,785	3,548,569	100	3,547,785	3,572,717	99	3,548,569	100	3,483,670
Due to credit institutions and central banks	167,192	167,909	100	167,192	147,448	113	167,909	100	155,085
Repo deposits	214,623	248,049	87	214,623	234,219	92	248,049	87	199,724
Deposits	923,352	872,027	106	923,352	913,639	101	872,027	106	859,435
Bonds issued by Realkredit Danmark	749,414	715,730	105	749,414	733,172	102	715,730	105	726,732
Other issued bonds	409,035	382,487	107	409,035	428,134	96	382,487	107	392,512
Trading portfolio liabilities	408,537	479,244	85	408,537	451,663	90	479,244	85	478,301
Liabilities under insurance contracts	320,253	337,817	95	320,253	309,933	103	337,817	95	314,977
Total liabilities in Non-core	2,693	3,549	76	2,693	2,499	108	3,549	76	2,816
Other liabilities	157,915	143,242	110	157,915	159,001	99	143,242	110	149,641
Subordinated debt	29,390	38,249	77	29,390	30,110	98	38,249	77	37,831
Additional tier 1 etc.	14,434	11,461	126	14,434	14,334	101	11,461	126	14,343
Shareholders' equity	150,945	148,806	101	150,945	148,564	102	148,806	101	152,272
Total liabilities and equity	3,547,785	3,548,569	100	3,547,785	3,572,717	99	3,548,569	100	3,483,670

Ratios and key figures

Dividend per share (DKK)									9.0
Earnings per share (DKK)	16.1	14.4		5.3	5.0		5.0		20.2
Return on avg. shareholders' equity (% p.a.)	13.3	12.6		12.8	12.6		12.9		13.1
Return on avg. tangible equity (% p.a.)	14.2	13.4		13.7	13.5		13.8		14.0
Net interest income as % p.a. of loans and deposits	0.87	0.85		0.90	0.87		0.86		0.86
Cost/income ratio (%)	47.2	47.3		47.5	49.1		45.4		47.2
Total capital ratio (%)	21.6	21.0		21.6	21.1		21.0		21.8
Common equity tier 1 capital ratio (%)	16.7	15.8		16.7	16.2		15.8		16.3
Share price (end of period) (DKK)	251.8	193.4		251.8	250.4		193.4		214.2
Book value per share (DKK)	167.0	157.4		167.0	162.5		157.4		162.8
Full-time-equivalent staff (end of period)	19,653	19,433	101	19,653	19,490	101	19,433	101	19,303

See note 2 to the financial statements for an explanation of differences in the presentation between IFRS and the financial highlights. For a definition of ratios, see Definition of Alternative Performance Measures on page 25.

Executive summary

“The first three quarters of the year were characterised by positive macroeconomic developments, high customer activity and increasing business volumes,” says Thomas F. Borgen, Chief Executive Officer. “Our partnership agreements in Norway and Sweden continued to attract new customers, and our lending and investment activity was generally high across our markets. Impairments remained low, mainly due to the low interest rates and solid credit quality. All in all, these factors helped us achieve a good result for the period. As a result of developments in the first nine months, we are revising our outlook for the year to a net profit in the range of DKK 19-21 billion.”

“We maintained a fast pace of innovation, launching several new business initiatives within areas such as mortgage finance, investments and mobile solutions. The solid financial results enable us to continue the considerable investments in digitalisation that we initiated some years ago and to continuously adapt our business to the major changes facing the financial industry.”

Danske Bank delivered a satisfactory result for the first nine months of 2017. Net profit was DKK 15.3 billion, against DKK 14.3 billion in the first nine months of 2016. The return on shareholders' equity after tax was 13.3%, against 12.6% in the first nine months of 2016. The strong business momentum continued, supported by the positive macroeconomic environment, higher customer activity and service model improvement through digitalisation and product launches.

The positive trend in the Nordic economies continued. Driven especially by our activities in Norway and Sweden, aggregate lending grew 2% in the first nine months of 2017 and was 3% higher than lending for the year-earlier period.

We continued our efforts to realise our Nordic potential. At Personal Banking, our partnerships with Saco and TCO in Sweden and Akademikerne in Norway continued to deliver strong volume growth in both markets. We welcomed a significant share of new customers digitally, which enhances the customer experience and increases the scalability of our business model. At Business Banking, we saw good business momentum across markets, and we continued to improve our service and delivery model by digitalising more processes. Our capital market and wealth management activities benefited from stronger customer activity and the positive development in the financial markets, which generated an increase in net fee income from the level in the first nine months of 2016.

Net interest income increased from the level in the first nine months of 2016, driven mainly by volume growth. Net trading income was at the same level as in the first nine months of 2016.

Operating expenses were affected by higher costs related to compliance, regulation and digitalisation. Higher activity-related costs were mitigated by efficiency measures. Credit quality remained strong, and we saw net impairment reversals driven by improving macroeconomic conditions and higher collateral values in the first nine months of 2017.

Capital, funding and liquidity

Our capital position remained strong, with a total capital ratio of 21.6% and a CET1 capital ratio of 16.7%. On the basis of fully phased-in CRR and CRD IV rules and requirements, our

CET1 capital ratio stood at 16.6%, versus our current, fully phased-in regulatory CET1 capital requirement of 12.0% and our target range of 14-15% in the short to medium term.

At 30 September 2017, DKK 6.7 billion of the DKK 10.0 billion share buy-back programme had been bought back.

In the first nine months of 2017, issuance of covered bonds, senior bonds and additional tier 1 capital totalled DKK 47 billion. In Sweden, our mortgage subsidiary Danske Hypotek successfully issued its first SEK benchmark covered bond in August. The bond is rated AAA by Standard & Poor's. Due to higher-than-expected deposit inflows, we lower our expected funding need from DKK 70-90 billion to DKK 55-70 billion.

On 16 August, Danske Bank's long-term senior debt rating was raised to A1 from A2 by Moody's, acknowledging the continued strengthening of our asset quality, capitalisation and profitability. The outlook for the long-term senior debt rating remains positive.

At 30 September 2017, our liquidity coverage ratio stood at 150%.

Outlook for 2017

The outlook has been revised.

We expect net interest income to be higher than in 2016, as we will benefit from volume growth and lower funding costs.

Net fee income is expected to be higher than in 2016, subject to customer activity. Net trading income and Other income are expected to be less impacted by positive special items compared to 2016. Expenses are expected to be around the level in 2016. Loan impairments are expected to remain low.

We now expect net profit for 2017 to be in the range of DKK 19-21 billion. This is due to higher-than-expected income in all major income lines and lower loan impairment charges in the first nine months of 2017.

We previously expected net profit to be in the range of DKK 18-20 billion.

The outlook is subject to uncertainty and macroeconomic developments.

We maintain our longer-term ambition for a return on shareholders' equity of at least 12.5%.

Financial review

In the first nine months of 2017, Danske Bank Group delivered a profit before tax from core activities of DKK 19.6 billion, an increase of 7% from the level in the first nine months of 2016.

Income

Total income amounted to DKK 35.9 billion, up 2% from the level in the first nine months of 2016 and driven by continued growth in net interest income and net fee income.

Net interest income totalled DKK 17.4 billion, with the increase of 7% being driven by stronger volumes and lower funding costs.

Net fee income amounted to DKK 11.1 billion and was up 9% from the level in the first nine months of 2016. Net fee income benefited from an increase in assets under management and new product launches at Wealth Management as well as higher customer activity, mainly at Corporates & Institutions.

Net trading income totalled DKK 6.3 billion and was on par with the level in the first nine months of 2016. Net trading income was driven especially by high activity in the financial markets in the first quarter of 2017.

Other income amounted to DKK 1.2 billion, a decrease of 51% from the level in the first nine months of 2016. The first nine months of 2016 benefited from the sale of domicile properties.

Expenses

Operating expenses amounted to DKK 17.0 billion, an increase of 2% from the level in the first nine months of 2016. Operating expenses were affected by higher costs related primarily to compliance, regulatory implementation and digitalisation, and costs for the transformation at Wealth Management. Higher activity-related costs were mitigated by efficiency measures.

Loan impairments

Loan impairment charges remained low, with net reversals in the third quarter in line with the previous two quarters of 2017. Solid credit quality driven by higher property prices and improving macroeconomic conditions resulted in the continued reversal of loan impairments throughout the first nine months of 2017. In the first nine months of 2016, impairments recorded a minor net expense. At Business Banking, the high reversals related primarily to facilities in Denmark, where property prices rose. However, impairment charges were made in Norway for a few individual customers. Similarly, Corporates & Institutions continued to book impairments against exposures to the shipping/offshore sector, although at a lower level than in the same period of last year.

Loan impairment charges

(DKK millions)	Q1-Q3 2017		Q1-Q3 2016	
	Charges	% of credit exposure*	Charges	% of credit exposure*
Personal Banking	-22	-	-289	-0.05
Business Banking	-772	-0.15	-54	-0.01
C&I	385	0.12	789	0.26
Wealth Management	-70	-0.12	-82	-0.16
Northern Ireland	-154	-0.46	-211	-0.56
Other Activities	-	-	5	0.20
Total	-632	-0.04	157	0.01

* Defined as net credit exposure from lending activities in core segments excluding exposures related to credit institutions and central banks and loan commitments.

Tax

Tax on the profit for the period amounted to DKK 4.3 billion, or 22.0% of profit before tax.

Q3 2017 vs Q2 2017

In the third quarter of 2017, Danske Bank posted a net profit of DKK 4.9 billion, against DKK 4.8 billion in the second quarter.

Net interest income amounted to DKK 6.0 billion, up 5% from the level in the second quarter. The increase was due to higher lending volumes, growth in Norway and Sweden in particular and one more interest day in the third quarter.

Net trading income amounted to DKK 1.8 billion, down 3% from the level in the second quarter. The decrease was due to lower activity in FICC owing to seasonality and to the secondary market being somewhat affected by concerns over geopolitical developments.

Other income decreased 33% to DKK 0.3 billion. In the second quarter, other income benefited from the sale of shares in an associated company.

Operating expenses amounted to DKK 5.5 billion and were down 5% from the level in the second quarter, due mainly to lower activity in the third quarter and a higher level of investments in the second quarter.

Loan impairments showed net reversals of DKK 0.2 billion, continuing the stable trend from the level in the second quarter and reflecting consistently strong credit quality supported by higher collateral values.

Balance sheet

Lending (end of period) (DKK billions)	Q1-Q3 2017	Q1-Q3 2016	Index 17/16	Q3 2017	Q2 2017	Index Q3/Q2	Full year 2016	Index 17/FY16
Personal Banking	759.0	741.3	102	759.0	747.6	102	741.7	102
Business Banking	690.8	661.5	104	690.8	678.2	102	662.1	104
Corporates & Institutions	187.1	189.1	99	187.1	192.2	97	197.2	95
Wealth Management	74.8	71.7	104	74.8	73.7	101	72.5	103
Northern Ireland	46.2	45.7	101	46.2	46.1	100	45.6	101
Other Activities incl. eliminations	-11.4	-9.9	115	-11.4	-9.9	115	-7.1	161
Allowance account, lending	20.1	24.4	82	20.1	20.6	98	22.8	88
Total lending	1,726.4	1,675.0	103	1,726.4	1,707.3	101	1,689.2	102
Deposits (end of period) (DKK billions)								
Personal Banking	274.4	267.4	103	274.4	275.1	100	267.1	103
Business Banking	240.1	224.3	107	240.1	245.6	98	230.1	104
Corporates & Institutions	282.8	249.7	113	282.8	265.0	107	233.3	121
Wealth Management	66.3	63.9	104	66.3	66.7	99	62.9	105
Northern Ireland	59.5	57.6	103	59.5	59.0	101	59.2	101
Other Activities incl. eliminations	0.4	9.1	4	0.4	2.2	18	6.8	6
Total deposits	923.4	872.0	106	923.4	913.6	101	859.4	107
Covered bonds (DKK billions)								
Bonds issued by Realkredit Danmark	749.4	715.7	105	749.4	733.2	102	726.7	103
Own holdings of bonds	40.0	56.1	71	40.0	44.2	90	44.6	90
Total Realkredit Danmark bonds	789.4	771.8	102	789.4	777.4	102	771.3	102
Other covered bonds issued	187.4	168.2	111	187.4	187.5	100	154.3	121
Own holdings of bonds	10.0	50.8	20	10.0	23.1	43	63.1	16
Total other covered bonds	197.4	219.1	90	197.4	210.6	94	217.4	91
Total deposits and issued mortgage bonds etc.	1,910.2	1,862.9	103	1,910.2	1,901.6	100	1,848.1	103
Lending as % of deposits and issued mortgage bonds etc.	90.4	89.9		90.4	89.8		91.4	

Lending

At the end of September 2017, total lending was up 2% from the level at the end of 2016. Lending increased in almost all markets and across all geographies.

In Denmark, new gross lending, excluding repo loans, amounted to DKK 67.6 billion. Lending to personal customers accounted for DKK 30.8 billion of this amount.

Our market share of total lending in Denmark, excluding repo loans, rose slightly from 26.6% at the end of 2016 to 26.7% at the end of September 2017. In Finland, Sweden and Norway, our market shares of lending also rose.

Market shares of lending (%)	30 September 2017	31 December 2016
Denmark incl. RD (excl. repo)	26.7	26.6
Finland*	9.8	9.6
Sweden (excl. repo)*	5.6	5.2
Norway*	5.9	5.8

Source: Market shares are based on data from the central banks.

*The market shares for Finland, Sweden and Norway are based on data at 31 August.

Lending equalled 90.4% of the total amount of deposits, mortgage bonds and other covered bonds, against 91.4% at the end of 2016.

Deposits

At the end of September 2017, total deposits were up 7% from the level at the end of 2016, with increases in almost all markets and across all geographies. The Group maintained its strong funding position.

Market shares of deposits (%)	30 September 2017	31 December 2016
Denmark (excl. repo)	28.4	28.7
Finland*	13.2	12.3
Sweden (excl. repo)*	3.8	3.7
Norway*	5.7	5.5

Source: Market shares are based on data from the central banks.

*The market shares for Finland, Sweden and Norway are based on data at 31 August.

Credit exposure

Credit exposure from lending activities in core segments totalled DKK 2,665 billion, against DKK 2,534 billion at the end of 2016. Corporates & Institutions showed the largest increase, and growth at Personal Banking and Business Banking also continued in the first nine months of the year.

Risk Management 2016, section 4, which is available at danskebank.com/ir, provides details on Danske Bank's credit risks.

Credit quality

Credit quality remains solid in the light of stable credit conditions. Total gross non-performing loans (NPL) decreased owing to continued reversals and work-outs of large customers. The coverage ratio remained high.

The risk management notes on pp. 47-54 provide more information about non-performing loans.

Non-performing loans (NPL) in core segments (DKK millions)	30 Sep. 2017	31 Dec. 2016
Gross NPL	35,443	40,406
Individual allowance account	16,372	18,505
Net NPL	19,071	21,900
Collateral (after haircut)	15,418	18,033
NPL coverage ratio (%)	81.8	82.7
NPL coverage ratio of which is in default (%)	95.1	94.7
NPL as a percentage of total gross exposure	1.3	1.6

The NPL coverage ratio is calculated as individual impairment (allowance account) amounts relative to gross NPL net of collateral (after haircuts).

Accumulated individual impairments amounted to DKK 16.4 billion, or 0.8% of lending and guarantees. Accumulated collective impairments amounted to DKK 4.3 billion, or 0.2% of lending and guarantees. The corresponding figures at 31 December 2016 were DKK 18.5 billion and DKK 5.0 billion, respectively.

Allowance account by business units (DKK millions)	30 September 2017		31 December 2016	
	Accum. charges*	% of loans and guarantees	Accum. charges*	% of loans and guarantees
Personal Banking	5,324	0.71	5,584	0.77
Business Banking	11,675	1.72	13,324	2.05
Corporates & Institutions	2,275	0.53	2,762	0.69
Wealth Management	464	0.61	534	0.75
Northern Ireland	922	2.00	1,273	2.48
Other Activities incl. eliminations	2	-	1	-
Total	20,663	1.04	23,479	1.23

* Relating to lending activities in core segments.

Recognised losses amounted to DKK 2.3 billion. Of these losses, DKK 0.2 billion was attributable to facilities not already subject to impairment.

Trading and investment activities

Credit exposure from trading and investment activities amounted to DKK 792 billion at 30 September 2017, against DKK 854 billion at 31 December 2016.

Danske Bank has made netting agreements with many of its counterparties concerning positive and negative market values of derivatives. The net exposure was DKK 77.0 billion, against DKK 84.8 billion at the end of 2016, and it was mostly secured through collateral management agreements.

The value of the bond portfolio was DKK 521 billion. Of the total bond portfolio, 73.2% was recognised at fair value and 26.8% at amortised cost.

Bond portfolio (%)	30 September 2017	31 December 2016
Government bonds and bonds guaranteed by central or local governments	37	33
Bonds issued by quasi-government institutions	1	-
Danish mortgage bonds	46	50
Swedish covered bonds	11	12
Other covered bonds	3	3
Corporate bonds	2	2
Total holdings	100	100
Hold-to-maturity bonds included in total holdings	27	26
Available-for-sale bonds included in total holdings	14	14

Other balance sheet items

The financial highlights on page 3 provide information about our balance sheet.

The net position towards central banks, credit institutions and repo counterparties rose DKK 2.2 billion from an asset of DKK 90.2 billion at the end of 2016 to an asset of DKK 92.4 billion at the end of September 2017 due primarily to higher deposits with central banks.

Trading portfolio assets and trading portfolio liabilities increased from net assets of DKK 31.4 billion at the end of 2016 to net assets of DKK 59.1 billion at the end of September 2017 as a result of fluctuations in the market value of the derivatives portfolio.

As a consequence of the continued winding-up of the Non-core portfolios, net assets in Non-core were reduced by DKK 1.7 billion from the level at the end of 2016 and amounted to DKK 14.5 billion at the end of September 2017.

Other assets is the sum of several small line items. The increase of DKK 48.6 billion from the end of 2016 to the end of September 2017 was caused by higher on-demand deposits with central banks and an increase in assets under pooled schemes and unit-linked investment contracts.

Capital ratios

Our capital management policies support our business strategy and ensure that we are sufficiently capitalised to withstand severe macroeconomic downturns.

In the short to medium term, our capital targets are a total capital ratio of around 19% and a common equity tier 1 (CET1) capital ratio in the range of 14-15%.

The capital targets take the elevated regulatory uncertainty into account and ensure that the Group meets its capital requirements both in situations with normal fluctuations in risk exposure amounts (REA) and in situations with macroeconomic stress. We will reassess the capital targets when future regulatory initiatives have been clarified, especially in relation to the implementation of the Basel Committee's revised standards for calculating REA into EU regulation.

At the end of September 2017, the total capital ratio was 21.6%, and the CET1 capital ratio was 16.7%, against 21.8% and 16.3%, respectively, at the end of 2016. In addition to accumulated net profits, the movement in capital ratios in the first nine months of 2017 was driven primarily by the DKK 10 billion share buy-back programme initiated on 2 February 2017, planned net redemptions of additional tier 1 capital and reductions in the REA.

During the first nine months of 2017, the REA decreased DKK 46 billion to DKK 769 billion at end of September 2017. The decrease was attributable primarily to the implementation of the IRB approach for Finnish retail exposures and a continued reduction in market and counterparty risk, which are historically low due to the currently low volatility in the financial markets.

At the end of September 2017, the Group's leverage ratio was 4.2% when transitional rules are taken into account. Assuming fully phased-in tier 1 capital under CRR/CRD IV without taking into account any refinancing of non-eligible additional tier 1 instruments, the leverage ratio would be 4.1%.

Capital requirements

Danske Bank's capital management policies and practices are based on the internal capital adequacy assessment process (ICAAP). In this process, Danske Bank determines its solvency need.

At the end of September 2017, the solvency need was 10.5%, which was 0.1% lower than at the end of 2016. The solvency need consists of the 8% minimum capital requirement under Pillar I and an individual capital add-on under Pillar II.

A combined buffer requirement applies in addition to the solvency need. At the end of September 2017, the Group's combined capital buffer requirement was 3.5%. When fully phased-in, the buffer requirement will be 6.1%, bringing the fully phased-in CET1 capital requirement to 12.0% and the fully phased-in total capital requirement to 16.6%.

Capital ratios and requirements

(% of the total REA)	First nine months 2017	Fully phased-in*
Capital ratios		
CET 1 capital ratio	16.7	16.6
Total capital ratio	21.6	21.3
Capital requirements (incl. buffers)**		
CET 1 requirement	9.4	12.0
- portion from countercyclical buffer	0.5	0.6
- portion from capital conservation buffer	1.3	2.5
- portion from SIFI buffer	1.8	3.0
Total capital requirement	14.0	16.6
Excess capital		
CET 1 capital	7.3	4.7
Total capital	7.6	4.7

* Based on fully phased-in CRR and CRD IV rules and requirements.

** The total capital requirement consists of the solvency need and the combined buffer requirement. The fully phased-in countercyclical capital buffer is based on the buffer rates announced at the end of the first nine months of 2017.

The calculation of the solvency need and the combined capital buffer requirement is described in more detail in Risk Management 2016, section 3, which is available at danskebank.com/ir.

Capital distribution policy

Danske Bank's longer-term ambition is to provide shareholders with a competitive return through share price appreciation and ordinary dividend payments of 40-50% of net profit.

We intend to return excess capital to our shareholders if capital is available after we have met our capital targets and paid out ordinary dividends.

At 30 September 2017, we had bought back 27.4 million shares for a total purchase amount of DKK 6.7 billion (figures at trade date) of our planned DKK 10.0 billion share buy-back programme.

Ratings

On 16 August, Moody's raised Danske Bank's long-term senior debt rating to A1 from A2 and its long-term deposit ratings to Aa3 from A1, acknowledging the continued strengthening of our asset quality, capitalisation and profitability. At the same time, Moody's reiterated its positive outlook on the Group's senior debt ratings, citing an expected positive impact from future issuance of non-preferred senior debt.

S&P Global and Fitch Ratings maintain their long-term A-ratings with a stable outlook.

Danske Bank's ratings	Moody's	S&P Global	Fitch Ratings
Long-term deposits	Aa3		
Long-term senior debt	A1	A	A
Short-term deposits	P-1		
Short-term senior debt	P-1	A-1	F1
Outlook	Positive	Stable	Stable

Mortgage bonds and covered bonds (RO+SDRO) issued by Realkredit Danmark are rated AAA by S&P Global (stable outlook). In addition, bonds issued from capital centre S are rated AAA (stable outlook) by Fitch, while bonds issued from capital centre T are rated AA+ (stable outlook).

Covered bonds (SDO) issued by Danske Bank A/S are rated AAA by both S&P Global and Fitch Ratings, while covered bonds issued by Danske Bank Plc are rated AAA by Moody's.

Funding and liquidity

During the first nine months of 2017, we issued senior debt of DKK 23 billion, covered bonds of DKK 19 billion and additional tier 1 capital of DKK 5 billion, bringing total long-term wholesale funding to DKK 47 billion. We have witnessed higher-than-expected deposit inflows throughout the year, which leads us to lower our expected funding need from DKK 70-90 billion to DKK 55-70 billion. We expect a similar need for 2018.

We remain dedicated to our strategy of securing more funding directly in our main lending currencies. We reached an important milestone in August when we successfully launched the first SEK-denominated benchmark covered bond from Danske Hypotek AB - our new mortgage subsidiary in Sweden.

Danske Bank's liquidity position remained robust. Stress tests show that we have a sufficient liquidity buffer well beyond 12 months. At the end of September 2017, our liquidity coverage ratio stood at 150%, with an LCR liquidity buffer of DKK 605.6 billion, partly as a result of the duration of our short-term funding being extended.

At 30 September 2017, the total nominal value of outstanding long-term funding, excluding equity accounted additional tier 1 capital and debt issued by Realkredit Danmark, was DKK 366 billion, against DKK 337 billion at the end of 2016.

Danske Bank excluding Realkredit Danmark (DKK billions)	30 Sep. 2017	31 Dec. 2016
Covered bonds	204	154
Senior unsecured debt	133	144
Subordinated debt	29	38
Total	366	337

The Supervisory Diamond

The Danish FSA has identified a number of specific risk indicators for banks and has set threshold values with which all Danish banks must comply. The requirements are known as the Supervisory Diamond.

At 30 September 2017, Danske Bank was in compliance with all threshold values. A separate report is available at danskebank.com/ir.

Realkredit Danmark also complies with all threshold values.

New regulation

Beginning on 1 January 2018, the Group will implement IFRS 9, the new accounting standard for financial instruments. More information is provided in Annual Report 2016. As part of IFRS 9, the International Accounting Standards Board (IASB) introduces a new, expected credit loss impairment model that will require earlier recognition of expected credit losses. Specifically, the Group will be required to account for 12-month expected credit losses at initial recognition of a financial instrument and to make earlier recognition of lifetime expected credit losses.

We have now completed the process of making the required changes in our models, data, reporting and governance necessary to ensure compliance with IFRS 9. On the basis of our work, the national regulator guidelines, and the loan portfolio at 30 September 2017, our expectations to the effect of the implementation of IFRS 9 are unchanged. Hence, we expect the implementation of IFRS 9 to result in an increase in the allowance account in the range of DKK 2-3 billion. The effect, net of tax, will be recognised as a reduction in shareholders' equity at 1 January 2018. We will use the remaining months of 2017 to finish the model setup and ensure organisational implementation. This is guided by the final guidelines by national regulators published in the third quarter of 2017.

We expect that the impact of IFRS 9 on capital ratios will be subject to a gradual phase-in through the ongoing revision of the EU capital requirements regulation. The transitional rules are expected to be finalised towards the end of 2017 and to come into effect on 1 January 2018.

Discussions on the Basel Committee on Banking Supervision (BCBS) regarding revised standards for calculating the REA (Basel IV) continue. It is therefore still too early to assess the effects of the potential changes, as we have not yet seen the final standards and, more importantly, the political process to implement the recommendations in the EU has not yet been initiated. Based on our strong earnings capacity and capitalisation, we are confident that we will be able to adapt smoothly to the future changes of regulatory requirements in the EU related to Basel IV.

Investigation of Danske Bank in Estonia

On the basis of suspicions that Danske Bank in Estonia has previously been used for money laundering, we have launched an investigation into transactions in the non-resident portfolio at our Estonian branch between 2007 and 2015. The portfolio was closed down during 2014 and 2015. As announced on 21 September 2017, the investigation is expected to be completed in 9 to 12 months. As announced on 11 October 2017, Danske Bank has been placed under investigation by the French Tribunal de Grande Instance de Paris court in relation to suspicions of money laundering related to transactions in the same portfolio between 2008 and 2011.

Changes to the Board of Directors and Executive Board

On 28 September 2017, Steen Lund Olsen resigned from the Board of Directors since he was elected vice chairman of the Financial Services Union in Denmark. Dorte Annette Bielefeldt, who is first deputy, succeeds Steen Lund Olsen for the remaining part of his term.

Information about the composition of the Board of Directors and the board committees is available at danskebank.com/about-us/corporate-governance.

Chief Risk Officer (CRO) Gilbert Kohnke vacated his position and was replaced as CRO and on the Executive Board by Carsten Rasch Egeriis on 1 September 2017.

Personal Banking

Profit before tax increased 6% from the level in the first nine months of 2016, as increased income more than offset lower net impairment reversals. Income benefited from the continued increase in business volumes, the inflow of new customers in Sweden and Norway, and generally high activity levels within financing and investment. Operating expenses saw a decrease of 1% driven by cost efficiencies.

Personal Banking (DKK millions)	Q1-Q3 2017	Q1-Q3 2016	Index 17/16	Q3 2017	Q2 2017	Index Q3/Q2	Q3 2016	Index 17/16	Full year 2016
Net interest income	5,933	5,722	104	2,007	1,963	102	1,899	106	7,660
Net fee income	2,565	2,487	103	833	891	93	890	94	3,306
Net trading income	435	385	113	126	110	115	121	104	562
Other income	560	456	123	176	205	86	144	122	613
Total income	9,493	9,050	105	3,141	3,169	99	3,054	103	12,141
Operating expenses	5,616	5,661	99	1,819	1,900	96	1,926	94	7,654
Profit before loan impairment charges	3,877	3,388	114	1,322	1,269	104	1,128	117	4,486
Loan impairment charges	-22	-289	8	-25	-53	47	-110	23	-477
Profit before tax	3,899	3,678	106	1,347	1,322	102	1,238	109	4,963
Loans, excluding reverse transactions before impairments	758,976	741,254	102	758,976	747,647	102	741,254	102	741,651
Allowance account, loans	4,978	5,426	92	4,978	5,067	98	5,426	92	5,133
Deposits, excluding repo deposits	274,368	267,371	103	274,368	275,137	100	267,371	103	267,067
Bonds issued by Realkredit Danmark	409,520	399,694	102	409,520	405,127	101	399,694	102	398,766
Allowance account, guarantees	346	485	71	346	376	92	485	71	450
Allocated capital (average)	24,146	22,482	107	25,360	23,224	109	22,957	110	22,759
Net interest income as % p.a. of loans and deposits	0.77	0.76		0.78	0.77		0.76		0.76
Profit before tax as % p.a. of allocated capital (ROAC)	21.5	21.8		21.2	22.8		21.6		21.8
Cost/income ratio (%)	59.2	62.6		57.9	60.0		63.1		63.0
Full-time-equivalent staff	4,571	4,971	92	4,571	4,640	99	4,971	92	4,623

Fact Book Q3 2017 provides financial highlights at country level for Personal Banking. Fact Book Q3 2017 is available at danskebank.com/jr.

First nine months 2017 vs first nine months 2016

Profit before tax amounted to DKK 3.9 billion, an increase of 6%. The increase was driven by higher income combined with slightly lower operating expenses. The higher income more than offset the lower net reversal of loan impairment charges. Profit before loan impairment charges was up 14%.

Total income grew, driven by increased business volumes and generally high activity levels within investment and financing.

The increase in business volume was supported by higher house prices in Denmark, as well as a continued inflow of new customers in Norway and Sweden, driven by our strategic partnerships with Akademikerne in Norway and with Saco and TCO in Sweden. In Denmark and Finland, market shares were stable.

Net interest income increased, mainly as a result of growing lending volumes in Sweden and Norway.

The higher investment and financing activity lifted net fee income 3% and net trading income 13% relative to the levels in the first nine months of 2016.

Operating expenses decreased 1% despite increasing costs for regulatory compliance. The decrease was the result of cost efficiencies across our market areas.

In a market characterised by fierce competition, we remain committed to creating the best experience for our customers. We aim to offer the best services and solutions at all touch points and strive to proactively provide advisory services that match our customers' expectations. In the third quarter, we launched FlexLife®, a brand new type of mortgage loan that allows customers to plan their finances around their lives and needs and make adjustments throughout the term of the loan. Looking ahead, we expect FlexLife® to contribute positively to business activity.

Credit quality

Credit quality was generally stable. Most of our markets are supported by favourable macroeconomic conditions and the low level of interest rates.

Loan impairment charges amounted to a net reversal of DKK 22 million for the first nine months of 2017, reflecting strong and stable portfolio credit quality and increased collateral values.

The delinquency rate at Realkredit Danmark remained low and stable throughout the first nine months of 2017.

Overall, the loan-to-value (LTV) level fell slightly throughout the period.

Loan-to-value ratio, home loans	30 September 2017		31 December 2016	
	Average LTV (%)	Net credit exposure (DKK bn)	Average LTV (%)	Net credit exposure (DKK bn)
Denmark	64.6	465	65.5	459
Finland	61.3	84	60.7	83
Sweden	58.2	79	59.0	70
Norway	61.7	95	62.5	93
Total	63.1	723	63.9	706

Credit exposure

Credit exposure increased to DKK 791 billion in the first nine months of 2017, driven by growth in Denmark as well as in Sweden and Norway stemming from our strategic partnerships.

Growth in Norway was partly offset by the weakening of the Norwegian krone during 2017.

(DKK millions)	Net credit exposure		Impairments (ann.) [%]
	30 September 2017	31 December 2016	30 September 2017
Denmark	496,103	489,455	-
Finland	91,602	90,514	0.03
Sweden	86,779	77,955	-0.03
Norway	116,066	113,432	-0.01
Total	790,549	771,357	-

Q3 2017 vs Q2 2017

Profit before tax increased 2% to DKK 1.3 billion in the third quarter of 2017, owing to lower operating expenses.

Total income was stable as higher net interest income and higher net trading income compensated for lower net fee income and other income.

Net interest income increased, benefiting from growth in Sweden and Norway.

Operating expenses decreased, owing mainly to cost efficiencies and lower spend on marketing.

The third quarter saw a net reversal of loan impairment charges of DKK 25 million, against a net reversal of DKK 53 million in the second quarter. The continuation of net reversals reflects strong and improved credit quality.

Business Banking

Profit before tax increased 26% from the level in the first nine months of 2016, owing to higher income, lower operating expenses and large net impairment reversals. Total income was up 5% due to higher activity and continually good business momentum, which resulted in higher net interest income and higher net fee income. Loan impairments amounted to net reversals of DKK 772 million as a result of solid credit quality driven by higher property prices and improving macroeconomic conditions.

Business Banking (DKK millions)	Q1-Q3 2017	Q1-Q3 2016	Index 17/16	Q3 2017	Q2 2017	Index Q3/Q2	Q3 2016	Index 17/16	Full year 2016
Net interest income	6,538	6,279	104	2,227	2,176	102	2,078	107	8,427
Net fee income	1,349	1,224	110	443	451	98	435	102	1,629
Net trading income	385	392	98	123	115	107	100	123	568
Other income	405	405	100	131	134	98	117	112	588
Total income	8,677	8,300	105	2,924	2,876	102	2,729	107	11,212
Operating expenses	3,377	3,527	96	1,100	1,164	95	1,198	92	4,791
Profit before loan impairment charges	5,300	4,774	111	1,824	1,711	107	1,532	119	6,421
Loan impairment charges	-772	-54	-	-226	-261	87	-31	-	-235
Profit before tax	6,072	4,828	126	2,050	1,972	104	1,563	131	6,657
Loans, excluding reverse transactions before impairments	690,763	661,496	104	690,763	678,232	102	661,496	104	662,130
Allowance account, loans	11,287	13,812	82	11,287	11,707	96	13,812	82	12,996
Deposits, excluding repo deposits	240,088	224,288	107	240,088	245,588	98	224,288	107	230,096
Bonds issued by Realkredit Danmark	328,193	322,661	102	328,193	318,051	103	322,661	102	323,469
Allowance account, guarantees	387	363	107	387	421	92	363	107	327
Allocated capital (average)	44,765	41,350	108	44,383	44,990	99	41,387	107	41,380
Net interest income as % p.a. of loans and deposits	0.95	0.96		0.97	0.95		0.95		0.96
Profit before tax as % p.a. of allocated capital (ROAC)	18.1	15.6		18.5	17.5		15.1		16.1
Cost/income ratio (%)	38.9	42.5		37.6	40.5		43.9		42.7
Full-time-equivalent staff	2,611	2,712	96	2,611	2,621	100	2,712	96	2,662

Fact Book Q3 2017 provides financial highlights at country level for Business Banking. Fact Book Q3 2017 is available at danskebank.com/ir.

First nine months 2017 vs first nine months 2016

Profit before tax increased 26% to DKK 6.1 billion, owing to improvements in income, operating expenses and impairments in particular.

Total income was 5% higher than in the same period last year, driven by a continuation of good activity in our markets. Lending grew, and we improved our service model, as we are now able to welcome all types of business customers digitally.

We continued to focus strongly on the customer experience to ensure that we maintain the positive development in customer satisfaction. At the core of our efforts were increasingly digital and automated solutions for customers with simple banking needs as well as a stronger focus on value-adding services for customers with more complex needs.

Net interest income rose 4%. Good business momentum and increasing lending volumes were the main drivers of the improvement and offset the pressure on deposit margins resulting from persistently low interest rates. Lending volumes were 4% higher than in the first nine months of 2016 as a result of good activity in all our Nordic markets.

Net fee income was up, partly due to increased lending volumes and high activity in general. Net trading income

decreased 2% from the level in the same period last year due to slightly lower mortgage refinancing activity.

Although regulatory costs continued to increase, operating expenses were down 4%. Our continued focus on improving the customer journey also resulted in efficiency improvements and therefore lower operating expenses than in the first nine months of 2016.

Credit quality

Favourable macroeconomic conditions in Denmark and Sweden, rising property prices and continually strong credit quality resulted in net impairment reversals of DKK 772 million in the first nine months of 2017.

The significant level of reversals was attributable primarily to facilities in Denmark, whereas impairment charges were made in Norway for a few individual customers. In Denmark, the development was primarily driven by positive collateral value adjustments and improved market conditions for the agricultural sector.

Credit exposure

Credit exposure increased DKK 34 billion from the level at the end of 2016, amounting to a total of DKK 801 billion at the end of September 2017.

(DKK millions)	Net credit exposure		Impairments
	30 September 2017	31 December 2016	(ann.) [%] 30 September 2017
Denmark	457,141	448,533	-0.31
Finland	78,531	71,337	-
Sweden	162,655	150,276	-0.06
Norway	82,484	77,840	0.52
Baltics	20,634	19,801	-0.28
Other	14	7	-
Total	801,458	767,794	-0.15

Q3 2017 vs Q2 2017

Profit before tax increased 4% due to higher income and lower operating expenses.

Total income was up 2%, driven by higher net interest income. Net interest income rose as a result of good business momentum and higher lending volumes.

Net trading income was up 7% due to higher refinancing activity at Realkredit Danmark in the third quarter.

Operating expenses decreased 5%, owing partly to seasonality.

Loan impairments remained at a low level, amounting to net reversals of DKK 226 million in the third quarter of 2017.

Corporates & Institutions

Profit before tax amounted to DKK 4.9 billion, an increase of DKK 1.4 billion from the level in the same period last year. The increase was based primarily on higher customer activity in the financial markets, driving both fee and trading income. Operating expenses were flat despite the increase in activity. Loan impairment charges decreased owing to a stabilisation in the offshore sector.

Corporates & Institutions (DKK millions)	Q1-Q3 2017	Q1-Q3 2016	Index 17/16	Q3 2017	Q2 2017	Index Q3/Q2	Q3 2016	Index 17/16	Full year 2016
Net interest income	2,324	2,266	103	781	785	99	778	100	3,061
Net fee income	1,907	1,596	119	552	632	87	478	115	2,221
Net trading income	4,603	3,934	117	1,179	1,349	87	1,560	76	5,263
Other income	1	21	5	-	1	-	5	-	16
Total income	8,835	7,816	113	2,513	2,767	91	2,821	89	10,561
Operating expenses	3,532	3,496	101	1,128	1,187	95	1,176	96	4,648
Profit before loan impairment charges	5,303	4,321	123	1,385	1,580	88	1,644	84	5,913
Loan impairment charges	385	789	49	138	168	82	468	29	1,071
Profit before tax	4,918	3,532	139	1,248	1,411	88	1,176	106	4,842
Loans, excluding reverse trans. before impairments	187,108	189,130	99	187,108	192,201	97	189,130	99	197,212
Allowance account, loans	2,138	2,209	97	2,138	2,058	104	2,209	97	2,466
Allowance account, credit institutions	10	38	26	10	12	83	38	26	40
Deposits, excluding repo deposits	282,791	249,733	113	282,791	265,045	107	249,733	113	233,315
Bonds issued by Realkredit Danmark	17,765	18,640	95	17,765	19,455	91	18,640	95	17,722
Allowance account, guarantees	127	251	51	127	453	28	251	51	256
Allocated capital (average)	36,696	37,980	97	33,990	37,141	92	36,749	92	38,024
Net interest income as % p.a. of loans and deposits	0.66	0.69		0.67	0.69		0.71		0.72
Profit before tax as % p.a. of allocated capital (ROAC)	17.9	12.4		14.7	15.2		12.8		12.7
Cost/income ratio (%)	40.0	44.7		44.9	42.9		41.7		44.0
Full-time-equivalent staff	1,786	1,812	99	1,786	1,774	101	1,812	99	1,796

Total income (DKK millions)

FICC	3,980	3,409	117	997	1,129	88	1,376	72	4,525
Capital Markets	1,413	1,161	122	368	505	73	337	109	1,670
General Banking	3,443	3,247	106	1,148	1,133	101	1,107	104	4,366
Total income	8,835	7,816	113	2,513	2,767	91	2,821	89	10,561

First nine months 2017 vs first nine months 2016

Corporates & Institutions saw higher customer activity than in the first nine months of 2016. The beginning of 2016 was characterised by challenging market conditions, whereas 2017 saw a strong beginning to the year with more modest activity in the third quarter.

The higher level of activity in the first nine months of 2017 was fuelled mainly by geopolitical events early in the period, which led to high customer activity especially in Fixed Income, Currencies and Commodities (FICC) and Capital Markets.

The third quarter was characterised by lower customer activity as a result of seasonality and the ambiguous situation around North Korea. Towards the end of the third quarter, activity rebounded somewhat due to customers' more positive outlook for yields in our core markets.

Overall, total income increased 13% to DKK 8.8 billion.

Net interest income rose 3% following increased deposit and lending volumes (excluding repos and collateral management) from both corporate and institutional customers.

Net fee income increased 19% owing to increased customer activity, mainly in Debt Capital Markets (DCM), Equity Capital Markets (ECM), Equities and Corporate Finance, as well as a number of large customer transactions in General Banking.

Net trading income rose 17% to DKK 4.6 billion. The improvement was driven by high customer trading activity in the financial markets, especially early in the year.

Total income from FICC amounted to DKK 4.0 billion, an increase of 17% from the level in the first nine months of 2016. The increase was driven by a combination of high daily customer activity and event-driven transactions caused by geopolitical events.

Capital Markets income amounted to DKK 1.4 billion, an increase of 22% from the same period last year. Corporate Finance and ECM saw high activity, especially within the area of mergers and acquisitions (M&A) and Initial Public Offerings (IPO).

DCM had a large number of new bond issues, assisting customers in entering the debt capital markets and at the same time facilitating investor interest. The level of activity fell during the summer period, but activity recovered towards the end of the third quarter.

Income from General Banking was up 6% from the same period in 2016, owing to higher volumes and increased transaction banking services.

Operating expenses were flat - despite increasing activity in 2017. This was due, among other things to a continued focus on cost efficiency gains.

Credit quality

In the first nine months of 2017, loan impairment charges totalled DKK 385 million and covered mainly exposures within the shipping/offshore and consumer discretionary segments. At 30 September 2017, total credit exposure from lending activities, including repo transactions, amounted to DKK 898 billion. The portfolio has grown by 10% in 2017, due mainly to increased exposure to central banks.

(DKK millions)	Net credit exposure		Impairments
	30 September 2017	31 December 2016	(ann.) (%) 30 September 2017
Sovereign	343,813	248,195	-
Financial Institutions	166,973	197,811	-0.01
Corporate	387,247	370,988	0.23
Other	247	145	-
Total	898,280	817,139	0.12

The sovereign portfolio consists primarily of exposures to the stable, highly rated Nordic sovereigns and to central banks. Most of the exposure to financial institutions consists of repo lending facilities. The corporate portfolio is diverse and consists mainly of large companies based in the Nordic countries and large international customers with activities in the Nordic region.

Q3 2017 vs Q2 2017

Profit before tax decreased 12%, owing mainly to lower net trading income and lower net fee income as a consequence of seasonality.

At FICC, income fell 12% during the summer period after a second quarter that saw higher activity in the financial markets.

At Capital Markets, total income fell 27%, owing mainly to lower activity in all areas because of seasonality and uncertainty surrounding geopolitical events.

Operating expenses were down 5% from the level in the preceding quarter, owing mainly to lower performance-based compensation and cost efficiency gains.

Wealth Management

Profit before tax amounted to DKK 3.2 billion, an increase of 2% from the level in the first nine months of 2016. The financial performance was driven by a net inflow of customers, strong premium growth in Danica Pension and improving net sales in Asset Management. Operating expenses were higher in the first nine months of 2017 due to increased activity, regulatory costs and costs for the transformation of the asset management organisation.

Wealth Management (DKK millions)	Q1-Q3 2017	Q1-Q3 2016	Index 17/16	Q3 2017	Q2 2017	Index Q3/Q2	Q3 2016	Index 17/16	Full year 2016
Net interest income	532	499	107	176	174	101	167	105	675
Net fee income	5,132	4,584	112	1,621	1,761	92	1,533	106	6,732
Net trading income	348	443	79	144	101	143	299	48	591
Other income	121	352	34	24	69	35	90	27	574
Total income	6,134	5,878	104	1,966	2,106	93	2,089	94	8,572
Operating expenses	2,975	2,784	107	940	1,019	92	902	104	3,887
Profit before loan impairment charges	3,159	3,094	102	1,027	1,087	94	1,188	86	4,685
Loan impairment charges	-70	-82	85	-25	-20	125	-8	-	-137
Profit before tax	3,229	3,176	102	1,052	1,107	95	1,195	88	4,823
Loans, excluding reverse trans. before impairments	74,790	71,677	104	74,790	73,652	102	71,677	104	72,473
Allowance account, loans	444	595	75	444	438	101	595	75	532
Deposits, excluding repo deposits	66,280	63,948	104	66,280	66,707	99	63,948	104	62,881
Bonds issued by Realkredit Danmark	33,938	30,795	110	33,938	34,750	98	30,795	110	31,341
Allowance account, guarantees	20	8	250	20	42	48	8	250	2
Allocated capital (average)	13,989	13,937	100	14,030	14,403	97	12,480	112	14,047
Net interest income as % p.a. of loans and deposits	0.50	0.49		0.50	0.50		0.49		0.50
Profit before tax as % p.a. of allocated capital (ROAC)	30.8	30.4		30.0	30.7		38.3		34.3
Cost/income ratio (%)	48.5	47.4		47.8	48.4		43.2		45.3
Full-time-equivalent staff	1,870	1,980	94	1,870	1,906	98	1,980	94	1,948

Breakdown of assets under management* (DKK billions)

Life conventional	155	168	92	155	155	100	168	92	161
Asset management	894	801	112	894	878	102	801	112	848
Assets under advice	467	414	113	467	460	102	414	113	412
Total assets under management	1,515	1,383	110	1,515	1,493	101	1,383	110	1,420

Breakdown of net fee income (DKK millions)

Management fees	4,297	3,712	116	1,356	1,475	92	1,242	109	4,825
Performance fees	47	19	247	8	24	33	4	200	501
Risk allowance fees	788	853	92	258	262	98	287	90	1,405
Total net fee income	5,132	4,584	112	1,621	1,761	92	1,533	106	6,732

*Assets under management consists of our life conventional business (Danica Traditionel), asset management (Danica unit-linked and Asset Management) and assets under advice (the investment decision is made by the customer) from personal, business and private banking customers.

First nine months 2017 vs first nine months 2016

Profit before tax amounted to DKK 3.2 billion, an increase of 2% from the level in the first nine months of 2016. The financial performance was driven by a net inflow of customers and strong premium growth in Danica Pension and improving net sales in Asset Management.

Net interest income was up 7% to DKK 0.5 billion as a result of a 4% increase in lending volumes.

Net fee income benefited from an increase in assets under management and new product launches. Net fee income thus amounted to DKK 5.1 billion and was up 12% from the level in the first nine months of 2016.

Net trading income decreased 21% to DKK 0.3 billion due to one-off income relating to insurance contracts in 2016.

Operating expenses were up 7% as a consequence of increased activity, regulatory implementation and costs for the transformation of the asset management organisation in the beginning of the year.

Credit quality

Credit quality was generally stable. Our markets are supported by generally favourable macroeconomic conditions and a low level of interest rates.

Loan impairment charges amounted to net reversals of DKK 70 million in the first nine months of 2017.

Overall, the loan-to-value (LTV) level was stable throughout the first nine months of 2017.

Loan-to-value ratio, home loans	30 September 2017		31 December 2016	
	Average LTV (%)	Net credit exposure (DKK bn)	Average LTV (%)	Net credit exposure (DKK bn)
Denmark	60.1	40	60.7	38
Finland	65.5	2	65.5	2
Sweden	57.3	4	59.4	3
Norway	58.8	7	59.7	7
Total	59.9	53	60.6	50

Credit exposure

Credit exposure increased to DKK 84 billion in the first nine months of 2017, driven by growth in all markets. Growth in Norway was partly off-set by the weakening of the Norwegian krone during 2017.

(DKK millions)	Net credit exposure		Impairments (ann.) (%)
	30 September 2017	31 December 2016	30 September 2017
Denmark	56,133	56,086	-0.20
Finland	3,449	3,380	0.09
Sweden	6,270	5,821	-0.04
Norway	10,975	10,599	0.20
Luxembourg	6,863	6,411	-0.03
Total	83,690	82,297	-0.12

Assets under management

Assets under management consist of our life conventional business (*Danica Traditionel*), asset management (Danica unit-linked and Asset Management) as well as assets under advice, where the customer makes the investment decision. At the end of September 2017, assets under management totalled DKK 1,515 billion.

Assets under management increased 7%, or DKK 95 billion, from the level at the end of 2016, driven by a positive inflow from net sales, premiums and higher market values. For Asset Management, net sales in the first nine months of 2017 amounted to DKK 11.0 billion, which came from institutional and retail customers, against DKK 3.7 billion in the same period of 2016. Net premiums for Danica Pension amounted to DKK 29.3 billion, against DKK 24.6 billion in the first nine months of 2016.

Investment return on customer funds

The strengthened investment team continued to deliver satisfactory returns to our customers. For our asset management business, 74% of all investment products generated above-benchmark results, against 66% in the same period of 2016. On a 3-year horizon, 77% were above benchmark.

% of investment products (GIPS composites) with above-benchmark returns (pre-costs)*	2017	3-year
	All funds	74
Equity funds	61	73
Fixed-income funds	86	81
Balanced funds etc.	86	80

*Source: Investment Performance, based on results from Global Investment Performance Standard

Customers with *Danica Balance Mix* achieved returns on investments of 3.9% to 9.8%. The return for customers with *Danica Balance* (medium risk profile with 15 years to retirement) was 7.0%.

Q3 2017 vs Q2 2017

In the third quarter of 2017, profit before tax decreased to DKK 1.1 billion, down 5% from the level in the second quarter of 2017.

Total income decreased 7%. The decrease was owing partly to lower management fees in Private Wealth Management as a result of lower activity in the third quarter and lower performance fees.

Net trading income increased 43% from the second quarter due to a higher investment result for the health and accident business of Danica Pension.

Net sales for Asset Management, excluding Danica Pension, amounted to a negative DKK 1.8 billion, against a positive DKK 3.0 billion in the second quarter. The decrease was due to some investors insourcing asset management services. Net sales to retail and private banking customers stagnated due to the limited activity that is normal during the summer season.

Net premiums in Danica Pension amounted to DKK 8.9 billion, against DKK 9.0 billion in the second quarter.

Operating expenses were 8% lower in the third quarter due to lower activity and lower severance pay.

Northern Ireland

Profit before tax decreased 27% to DKK 660 million on the basis of the negative impact of lower UK interest rates on net interest income, lower loan impairment reversals and movements in the GBP/DKK exchange rate (9%). Despite the continued macroeconomic uncertainty, the underlying performance was strong. Customer activity levels were high, and we saw growth in both business and personal lending.

Northern Ireland (DKK millions)	Q1-Q3 2017	Q1-Q3 2016	Index 17/16	Q3 2017	Q2 2017	Index Q3/Q2	Q3 2016	Index 17/16	Full year 2016
Net interest income	1,026	1,117	92	334	350	95	340	98	1,458
Net fee income	328	363	90	100	113	88	129	78	471
Net trading income	54	102	53	10	20	50	55	18	126
Other income	8	16	50	2	3	67	3	67	18
Total income	1,417	1,598	89	447	486	92	528	85	2,072
Operating expenses	911	909	100	298	304	98	296	101	1,243
Profit before loan impairment charges	505	689	73	148	181	82	232	64	829
Loan impairment charges	-154	-211	73	-24	-69	35	-60	40	-234
Profit before tax	660	901	73	173	250	69	293	59	1,063
Loans, excluding reverse transactions before impairments	46,241	45,741	101	46,241	46,078	100	45,741	101	45,575
Allowance account, loans	914	1,868	49	914	980	93	1,868	49	1,262
Deposits, excluding repo deposits	59,460	57,586	103	59,460	58,965	101	57,586	103	59,244
Allowance account, guarantees	9	23	39	9	9	100	23	39	11
Allocated capital (average)*	6,056	7,639	79	6,081	6,107	100	6,268	97	7,326
Net interest income as % p.a. of loans and deposits	1.31	1.47		1.27	1.35		1.34		1.41
Profit before tax as % p.a. of allocated capital (ROE)	14.5	15.7		11.4	16.4		18.7		14.5
Cost/income ratio (%)	64.3	56.9		66.7	62.6		56.1		60.0
Full-time-equivalent staff	1,318	1,290	102	1,318	1,323	100	1,290	102	1,289

* Allocated capital equals the legal entity's capital.

First nine months 2017 vs first nine months 2016

Profit before tax decreased 27% to DKK 660 million. The decrease was the result of lower total income and lower loan impairment reversals. Total income stood at DKK 1,417 million, down 11%, with ongoing macroeconomic uncertainty resulting in a continuation of low GDP growth, low interest rates and a weak GBP. The effect was partly offset by growth in lending and deposits, however. Customer activity levels are high, and the business continues to perform well as evidenced by growth in both business and personal lending as well as higher deposit volumes.

Operating expenses were flat at DKK 911 million, including the positive exchange rate effect.

Loan impairment charges continued to show a net reversal. Even though the reversal was lower than in the same period last year, it was indicative of a continuing improvement in property values and in the trading results of our business customers.

First nine months 2017 vs first nine months 2016 in local currency

In local currency, profit before tax decreased 21%.

The underlying performance was positive when excluding the impact of lower UK interest rates and a one-off gain on the sale of VISA Europe in 2016.

Despite the uncertain macroeconomic environment, lending and deposit volumes were higher for both business and personal customers, with lending 8% higher year-on-year.

Our home mortgage offering, for example, helped drive significant new business in the first nine months of 2017.

Operating expenses increased 9%, reflecting increased restructuring costs, pension-related costs and costs associated with the implementation of our investment programme - introduced to drive competitiveness, efficiency and the delivery of new solutions for customers. Underlying costs continued to be managed tightly.

Credit quality

Loan impairment reversals amounted to DKK 154 million for the first nine months of 2017, reflecting higher property values and the improvement of customer financials.

(DKK millions)	Net credit exposure		Impairments (ann.) (%)
	30 September 2017	31 December 2016	30 September 2017
Personal customers	18,890	18,022	0.10
Public institutions	14,738	15,992	0.02
Financial customers	163	194	0.29
Commercial customers	30,085	29,348	-0.93
Total	63,876	63,555	-0.46

Q3 2017 vs Q2 2017

Profit before tax fell in the third quarter of 2017, because of reduced impairment reversals and depreciation of the pound sterling.

The underlying business momentum was maintained with continued lending and deposit growth.

Non-core

Profit before tax for the first nine months of 2017 was a negative DKK 39 million. The winding-up of the Non-core portfolios is proceeding according to plan. Total lending has thus decreased 17% since the end of September 2016 and stood at DKK 18.8 billion at 30 September 2017.

Non-core (DKK millions)	Q1-Q3 2017	Q1-Q3 2016	Index 17/16	Q3 2017	Q2 2017	Index Q3/Q2	Q3 2016	Index 17/16	Full year 2016
Total income	127	190	67	41	42	98	46	89	235
Operating expenses	406	284	143	268	76	-	105	255	363
Profit before loan impairment charges	-279	-93	300	-227	-34	-	-60	-	-128
Loan impairment charges	-240	-98	245	-233	-9	-	-17	-	-165
Profit before tax	-39	5	-	6	-25	-	-42	-	37
Loans, excluding reverse transactions before impairments	18,817	22,626	83	18,817	19,517	96	22,626	83	21,504
Allowance account, loans	1,781	2,885	62	1,781	2,192	81	2,885	62	2,644
Deposits, excluding repo deposits	1,958	2,850	69	1,958	1,978	99	2,850	69	2,365
Allowance account, guarantees	29	31	94	29	31	94	31	94	33
Allocated capital (average)	2,679	2,999	89	2,768	2,714	102	2,768	100	2,878
Net interest income as % p.a. of loans and deposits	0.95	1.13		0.88	0.95		0.87		1.13
Profit before tax as % p.a. of allocated capital (ROAC)	-1.9	0.2		0.9	-3.7		-6.1		1.3
Cost/income ratio (%)	319.7	149.5		653.7	181.0		228.3		154.5
Full-time-equivalent staff	124	154	81	124	131	95	154	81	153

Loan impairment charges (DKK millions)

Non-core banking*	-240	-97	247	-233	-9	-	-17	-	-164
Non-core conduits etc.	-	-1	-	-	-	-	-	-	-1
Total	-240	-98	245	-233	-9	-	-17	-	-165

* Non-core banking encompasses Non-core Baltics (personal customers in Estonia) and Non-core Ireland.

First nine months 2017 vs first nine months 2016

Profit before tax was a loss of DKK 39 million, against a profit of DKK 5 million in the first nine months of 2016, with the decrease being caused by a decrease in income resulting from the continued reduction of the loan portfolio.

Operating expenses increased from DKK 284 million to DKK 406 million for the first nine months of 2017 owing primarily to various activities and costs related to portfolio sales.

Total lending, which amounted to DKK 18.8 billion, consisted mainly of exposure to personal mortgages and conduits. Personal mortgages in Estonia and Ireland will mature according to contractual terms.

The Non-core conduits portfolio amounted to DKK 5.0 billion, against DKK 6.3 billion at the end of 2016. The portfolio consists mainly of liquidity facilities for conduits. The credit quality of the portfolio was stable.

(DKK millions)	Net credit exposure		Accumulated impairment charges	
	30 Sep. 2017	31 Dec. 2016	30 Sep. 2017	31 Dec. 2016
Non-core banking	15,679	17,103	1,564	2,437
-of which Personal customers	15,679	16,966	1,317	1,791
Non-core conduits etc.	5,032	6,343	245	239
Total	20,711	23,446	1,810	2,676

Total impairments amounted to a net reversal of DKK 240 million, against a net reversal of DKK 98 million in the first nine months of 2016. Most of the reversals were of charges against facilities in Non-core banking.

The portfolio of performing Irish mortgage loans with gross value of DKK 13 billion has been sold in October 2017 with effect from mid December 2017, as when the exposure will thus not affect the Group capital charge.

The winding-up of the Non-core portfolios is proceeding according to plan.

Q3 2017 vs Q2 2017

Profit before tax amounted to DKK 6 million, up from a loss of DKK 25 million in the second quarter. The increase was owing mainly to higher net reversals.

Operating expenses amounted to DKK 268 million, up DKK 192 million from the level in the second quarter. The increase was owing primarily to various activities and costs related to portfolio sales in the third quarter.

Loan impairment charges amounted to a net reversal of DKK 233 million, against a net reversal of DKK 9 million in the second quarter. Most of the reversals were of charges against facilities in Non-core banking.

Other Activities

Other Activities includes Group Treasury and Group support functions as well as eliminations. Group Treasury is responsible for the Group's internal bank, liquidity management and funding.

Other Activities (DKK millions)	Q1-Q3 2017	Q1-Q3 2016	Index 17/16	Q3 2017	Q2 2017	Index Q3/Q2	Q3 2016	Index 17/16	Full year 2016
Net interest income	1,038	354	293	435	244	178	230	189	747
Net fee income	-194	-102	190	-56	-105	53	-51	110	-175
Net trading income	455	1,028	44	179	118	152	414	43	1,498
Other income	75	1,134	7	-6	75	-	230	-	1,331
Total income	1,374	2,414	57	553	334	166	823	67	3,401
Operating expenses	554	210	264	195	185	105	-27	-	419
Profit before loan impairment charges	820	2,204	37	357	149	240	849	42	2,982
Loan impairment charges	-	5	-	-3	3	-	5	-	9
Profit before tax	820	2,199	37	360	146	247	844	43	2,973

Profit before tax (DKK millions)	Q1-Q3 2017	Q1-Q3 2016	Index 17/16	Q3 2017	Q2 2017	Index Q3/Q2	Q3 2016	Index 17/16	Full year 2016
Group Treasury	1,106	1,238	89	404	274	147	734	55	2,005
Own shares	-160	-68	235	-6	-43	14	-65	9	-135
Additional tier 1 capital	589	486	121	198	197	101	164	121	663
Group support functions	-715	542	-	-237	-283	84	12	-	440
Total Other Activities	820	2,199	37	360	146	247	844	43	2,973

First nine months 2017 vs first nine months 2016

Other Activities posted a profit before tax of DKK 820 million, against DKK 2,199 million in the first nine months of 2016, which benefited from a gain related to the sale of domicile property in Copenhagen.

Net interest income amounted to DKK 1,038 million, against DKK 354 million in the first nine months of 2016. The result primarily reflects elimination of the interest expense on additional tier 1 capital, reported as an interest expense in the business segments, differences at the internal bank between actual and allocated funding costs using the Group's funds transfer pricing model, as well as income related to the Group's liquidity portfolio. In the first nine months of 2017, the internal bank's actual liquidity costs fell, and income from the liquidity portfolio increased.

Net trading income amounted to DKK 455 million, against DKK 1,028 million in the first nine months of 2016. The first nine months of 2016 benefited from a one-off gain on the sale of VISA Europe and positive fair value adjustments of the liquidity portfolio and the private equity portfolio.

Other income amounted to DKK 75 million, against DKK 1,134 million in the first nine months of 2016. In the first nine months of 2016, other income included a gain related to the sale of domicile property in Copenhagen.

Q3 2017 vs Q2 2017

Profit before tax was DKK 360 million, against DKK 146 million in the second quarter.

Net interest income amounted to DKK 435 million and was up 78% from the level in the second quarter. The increase was due to higher income resulting from a temporary surplus at the internal bank vis-à-vis the business units.

Net trading income amounted to DKK 179 million, against DKK 118 million in the second quarter. Net trading income benefited from positive fair value adjustments related to Group Treasury activities.

Other income amounted to a loss of DKK 6 million, against a gain of DKK 75 million in the second quarter, which benefited from the sale of shares in an associated company.

Definition of alternative performance measures

Danske Bank's management believes that the alternative performance measures (APMs) used in the Management's report provide valuable information to readers of the financial statements. The APMs provide a more consistent basis for comparing the results of financial periods and for assessing the performance of the Group and each individual business unit. They are also an important aspect of the way in which Danske Bank's management defines operating targets and monitors performance.

Throughout the Management's report, performance is assessed on the basis of the financial highlights and segment reporting, which represent the financial information regularly provided to management. The differences between the financial highlights and the IFRS financial statements relate only to certain changes in the presentation. There are no adjusting items, which means that net profit is the same in the financial highlights and in the IFRS income statement. In note 2 to the financial statements, the difference in the presentation is described and each line item is reconciled with the consolidated financial statements prepared under the IFRS.

Definitions of additional ratios and key figures presented on page 3 and in other sections of the Management's report:

Ratios and key figures	Definition
Dividend per share (DKK)	The dividend is the dividend related to net profit for the current year and paid to shareholders the subsequent year. Hence, for 2016, it is the dividend paid in 2017.
Return on average shareholders' equity (% p.a.)	Net profit (annualised) divided by quarterly average shareholders' equity. Net profit and shareholders' equity are stated as if the equity-accounted additional tier 1 capital was classified as a liability. In the nominator, net profit is reduced by interest expenses of DKK 589 million and tax thereon (2016: DKK 663 million before tax), and the denominator represents equity excluding additional tier 1 capital and other non-controlling interests.
Return on average tangible equity (% p.a.)	As above but with shareholders' equity reduced by intangible assets and net profit adjusted for amortisation of intangible assets.
Net interest income as % p.a. of loans and deposits	Net interest income (annualised) in the financial highlights divided by the sum of loans and deposits. All amounts are from the financial highlights.
Cost/income ratio (%)	Operating expenses divided by total income. All amounts are from the financial highlights.
Book value per share	Shareholders' equity (that is, excluding equity-accounted additional tier 1 capital) divided by the number of shares outstanding at the end of the period.
Loan impairment charges (% p.a. of credit exposure)	The key figure is calculated on the basis of loan impairment charges and credit exposure from lending activities in core segments. The nominator is the loan impairment charges (annualised) from the financial highlights. The denominator is the net credit exposure from lending activities in core segments at the beginning of the year of DKK 2,533.8 billion, as disclosed in the "Breakdown of credit exposure" table in the Notes to the financial statements, reduced by credit exposure related to credit institutions and central banks of DKK 289.3 billion and loan commitments of DKK 275.5 billion. The key ratio is calculated for each business unit.

Financial statements

Income statement	27
Statement of comprehensive income	28
Balance sheet	29
Statement of capital	30
Cash flow statement	33

Notes

Note 1: Significant accounting policies and estimates	34
Note 2: Business model and business segmentation	36
Note 3: Other income	39
Note 4: Loan impairment charges and reconciliation of total allowance account	39
Note 5: Deposits	39
Note 6: Issued bonds and subordinated debt	40
Note 7: Other assets and other liabilities	40
Note 8: Contingent liabilities	41
Note 9: Assets provided or received as collateral	42
Note 10: Fair value information for financial instruments	43
Note 11: Events after the reporting date	43

Risk Management	47
Breakdown of credit exposure	47
Forbearance practices and repossessed assets	51
Non-performing loans	52
Allowance account in core activities	52
Credit exposure from Non-core lending activities	53
Non-performing loans in Non-core activities	54
Counterparty risk	54
Bond portfolio	54

Income statement – Danske Bank Group

Note	(DKK millions)	Q1-Q3 2017	Q1-Q3 2016	Q3 2017	Q3 2016	Full year 2016
	Interest income	43,720	42,271	15,352	13,916	59,618
	Interest expense	21,388	17,903	7,237	5,694	27,289
	Net interest income	22,332	24,368	8,115	8,222	32,329
	Fee income	12,867	11,445	4,003	3,880	15,883
	Fee expenses	5,163	4,061	1,826	967	5,736
	Net trading income	15,271	6,946	4,301	7,080	13,396
3	Other income	3,805	4,183	1,186	1,043	6,006
	Income from holdings in associates	457	-	192	-	941
	Net premiums	19,320	18,454	5,896	8,338	24,686
	Net insurance benefits	31,189	24,910	9,684	15,037	37,669
	Operating expenses	19,014	18,047	6,345	6,045	24,647
	Profit before loan impairment charges	18,686	18,377	5,837	6,514	25,189
4	Loan impairment charges	-872	59	-399	247	-168
	Profit before tax	19,558	18,318	6,236	6,267	25,357
	Tax	4,307	4,050	1,305	1,362	5,500
	Net profit for the period	15,251	14,268	4,931	4,905	19,858
	Portion attributable to shareholders of Danske Bank A/S (the Parent Company)	14,662	13,782	4,733	4,741	19,195
	additional tier 1 capital holders	589	485	198	164	663
	Net profit for the period	15,251	14,268	4,931	4,905	19,858
	Earnings per share (DKK)	16.1	14.4	5.3	5.0	20.2
	Diluted earnings per share (DKK)	16.0	14.4	5.3	5.0	20.2
	Proposed dividend per share (DKK)	-	-	-	-	9.0

Statement of comprehensive income – Danske Bank Group

(DKK millions)	Q1-Q3 2017	Q1-Q3 2016	Q3 2017	Q3 2016	Full year 2016
Net profit for the period	15,251	14,268	4,931	4,905	19,858
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Remeasurement of defined benefit plans	31	-985	199	-521	-972
Tax	-24	207	-48	74	234
Items that will not be reclassified to profit or loss	7	-778	151	-447	-738
Items that are or may be reclassified subsequently to profit or loss					
Translation of units outside Denmark	-347	-1,338	-57	-227	-1,274
Hedging of units outside Denmark	326	1,336	53	236	1,234
Unrealised value adjustments of available-for-sale financial assets	71	236	-12	44	309
Realised value adjustments of available-for-sale financial assets	-22	-10	-8	-2	-10
Tax	-91	-249	-9	-22	-257
Items that are or may be reclassified subsequently to profit or loss	-63	-25	-33	29	2
Total other comprehensive income	-56	-803	118	-418	-736
Total comprehensive income for the period	15,195	13,465	5,049	4,487	19,122
Portion attributable to					
shareholders of Danske Bank A/S (the Parent Company)	14,606	12,980	4,851	4,324	18,459
additional tier 1 capital holders	589	485	198	163	663
Total comprehensive income for the period	15,195	13,465	5,049	4,487	19,122

Balance sheet – Danske Bank Group

Note	(DKK millions)	30 September 2017	31 December 2016	30 September 2016
Assets				
	Cash in hand and demand deposits with central banks	90,401	53,211	64,374
	Due from credit institutions and central banks	289,165	245,479	255,793
	Trading portfolio assets	467,607	509,679	552,921
	Investment securities	324,181	343,337	335,425
	Loans at amortised cost	1,143,833	1,141,567	1,127,393
	Loans at fair value	784,638	766,003	765,547
	Assets under pooled schemes and unit-linked investment contracts	109,774	99,848	94,092
	Assets under insurance contracts	297,538	285,398	309,412
	Intangible assets	7,087	6,790	6,670
	Tax assets	1,646	1,283	2,494
7	Others assets	31,913	31,075	34,446
	Total assets	3,547,785	3,483,670	3,548,569
Liabilities				
	Due to credit institutions and central banks	256,238	272,883	333,440
	Trading portfolio liabilities	408,537	478,301	479,244
	Deposits	1,051,135	943,865	957,601
	Bonds issued by Realkredit Danmark	749,414	726,732	715,730
	Deposits under pooled schemes and unit-linked investment contracts	117,390	106,418	101,950
	Liabilities under insurance contracts	320,253	314,977	337,817
6	Other issued bonds	409,035	392,512	382,487
	Tax liabilities	8,301	8,151	8,077
7	Other liabilities	32,712	35,385	33,706
6	Subordinated debt	29,390	37,831	38,249
	Total liabilities	3,382,406	3,317,055	3,388,302
Equity				
	Share capital	9,368	9,837	9,837
	Foreign currency translation reserve	-654	-633	-595
	Reserve for available-for-sale- financial assets	236	187	115
	Retained earnings	141,995	134,028	139,448
	Proposed dividends	-	8,853	-
	Shareholders of Danske Bank A/S (the Parent Company)	150,945	152,272	148,806
	Additional tier 1 capital holders	14,435	14,343	11,460
	Total equity	165,380	166,615	160,266
	Total liabilities and equity	3,547,785	3,483,670	3,548,569

Statement of capital – Danske Bank Group

Changes in equity

(DKK millions)	Shareholders of Danske Bank A/S (the Parent Company)							Additional tier 1 capital	Total
	Share capital	Foreign currency translation reserve	Reserve for available-for-sale assets	Retained earnings	Proposed dividends	Total			
Total equity at 1 January 2017	9,837	-633	187	134,028	8,853	152,272	14,343	166,615	
Net profit for the period	-	-	-	14,662	-	14,662	589	15,251	
Other comprehensive income									
Remeasurement of defined benefit plans	-	-	-	31	-	31	-	31	
Translation of units outside Denmark	-	-347	-	-	-	-347	-	-347	
Hedging of units outside Denmark	-	326	-	-	-	326	-	326	
Unrealised value adjustments	-	-	71	-	-	71	-	71	
Realised value adjustments	-	-	-22	-	-	-22	-	-22	
Transfer between reserves	-	-	-	-	-	-	-	-	
Tax	-	-	-	-115	-	-115	-	-115	
Total other comprehensive income	-	-21	49	-84	-	-56	-	-56	
Total comprehensive income for the period	-	-21	49	14,578	-	14,606	589	15,195	
Transactions with owners									
Paid interest on additional tier 1 capital	-	-	-	-	-	-	-427	-427	
Dividends paid	-	-	-	521	-8,853	-8,332	-	-8,332	
Share capital reduction	-469	-	-	469	-	-	-	-	
Acquisition of own shares and additional tier 1 capital	-	-	-	-40,332	-	-40,332	-176	-40,508	
Sale of own shares and additional tier 1 capital	-	-	-	32,609	-	32,609	106	32,715	
Share-based payments	-	-	-	-	-	-	-	-	
Tax	-	-	-	122	-	122	-	122	
Total equity at 30 September 2017	9,368	-654	236	141,995	-	150,945	14,435	165,380	

On 3 February 2017, the Group initiated a share buy-back programme of DKK 10 billion, which may run until 2 February 2018. At the end of September 2017, the Group had acquired 27,356,000 shares for a total amount of DKK 6,716 million under the share buy-back programme based on trade date.

On 24 April 2017, the share capital was reduced by DKK 468,851,130 by cancelling 46,885,113 shares from Danske Bank's holding of own shares acquired under the share buy-back programme for 2016.

Statement of capital – Danske Bank Group

Changes in equity

(DKK millions)	Shareholders of Danske Bank A/S (the Parent Company)							Additional tier 1 capital	Total
	Share capital	Foreign currency translation reserve	Reserve for available-for-sale assets	Retained earnings	Proposed dividends	Total			
Total equity at 1 January 2016	10,086	-593	-401	132,147	8,069	149,308	11,317	160,625	
Net profit for the period	-	-	-	13,783	-	13,783	485	14,268	
Other comprehensive income									
Remeasurement of defined benefit plans	-	-	-	-985	-	-985	-	-985	
Translation of units outside Denmark	-	-1,338	-	-	-	-1,338	-	-1,338	
Hedging of units outside Denmark	-	1,336	-	-	-	1,336	-	1,336	
Unrealised value adjustments	-	-	236	-	-	236	-	236	
Realised value adjustments	-	-	-10	-	-	-10	-	-10	
Transfer between reserves	-	-	289	-289	-	-	-	-	
Tax	-	-	-	-42	-	-42	-	-42	
Total other comprehensive income	-	-2	515	-1,316	-	-803	-	-803	
Total comprehensive income for the period	-	-2	515	12,467	-	12,980	485	13,465	
Transactions with owners									
Paid interest on additional tier 1 capital	-	-	-	-	-	-	-325	-325	
Dividends paid	-	-	-	311	-8,069	-7,758	-	-7,758	
Share capital reduction	-249	-	-	249	-	-	-	-	
Acquisition of own shares and additional tier 1 capital	-	-	-	-28,268	-	-28,268	-57	-28,325	
Sale of own shares and additional tier 1 capital	-	-	-	22,449	-	22,449	40	22,489	
Share-based payments	-	-	-	-	-	-	-	-	
Tax	-	-	-	95	-	95	-	95	
Total equity at 30 September 2016	9,837	-595	115	139,448	-	148,806	11,460	160,266	

Statement of capital – Danske Bank Group

	30 September 2017	31 December 2016
Share capital (DKK)	9,368,277,220	9,837,128,350
Number of shares	936,827,722	983,712,835
Number of shares outstanding	904,059,646	935,259,793
Average number of shares outstanding for the period	921,595,805	957,213,435
Average number of shares outstanding, including dilutive shares, for the period	922,186,237	957,737,581

(DKK millions)

	30 September 2017	31 December 2016
Total capital and total capital ratio		
Total equity	165,380	166,615
Revaluation of domicile property at fair value	272	306
Tax effect of revaluation of domicile property at fair value	-22	-36
Total equity calculated in accordance with the rules of the Danish FSA	165,630	166,885
Additional tier 1 capital instruments included in total equity	-14,091	-14,133
Accrued interest on additional tier 1 capital instruments	-331	-169
Tax on accrued interest on additional tier 1 capital instruments	73	37
Common equity tier 1 capital instruments	151,281	152,621
Adjustment to eligible capital instruments	-3,541	-1,102
Prudent valuation	-865	-1,153
Prudential filters	-266	-397
Expected/proposed dividends	-7,626	-8,853
Intangible assets of banking operations	-7,007	-6,707
Deferred tax on intangible assets	315	322
Deferred tax assets that rely on future profitability excluding temporary differences	-290	-397
Defined benefit pension fund assets	-1,112	-828
Statutory deduction for insurance subsidiaries	-1,857	-626
Other statutory deductions	-321	-186
Common equity tier 1 capital	128,713	132,694
Additional tier 1 capital instruments	18,624	23,623
Statutory deduction for insurance subsidiaries	-232	-209
Tier 1 capital	147,105	156,108
Tier 2 capital instruments	19,572	22,141
Statutory deduction for insurance subsidiaries	-232	-209
Total capital	166,445	178,041
Total risk exposure amount	769,133	815,249
Common equity tier 1 capital ratio (%)	16.7	16.3
Tier 1 capital ratio (%)	19.1	19.1
Total capital ratio (%)	21.6	21.8

Total capital and the total risk exposure amount are calculated in accordance with the rules applicable under CRR, taking transitional rules into account as stipulated by the Danish Financial Supervisory Authority.

The risk exposure amount calculated under the Basel I rules amounted to DKK 1,519,322 million at 30 September 2017 (31 December 2016: DKK 1,487,896 million). The capital need under the transitional rules was DKK 97,237 million, equal to 12.6% of the reported risk exposure amount (31 December 2016: DKK 95,225 million).

The Internal Capital Adequacy Assessment report provides more details about Danske Bank's solvency need. The report is available at danskebank.com/investor-relations/reports.

Cash flow statement – Danske Bank Group

(DKK millions)	Q1-Q3 2017	Q1-Q3 2016	Full year 2016
Cash flow from operations			
Profit before tax	19,558	18,318	25,358
Tax paid	-4,339	-4,850	-4,961
Adjustment for non-cash operating items	-2,961	-1,046	477
Total	12,258	12,422	20,874
Changes in operating capital			
Amounts due to/from credit institutions and central banks	-16,492	62,153	1,543
Trading portfolio	-27,692	2,210	44,510
Acquisition/sale of own shares and additional tier 1 capital	-299	31	62
Other financial instruments	21,992	21,179	23,925
Loans at amortised cost	-1,394	-48,195	-62,141
Loans at fair value	-18,635	-23,886	-24,343
Deposits	107,271	94,127	80,391
Bonds issued by Realkredit Danmark	22,682	21,212	32,213
Assets/liabilities under insurance contracts	-6,865	8,948	10,122
Other assets/liabilities	15,612	7,537	5,608
Cash flow from operations	108,438	157,738	132,764
Cash flow from investing activities			
Acquisition/sale of businesses	314	97	1,226
Acquisition of intangible assets	-683	-493	-756
Acquisition of tangible assets	-410	-170	-288
Sale of tangible assets	71	908	2,988
Cash flow from investing activities	-708	342	3,170
Cash flow from financing activities			
Issues of subordinated debt	5,139	-	-
Redemption of subordinated debt	-12,581	-	-
Dividends	-8,332	-7,758	-7,758
Share buy back programme*	-7,495	-5,869	-8,083
Issued additional tier 1 capital	-	-	2,970
Paid interest on additional tier 1 capital	-427	-325	-649
Change in non-controlling interests	-	-	-
Cash flow from financing activities	-23,696	-13,952	-13,520
Cash and cash equivalents at 1 January	297,078	178,835	178,835
Foreign currency translation	-3,252	-4,355	-4,171
Change in cash and cash equivalents	84,034	144,128	122,414
Cash and cash equivalents, end of period	377,859	318,608	297,078
Cash and cash equivalents, end of period			
Cash in hand	8,201	8,603	9,332
Demand deposits with central banks	82,200	55,771	43,879
Amounts due from credit institutions and central banks within three months	287,458	254,234	243,867
Total	377,859	318,608	297,078

* Shares acquired under the share buy-back programme are recognised at settlement date.

Notes – Danske Bank Group

1. Significant accounting policies and estimates

(a) General

The report has been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU, and additional Danish disclosure requirements for listed financial companies.

The Group has not changed its significant accounting policies from those followed in the consolidated financial statements for 2016, which provide a full description of the significant accounting policies.

Financial statement figures are stated in Danish kroner and whole millions, unless otherwise stated. As a result, rounding discrepancies may occur because sum totals have been rounded off and the underlying decimals are not presented to financial statement users. The interim report for the first nine months of 2017 has not been audited or reviewed.

(b) Significant accounting estimates

Management's estimates and assumptions of future events that will significantly affect the carrying amounts of assets and liabilities underlie the preparation of the consolidated financial statements. Those estimates and assumptions are presented in the following sections.

The estimates and assumptions are based on premises that management finds reasonable but which are inherently uncertain and unpredictable. The premises may be incomplete, unexpected future events or situations may occur, and other parties may arrive at other estimated values.

Fair value measurement of financial instruments

Measurements of financial instruments that are only to a limited extent based on observable market data, such as the measurement of unlisted shares and certain bonds for which there is no active market, are subject to significant estimates. The estimated fair value of illiquid bonds significantly depends on the credit spread estimate. A credit spread widening of 50bp would have caused the fair value of the bonds to decrease DKK 87 million (31 December 2016: DKK 85 million). The Group makes fair value adjustments to cover changes in counterparty risk (CVA and DVA) and to cover expected funding costs (FVA) on derivatives, bid-offer spreads on the net open position of the portfolio of assets and liabilities with offsetting market risk recognised at mid-market prices, and model risk on level 3 derivatives. At 30 September 2017, the adjustments totalled DKK 1.2 billion (31 December 2016: DKK 1.8 billion), including the adjustment for credit risk on derivatives with customers subject to objective evidence of impairment. Note 30 in Annual Report 2016 provides more details.

Measurement of loans

The Group makes impairment charges to account for any impairment of loans that occurs after initial recognition. Impairment charges consist of individual and collective charges and rely on a number of estimates, including identification of loans or portfolios of loans with objective evidence of impairment, expected future cash flows and the value of collateral. The Group determines the need for impairment charges on the basis of a customer's expected ability to repay debt. This ability depends on a number of factors, including the customer's earnings capacity and trends in the general economic environment and unemployment. Expectations of deteriorating repayment ability reduce credit quality and lead to downgrading of the customer.

The losses incurred under non-performing loan agreements depend, among other factors, on the value of collateral received. If the value of collateral decreased 10%, individual impairment charges would increase by about DKK 2.3 billion (31 December 2016: DKK 2.4 billion). The collective impairment charges are sensitive to the credit rating of customers. If all business customers were downgraded one rating category, collective impairment charges would increase by about DKK 1.6 billion (31 December 2016: DKK 1.2 billion). Further, a collective impairment charge of DKK 3.3 billion (31 December 2016: DKK 3.3 billion) has been recognised on the basis of management's assessment to reflect market conditions at the balance sheet date that are not fully reflected in the Group's models. Note 14 in Annual Report 2016 and the risk management notes provide more details on loan impairment charges. At 30 September 2017, loans accounted for about 54% of total assets (31 December 2016: 55%).

Measurement of goodwill

Goodwill is tested for impairment once a year or more frequently if indications of impairment exist. Impairment testing requires management to estimate the future cash flows. A number of factors affect the value of such cash flows, including discount rates, changes in the economic outlook, customer behaviour and competition. At 30 September 2017, goodwill amounted to DKK 5.3 billion (31 December 2016: DKK 5.3 billion). No goodwill at the banking units remains. For Wealth Management, Danske Capital, the carrying amount of goodwill is DKK 1.8 billion (31 December 2016: DKK 1.8 billion) and relates to the activities in Finland. The excess value (the amount by which the cash-generating unit's recoverable amount exceeds the carrying amount) in the 2016 impairment test for Danske Capital amounted to DKK 0.1 billion. It has been assessed that no indication of impairment exists at 30 September 2017. Note 18 in Annual Report 2016 provides more information about impairment testing and sensitivity to changes in assumptions.

Notes – Danske Bank Group

(b) Significant accounting estimates continued

Measurement of liabilities under insurance contracts

The accounting for insurance liabilities follows the requirements of the Danish FSA's executive order on financial reports for insurance companies etc. The measurement of insurance liabilities in the financial statements is harmonised to the measurement under the Solvency II framework. The measurement is based on actuarial computations that rely on assumptions about a number of variables, including mortality and disability rates, and on the discount rate. Assumptions about future mortality rates are based on the Danish FSA's benchmark, while other assumptions are based on data from the Group's own portfolio of insurance contracts. Note 17 and the risk management notes in Annual Report 2016 provide more information about the accounting for insurance liabilities and sensitivity to changes in assumptions.

Recognition of deferred tax assets and liabilities

Recognition of deferred tax requires management to assess the probability and amount of future profit. Deferred tax assets arising from unused tax losses are recognised to the extent that such losses can be offset against tax on expected future profit over the next five years. At 30 September 2017 deferred tax assets from recognised tax loss carry-forwards amounted to DKK 0.3 billion (31 December 2016: DKK 0.3 billion). The tax base of unrecognised tax loss carry-forwards, relating primarily to the Group's banking operations in Ireland, amounted to DKK 3.0 billion (31 December 2016: DKK 3.0 billion). The full deferred tax liability arising from international joint taxation was recognised and amounted to DKK 6.0 billion (31 December 2016: DKK 6.0 billion). Note 20 in Annual Report 2016 provides more information about deferred tax.

Notes – Danske Bank Group

2. Business model and business segmentation

Danske Bank is a Nordic universal bank with bridges to the rest of the world. The Group offers customers a wide range of services in the fields of banking, mortgage finance, insurance, pension, real-estate brokerage, asset management and trading in fixed income products, foreign exchange and equities.

The Group consists of a number of business units and support functions. The business units are segmented according to customers, products and services characteristics. The Group has five business units, a Non-core unit and Other Activities, and these constitute the Group's reportable segments under IFRS 8.

Personal Banking serves personal customers. The unit focuses on providing proactive advice to customers and making day-to-day banking simple and efficient through innovative digital solutions.

Business Banking serves small and medium-sized businesses through a large network of national finance centres, branches, contact centres and online channels. The unit offers leading solutions within financing, investing, cash management and risk management.

Corporates & Institutions serves large Nordic corporate and institutional customers in the Nordic countries and beyond. This wholesale division of the bank provides strategic advice, financial solutions and products within Capital Markets, Fixed Income, Currencies and Commodities, and Transaction Banking.

Wealth Management serves the Group's entire customer base and encompasses expertise from Danica Pension, Danske Capital and Private Banking.

Northern Ireland serves personal and business customers through a network of branches in Northern Ireland and leading digital channels.

Non-core includes certain customer segments that are no longer considered part of the core business. The Non-core unit is responsible for the controlled winding-up and divestment of this part of the loan portfolio. The portfolio consists of loans to customers in Ireland, personal banking customers in the Baltics and liquidity facilities for Special Purpose Vehicles (SPVs) and conduit structures.

Other Activities encompasses Group Treasury, Group support functions and eliminations, including the elimination of returns on own shares and interest on additional tier 1 capital, which is reported as an interest expense in the business units. Group Treasury is responsible for the Group's liquidity management and funding.

Presentation in the financial highlights and in the segment reporting

Segment reporting and the financial highlights are based on the information provided to management. The 'Reclassification' column shows the reconciliation between the presentation in the financial highlights and the presentation in the IFRS statements and includes the following:

For operating leases where the Group acts as a lessor, depreciation and the gain or loss on the sale of the lease asset at the end of the lease agreement are presented under other income in the financial highlights to better reflect the development in the cost base. In the IFRS income statement, depreciation and gains or losses on the sale of operating lease assets, excluding properties, are presented on a gross basis (i.e. the proceeds from the sale of the assets are recognised under other income, whereas depreciation and the carrying amount of the lease assets are recognised under expenses).

In the financial highlights, income contributed by FICC and trading related income at Capital Markets (both part of C&I) are presented as net trading income. Income contributed by Equity Finance (also part of C&I, Capital Markets) is presented as net fee income. In the IFRS income statement, the income is presented as net interest income, net fee income, net trading income and other income. Similarly, income at Group Treasury (part of Other Activities), except income at the internal bank, and income on the hold-to-maturity portfolio are presented as net trading income in the financial highlights and as net interest income, net fee income, net trading income etc. in the IFRS income statement. As the distribution of income between the various income line items can vary considerably from one year to the next, depending on the underlying transactions and market conditions, the presentation in the financial highlights is considered to better reflect income in those areas.

For the Wealth Management business unit, the presentation of Danica Pension in the financial highlights differs from the presentation in the IFRS income statement. In the financial highlights, the risk allowance and income from the unit-link business are presented as net fee income. The return on assets related to the health and accident business is presented as net trading income. The risk and guarantee result, net income from the health and accident business and the income from recharge to customers of certain expenses are presented as other income. All costs, except external investment costs in Danica Pension, are presented under operating expenses. In the IFRS income statement, income and expenses in Danica Pension are consolidated on a line-by-line basis.

The Non-core segment includes certain customer segments that are no longer considered part of the Group's core business. The profit or loss is therefore presented as a separate line item in the financial highlights 'Profit before tax, Non-core'. In the IFRS income statement, the individual income and expense items are included in the various line items in the income statement, as the segment does not fulfil the requirements in IFRS 5 on discontinued operations.

Notes – Danske Bank Group

2. Business model and business segmentation continued

Business segments Q3 2017

(DKK millions)	Personal Banking	Business Banking	C&I	Wealth Man.	Northern Ireland	Non-core	Other Activities	Elimina- tions	Financial highlights	Reclassifi- cation	IFRS financial statements
Net interest income	5,933	6,538	2,324	532	1,026	-	1,006	31	17,392	4,940	22,332
Net fee income	2,565	1,349	1,907	5,132	328	-	-191	-3	11,087	-3,383	7,704
Net trading income	435	385	4,603	348	54	-	675	-220	6,280	8,991	15,271
Other income	560	405	1	121	8	-	169	-94	1,171	3,092	4,262
Net premiums	-	-	-	-	-	-	-	-	-	19,320	19,320
Net insurance benefits	-	-	-	-	-	-	-	-	-	31,189	31,189
Total income	9,493	8,677	8,835	6,134	1,417	-	1,659	-285	35,930	1,771	37,700
Operating expenses	5,616	3,377	3,532	2,975	911	-	678	-124	16,965	2,050	19,014
Profit before loan impair- ment charges	3,877	5,300	5,303	3,159	505	-	981	-160	18,965	-279	18,686
Loan impairment charges	-22	-772	385	-70	-154	-	-	-	-632	-240	-872
Profit before tax, core	3,899	6,072	4,918	3,229	660	-	981	-160	19,597	-39	19,558
Profit before tax, Non-core	-	-	-	-	-	-39	-	-	-39	39	-
Profit before tax	3,899	6,072	4,918	3,229	660	-39	981	-160	19,558	-	19,558
Loans, excluding reverse transactions	753,998	679,476	184,970	74,346	45,327	-	25,209	-36,929	1,726,397	17,036	1,743,433
Other assets	192,508	156,427	3,135,964	475,697	26,535	-	3,222,505	-5,405,447	1,804,189	163	1,804,352
Total assets in Non-core	-	-	-	-	-	17,200	-	-	17,200	-17,200	-
Total assets	946,506	835,903	3,320,934	550,043	71,862	17,200	3,247,714	-5,442,376	3,547,785	-	3,547,785
Deposits, excluding repo deposits	274,368	240,088	282,791	66,280	59,460	-	11,180	-10,815	923,352	1,958	925,310
Other liabilities	646,870	551,345	3,005,062	469,760	6,174	-	3,223,145	-5,431,562	2,470,794	736	2,471,530
Allocated capital	25,268	44,470	33,081	14,004	6,228	-	27,895	-	150,945	-	150,945
Total liabilities in Non-core	-	-	-	-	-	2,693	-	-	2,693	-2,693	-
Total liabilities and equity	946,506	835,903	3,320,934	550,043	71,862	2,693	3,262,220	-5,442,376	3,547,785	-	3,547,785
Profit before tax as % of al- located capital (avg.)	21.5	18.1	17.9	30.8	14.5	-	5.0	-	17.2	-	17.2
Cost/income ratio (%)	59.2	38.9	40.0	48.5	64.3	-	40.9	-	47.2	-	50.4
Full-time-equivalent staff, end of period	4,571	2,611	1,786	1,870	1,318	124	7,374	-	19,653	-	19,653

The 'Reclassification' column shows the reconciliation between the presentation in the financial highlights and the presentation in the IFRS statements. The reclassifications are explained on the preceding page.

Notes – Danske Bank Group

2. Business model and business segmentation continued

Business segments Q3 2016

(DKK millions)	Personal Banking	Business Banking	C&I	Wealth Man.	Northern Ireland	Non-core	Other Activities	Elimina- tions	Financial highlights	Reclassifi- cation	IFRS financial statements
Net interest income	5,722	6,279	2,266	499	1,117	-	333	21	16,239	8,130	24,368
Net fee income	2,487	1,224	1,596	4,584	363	-	-99	-3	10,151	-2,767	7,384
Net trading income	385	392	3,934	443	102	-	1,148	-120	6,284	662	6,946
Other income	456	405	21	352	16	-	1,227	-93	2,383	1,800	4,183
Net premiums	-	-	-	-	-	-	-	-	-	18,454	18,454
Net insurance benefits	-	-	-	-	-	-	-	-	-	-24,910	24,910
Total income	9,050	8,300	7,816	5,878	1,598	-	2,607	-193	35,057	1,368	36,425
Operating expenses	5,661	3,527	3,496	2,784	909	-	85	125	16,586	1,461	18,047
Profit before loan impair- ment charges	3,388	4,774	4,321	3,094	689	-	2,522	-318	18,471	-93	18,377
Loan impairment charges	-289	-54	789	-82	-211	-	5	-	157	-98	59
Profit before tax, core	3,678	4,828	3,532	3,176	901	-	2,517	-318	18,314	5	18,318
Profit before tax, Non-core	-	-	-	-	-	5	-	-	5	-5	-
Profit before tax	3,678	4,828	3,532	3,176	901	5	2,517	-318	18,318	-	18,318
Loans, excluding reverse transactions	735,828	647,684	186,921	71,082	43,873	-	25,587	-35,942	1,675,034	19,741	1,694,775
Other assets	177,964	160,282	3,853,733	504,437	25,609	-	2,580,852	-5,450,186	1,852,691	1,103	1,853,794
Total assets in Non-core	-	-	-	-	-	20,844	-	-	20,844	-20,844	-
Total assets	913,792	807,967	4,040,654	575,519	69,482	20,844	2,606,439	-5,486,128	3,548,569	-	3,548,569
Deposits, excluding repo deposits	267,371	224,288	249,733	63,948	57,586	-	18,278	-9,176	872,027	2,850	874,877
Other liabilities	623,306	542,472	3,753,265	499,079	5,989	-	2,577,029	-5,476,952	2,524,187	699	2,524,886
Allocated capital	23,116	41,207	37,657	12,492	5,907	-	28,427	-	148,806	-	148,806
Total liabilities in Non-core	-	-	-	-	-	3,549	-	-	3,549	-3,549	-
Total liabilities and equity	913,792	807,967	4,040,654	575,519	69,482	3,549	2,623,734	-5,486,128	3,548,569	-	3,548,569
Profit before tax as % of al- located capital (avg.)	21.8	15.6	12.4	30.4	15.7	-	13.0	-	16.4	-	16.4
Cost/income ratio (%)	62.6	42.5	44.7	47.4	56.9	-	3.3	-	47.3	-	49.5
Full-time-equivalent staff, end of period	4,971	2,712	1,812	1,980	1,290	154	6,513	-	19,433	-	19,433

Notes – Danske Bank Group

3. Other income

Other income amounted to DKK 3,805 million at 30 September 2017 (30 September 2016: DKK 4,183 million). Other income primarily consists of income from lease assets, investment property and real estate brokerage. Other income for the first nine months of 2016 included a gain of DKK 0.8 billion related to the sale of the head office buildings at Holmens Kanal, Copenhagen.

4. Loan impairment charges and reconciliation of total allowance account

Loan impairment charges include losses on and impairment charges against loans, provisions for loan commitments and guarantees, as well as fair value adjustments of the credit risk on loans measured at fair value.

Loan impairment charges (DKK millions)	30 September 2017	30 September 2016
New and increased impairment charges	4,299	5,826
Reversals of impairment charges	4,690	5,249
Write-offs charged directly to income statement	224	774
Received on claims previously written off	487	1,145
Interest income, effective interest method	-218	-146
Total	-872	59

Reconciliation of total allowance account (DKK millions)	30 September 2017	31 December 2016
Balance at 1 January	26,156	31,413
New and increased impairment charges	4,299	6,783
Reversals of impairment charges	4,690	6,269
Write-offs debited to the allowance account	2,772	4,870
Foreign currency translation	-241	-326
Other items*	-278	-574
Balance at end of period	22,473	26,156

*Other items include changes in the presentation of some loan portfolios as held for sale in 2016. Note 22 in Annual Report 2016 provides more information.

5. Deposits

The Group's deposit base consists of the following deposits:

(DKK millions)	30 September 2017	31 December 2016
Deposits from other credit institutions	256,238	272,883
hereof repo transactions	88,797	117,660
Other deposits	1,051,135	943,865
hereof repo transactions	125,825	82,064
Total deposits excluding repo transactions	1,092,751	1,017,024

Of total deposits excluding repo transactions, 34% (31 December 2016: 32%) represents wholesale deposits ranking pari passu with senior creditors. Such wholesale deposits exclude deposits from other credit institutions with an original maturity of less than 7 days. If deposits from other credit institutions are excluded, the percentage is 27% (31 December 2016: 27%).

Notes – Danske Bank Group

6. Issued bonds and subordinated debt

This note includes information about senior, senior secured and subordinated bonds issued by the Group, with the exception of bonds issued by Realkredit Danmark.

The Group issues perpetual bonds with discretionary interest payments that fulfil the requirements for additional tier 1 capital under the Capital Requirements Regulation. If a trigger event occurs, those issued bonds must either be written down temporarily or converted into a variable number of ordinary shares, depending on the terms of the bond issue. Bonds that will be temporarily written down are accounted for as equity while bonds that convert into a variable number of ordinary shares are accounted for as liabilities.

Other issued bonds (DKK millions)	30 September 2017	31 December 2016
Commercial paper and certificates of deposit	110,130	75,046
Other	298,904	317,466
Total	409,035	392,512

Nominal value (DKK millions)	1 January 2017	Issued	Redeemed	Foreign currency translation	30 September 2017
Commercial paper and certificates of deposit	75,036	210,144	168,419	-6,643	110,118
Other	376,953	49,095	81,832	-6,474	337,742
Other issued bonds	451,989	259,239	250,251	-13,116	447,860

Nominal value (DKK millions)	1 January 2016	Issued	Redeemed	Foreign currency translation	31 December 2016
Commercial paper and certificates of deposit	60,836	195,936	180,226	-1,510	75,036
Other	350,780	99,787	73,860	245	376,953
Other issued bonds	411,616	295,723	254,086	-1,265	451,989

The nominal values disclosed are before the elimination of own holdings of issued bonds. In the management report's section on Funding and liquidity, issued junior covered bonds in Realkredit Danmark A/S of DKK 9.9 billion (31 December 2016: DKK 17.3 billion) are excluded. Further, retained and repurchased bonds held by Group Treasury amounting to DKK 10.0 billion (31 December 2016: 63.1 billion) have been excluded.

Subordinated debt and additional tier 1 capital.

During the first nine months of 2017, the Group redeemed DKK 12,581 million (full year 2016: DKK 0 million) and issued DKK 5,139 million (full year 2016: DKK 0 million) of subordinated debt accounted for as liabilities. This included an issuance, in March 2017, of CRR-compliant convertible additional tier 1 capital of USD 750 million with discretionary interest payments. As the bonds mandatorily convert into a variable number of ordinary shares if a trigger event occurs, they are accounted for as liabilities.

At 30 September 2017, the total nominal value of issued additional tier 1 capital amounted to DKK 18,888 million (31 December 2016: DKK 14,151 million), of which DKK 14,163 million (31 December 2016: DKK 14,151 million) is accounted for as equity. Danske Bank A/S may, at its sole discretion, omit interest payments to bondholders. Any interest payments are paid out of distributable items, which primarily consist of retained earnings in Danske Bank A/S and Danske Bank Group (see section 3.4.3 of Risk Management 2016 for further information). At 30 September 2017, distributable items for Danske Bank A/S amounted to DKK 114.7 billion (31 December 2016: DKK 114.9 billion). The additional tier 1 capital will be temporarily written down or converted into a variable number of ordinary shares, depending on the terms of each issued bond, if the common equity tier 1 capital ratio falls below 7% for Danske Bank A/S or Danske Bank Group. At 30 September 2017, the common equity tier 1 capital ratio was 21.2% (31 December 2016: 20.6%) for Danske Bank A/S. The ratio for Danske Bank Group is disclosed in the Statement of capital.

7. Other assets and other liabilities

Other assets amounted to DKK 31,913 million (31 December 2016: DKK 31,075 million), including holdings in associates of DKK 420 million (31 December 2016: DKK 653 million), investment property of DKK 4,901 million (31 December 2016: DKK 4,937 million), tangible assets of DKK 6,883 million (31 December 2016: DKK 5,850 million) and assets held for sale of DKK 439 million (31 December 2016: DKK 486 million). Other liabilities amounted to DKK 32,712 million (31 December 2016: DKK 35,385 million), including accrued interest and commissions due of DKK 7,929 (31 December 2016: DKK 10,876) and other staff commitments of DKK 2,902 million (31 December 2016: DKK 3,195 million).

Notes – Danske Bank Group

8. Contingent liabilities

Contingent liabilities consist of possible liabilities arising from past events. The existence of such liabilities will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Group's control. Contingent liabilities that can, but are not likely to, result in an outflow of economic resources are disclosed.

The Group uses a variety of loan-related financial instruments to meet customers' financial requirements. Instruments include loan offers and other credit facilities, guarantees and instruments not recognised in the balance sheet. If an instrument is likely to result in a payment obligation, a liability is recognised under Other liabilities corresponding to the present value of expected payments.

Guarantees (DKK millions)	30 September 2017	31 December 2016
Financial guarantees	8,481	8,778
Mortgage finance guarantees	1,130	1,218
Other guarantees	70,984	70,381
Total	80,595	80,377

Other contingent liabilities (DKK millions)	30 September 2017	31 December 2016
Loan commitments shorter than 1 year	138,567	117,355
Loan commitments longer than 1 year	167,105	162,620
Other unutilised loan commitments	482	484
Total	306,154	280,459

In addition to credit exposure from lending activities, loan offers made and uncommitted lines of credit granted by the Group amounted to DKK 375 billion (31 December 2016: DKK 385 billion). These items are included in the calculation of the total risk exposure amount in accordance with the Capital Requirements Directive.

Owing to its business volume, Danske Bank is continually a party to various lawsuits and disputes and has an ongoing dialogue with public authorities, such as the Danish FSA. In view of its size, Danske Bank does not expect the outcomes of pending lawsuits and disputes or its dialogue with public authorities to have any material effect on its financial position. The supervisory authorities conduct ongoing inspections of Danske Bank's compliance with anti-money laundering legislation. As announced on 21 March 2016, the Danish FSA has reported Danske Bank to the Danish Public Prosecutor for Serious Economic and International Crime for investigation into non-compliance with the provisions of Danish anti-money laundering legislation with regard to identification of and monitoring procedures for correspondent banks. In 2017, the authorities have approached Danske Bank and requested further information. As announced on 11 October 2017, Danske Bank has been placed under investigation by the French Tribunal de Grande Instance de Paris court in relation to suspicions of money laundering concerning transfers to France carried out by former customers of Danske Bank Estonia from 2008 to 2011.

In connection with the acquisition of Sampo Bank (now Danske Bank Plc) in 2007, Danske Bank Plc and Sampo Life (now Mandatum Life) signed an agency agreement that guaranteed Mandatum Life the exclusive right to sell life and pension insurance products through Danske Bank Plc's branch network in Finland. The agency agreement expired at the end of 2016. As part of the agreement, Mandatum Life had a right to sell all or part of the insurance portfolio sold under the agreement to Danske Bank Group. In October 2016, Mandatum Life exercised this right. The parties have agreed on a fair value of the insurance portfolio of DKK 2.5 billion, which will be recognized at the time of transfer of the portfolio. The transfer of the portfolio is expected to take place during 2018. Danske Bank is exploring the possibilities of selling the Mandatum Life Finland portfolio.

A limited number of employees are employed under terms which grant them, if they are dismissed before reaching their normal retirement age, a severance and/or pension payment in excess of their entitlement under ordinary terms of employment. As the sponsoring employer, the Group is also liable for the pension obligations of a number of company pension funds.

The Group participates in the Danish Guarantee Fund and the Danish Resolution Fund. The funds' capital must amount to at least 0.8% and 1%, respectively, of the covered deposits of all Danish credit institutions by 31 December 2024. The Guarantee Fund is currently fully funded, but if the fund subsequently does not have sufficient means to make the required payments, extraordinary contributions of up to 0.5% of the individual institution's covered deposits may be required. Extraordinary contributions above this percentage require the consent of the Danish FSA. Danske Bank A/S and Realkredit Danmark A/S make contributions to the Resolution Fund on the basis of their size and risk relative to other credit institutions in Denmark. The annual contribution is accrued over the year as operating expenses. If the Resolution Fund does not have sufficient means to make the required payments, extraordinary contributions of up to three times the latest annual contributions may be required. Further, Danish banks participate in the Danish Restructuring Fund, which reimburses creditors if the final dividend is lower than the interim dividend in respect of banks that were in distress before 1 June 2015. Similarly, Danish banks have made payment commitments (totalling DKK 1 billion) to cover losses incurred by the Danish Restructuring Fund for the withdrawal of distressed banks from data centres etc. Payments to the Restructuring Fund are calculated on the basis of the individual credit institution's share of covered deposits relative to other credit institutions in Denmark. However, each institution's contribution to the Restructuring Fund may not exceed 0.2% of its covered deposits.

Notes – Danske Bank Group

8. Contingent liabilities continued

The Group is a member of deposit guarantee schemes and other compensation schemes in Finland, Norway, the UK and Luxembourg. As in Denmark, the contributions to the schemes in the other countries are annual contributions combined with extraordinary contributions if the means of the schemes are not sufficient to cover the required payments. However, for Finland, the deposit guarantee fund is fully funded, and no further contributions to the resolution fund are expected before 2018.

The Group is the lessee in non-cancellable operating leases, involving mainly leasing of real property, equipment, furniture and fixtures. The Group recognises lease payments as an expense over the lease term but does not recognise the operating lease assets in its balance sheet. Such assets are recognised by lessors.

Danske Bank A/S is taxed jointly with all entities in Danske Bank Group and is jointly and severally liable for payment of Danish corporate tax and withholding tax, etc.

Danske Bank A/S is registered jointly with all significant Danish entities in Danske Bank Group for financial services employer tax and VAT, for which it is jointly and severally liable.

9. Assets provided or received as collateral

At 30 September 2017, Danske Bank A/S had deposited securities worth DKK 7.4 billion as collateral with Danish and international clearing centres and other institutions (31 December 2016: DKK 7.2 billion).

At 30 September 2017, Danske Bank A/S had provided cash and securities worth DKK 71.6 billion as collateral for derivatives transactions (31 December 2016: DKK 102.4 billion).

At 30 September 2017, the Group had registered assets (including bonds and shares issued by the Group) under insurance contracts worth DKK 418.0 billion (31 December 2016: DKK 344.2 billion) as collateral for policyholders' savings of DKK 358.5 billion (31 December 2016: DKK 340.8 billion).

At 30 September 2017, the Group had registered loans at fair value and securities worth a total of DKK 785.6 billion (31 December 2016 DKK 767.1 billion) as collateral for bonds issued by Realkredit Danmark, including mortgage-covered bonds, worth a total of DKK 749.4 billion (31 December 2016: DKK 726.7 billion). Similarly, the Group had registered loans and other assets worth DKK 235.3 billion (31 December 2016: DKK 261.1 billion) as collateral for covered bonds issued under Danish and Finnish law.

The table below shows assets provided as collateral for obligations, including obligations under repo transactions and securities lending:

(DKK millions)	30 September 2017			31 December 2016		
	Repo	Other	Total	Repo	Other	Total
Due from credit institutions	-	20,344	20,344	-	41,409	41,409
Trading portfolio securities	204,359	65,846	270,205	189,494	63,751	253,245
Loans at fair value	-	784,638	784,638	-	766,003	766,003
Loans at amortised cost	-	239,376	239,376	-	277,635	277,635
Assets under insurance contracts	-	315,433	315,433	-	273,760	273,760
Other assets	-	86	86	-	119	119
Total	204,359	1,425,723	1,630,082	189,494	1,422,677	1,612,171
Own issued bonds	9,013	83,580	92,593	9,931	99,063	108,994
Total, including own issued bonds	213,372	1,509,303	1,722,675	199,425	1,521,740	1,721,165

Securities provided as collateral under agreements that entitle the counterparty to sell the securities or provide them as collateral for other loans amounted to DKK 204.4 billion at 30 September 2017 (31 December 2016 DKK 189.5 billion).

At 30 September 2017, the Group had received securities worth DKK 247.3 billion (31 December 2016: DKK 267.4 billion) as collateral for reverse repo transactions, securities lending, derivatives transactions and other transactions entered into on the standard terms for such transactions. As the party receiving the collateral, the Group is entitled in most cases to sell the securities or provide the securities as collateral for other loans in exchange for returning similar securities to the counterparty at the expiry of the transactions. At 30 September 2017, the Group had sold securities or provided securities as collateral worth DKK 162.3 billion (31 December 2016: DKK 150.2 billion).

The Group also receives many other types of assets as collateral in connection with its ordinary lending activities. The Group has not received the ownership of these assets. The risk management notes in the Annual report 2016 provide more details on assets received as collateral in connection with ordinary lending activities.

Notes – Danske Bank Group

10. Fair value information for financial instruments

Financial instruments are carried in the balance sheet at fair value or amortised cost.

(DKK millions)	30 September 2017		31 December 2016	
	Fair value	Amortised cost	Fair value	Amortised cost
Financial assets				
Cash in hand and demand deposits with central banks	-	90,401	-	53,211
Due from credit institutions and central banks	-	289,165	-	245,479
Trading portfolio assets	467,607	-	509,679	-
Investment securities	184,653	139,528	209,957	133,380
Loans at amortised cost	-	1,143,833	-	1,141,567
Loans at fair value	784,638	-	766,003	-
Assets under pooled schemes and unit-linked investment contracts	109,774	-	99,848	-
Assets under insurance contracts	271,820	-	262,685	-
Total	1,818,493	1,662,928	1,848,172	1,573,637
Financial liabilities				
Due to credit institutions and central banks	-	256,238	-	272,883
Trading portfolio liabilities	408,537	-	478,301	-
Deposits	-	1,051,135	-	943,865
Bonds issued by Realkredit Danmark	749,414	-	726,732	-
Deposits under pooled schemes and unit-linked investment contracts	117,390	-	106,418	-
Other issued bonds	5,743	403,292	6,553	385,959
Subordinated debt	-	29,390	-	37,831
Other liabilities (loan commitments and guarantees)	-	581	-	642
Total	1,281,084	1,740,636	1,318,004	1,641,179

Negative interest income during the first nine months of 2017 amounted to DKK 2,116 million (30 September 2016: DKK 841 million). Negative interest expenses amounted to DKK 2,202 million (30 September 2016: DKK 882 million). In the income statement, negative interest income is recognised as interest expenses and negative interest expenses are recognised as interest income. In the income statement, interest income and interest expenses for the first quarter of 2016 have been restated to reflect this.

Financial instruments at fair value

Note 30 in Annual Report 2016 provides more information about fair value calculation methods for financial instruments.

Financial instruments valued on the basis of quoted prices in an active market are recognised in the Quoted prices category. Financial instruments valued substantially on the basis of other observable input are recognised in the Observable input category. This category covers instruments such as derivatives valued on the basis of observable yield curves and exchange rates and illiquid mortgage bonds valued by reference to the value of similar, liquid bonds. Other financial instruments valued substantially on the basis of non-observable input are recognised in the Non-observable input category. This category covers instruments such as unlisted shares, some unlisted bonds and a very limited portion of the derivatives portfolio.

If, at the balance sheet date, a financial instrument's classification differs from its classification at the beginning of the year, the classification of the instrument changes. Changes are considered to have taken place at the balance sheet date. Developments in the financial markets have resulted in reclassification between the categories. Some bonds have become illiquid and have therefore been moved from the Quoted prices to the Observable input category, while other bonds have become liquid and have been moved from the Observable input to the Quoted prices category. The amounts transferred are insignificant.

Financial instruments at amortised cost

Note 30 in Annual Report 2016 provides information on the difference between the carrying amount and the fair value of financial instruments recognised at amortised cost. The difference between the two types of measurement at 30 September 2017 was in line with the difference at 31 December 2016.

Notes – Danske Bank Group

10. Fair value information for financial instruments continued

(DKK millions)	Quoted prices	Observable in- put	Non-observable input	Total
30 September 2017				
Financial assets				
Derivatives				
Interest rate contracts	4,918	160,374	6,639	171,931
Currency contracts etc.	777	88,721	1,037	90,535
Trading portfolio bonds				
Government bonds and other bonds	84,743	319	-	85,062
Danish mortgage bonds	28,771	5,929	-	34,700
Other covered bonds	52,879	811	-	53,690
Other bonds	18,239	6,554	-	24,793
Trading portfolio shares	6,896	-	-	6,896
Investment securities, bonds	138,885	44,209	-	183,094
Investment securities, shares	90	-	1,468	1,558
Loans at fair value	-	784,638	-	784,638
Assets under pooled schemes and unit-linked investment contracts				
Danish mortgage bonds	109,774	-	-	109,774
Other bonds	38,007	3,122	-	41,129
Other bonds	113,850	547	4,318	118,715
Assets under insurance contracts, shares	84,622	-	16,850	101,472
Assets under insurance contracts, derivatives	458	10,042	4	10,504
Total	682,909	1,105,266	30,316	1,818,493
Financial liabilities				
Derivatives				
Interest rate contracts	4,359	144,928	7,867	157,154
Currency contracts etc.	715	86,928	1,404	89,047
Obligations to repurchase securities	159,643	2,022	672	162,337
Bonds issued by Realkredit Danmark	749,414	-	-	749,414
Deposits under pooled schemes and unit-linked investment contracts	-	117,390	-	117,390
Other issued bonds	-	5,743	-	5,743
Total	914,131	357,011	9,943	1,281,084

Notes – Danske Bank Group

10. Fair value information for financial instruments continued

(DKK millions)	Quoted prices	Observable input	Non-observable input	Total
31 December 2016				
Financial assets				
Derivatives				
Interest rate contracts	3,582	200,720	6,657	210,959
Currency contracts etc.	997	113,569	907	115,473
Trading portfolio bonds				
Government bonds and other bonds	58,059	27	-	58,086
Danish mortgage bonds	25,062	7,064	-	32,126
Other covered bonds	51,353	1,601	-	52,954
Other bonds	14,251	4,463	-	18,714
Trading portfolio shares	20,934	-	432	21,366
Investment securities, bonds	154,740	53,477	-	208,217
Investment securities, shares	67	-	1,673	1,740
Loans at fair value	-	766,003	-	766,003
Assets under pooled schemes and unit-linked investment contracts				
Danish mortgage bonds	38,893	4,252	-	43,145
Other bonds	109,158	830	4,803	114,791
Assets under insurance contracts, shares	74,676	-	18,843	93,519
Assets under insurance contracts, derivatives	612	10,615	3	11,230
Total	652,232	1,162,621	33,318	1,848,171
Financial liabilities				
Derivatives				
Interest rate contracts	3,710	182,527	7,641	193,878
Currency contracts etc.	998	131,285	1,919	134,202
Obligations to repurchase securities	146,694	3,523	5	150,222
Bonds issued by Realkredit Danmark	726,732	-	-	726,732
Deposits under pooled schemes and unit-linked investment contracts	-	106,418	-	106,418
Other issued bonds	-	6,553	-	6,553
Total	878,134	430,306	9,565	1,318,005

Notes – Danske Bank Group

10. Fair value information for financial instruments continued

At 30 September 2017, financial instruments valued on the basis of non-observable input comprised unlisted shares of DKK 17,646 million (31 December 2016: DKK 20,943 million), illiquid bonds of DKK 4,318 million (31 December 2016: DKK 4,803 million) and derivatives with a net market value of DKK -1,591 million (31 December 2016: DKK -1,993 million).

Unlisted shares of DKK 16,850 million (31 December 2016: DKK 18,843 million) are allocated to insurance contract policyholders, and the policyholders assume most of the risk on the shares. Changes in the fair value of those shares will only to a limited extent affect the Group's net profit. The remaining portfolio of unlisted shares of DKK 796 million (31 December 2016: DKK 2,100 million) consists primarily of banking-related investments and holdings in private equity funds. A 10% increase or decrease in the fair value would amount to DKK 80 million (31 December 2016: DKK 210 million). Under the current market conditions, a 10% decrease in the fair value is considered to be below a possible alternative estimate of the fair value at the end of the period. In the first nine months of 2017, the Group recognised DKK 13 million in unrealised losses (2016: DKK 15 million) and DKK 49 million in realised gains (2016: DKK 386 million) on those shares. The unrealised adjustments in the first nine months of 2017 and in 2016 were attributable to various unlisted shares. For shares allocated to insurance contract policyholders, the unrealised losses in the first nine months of 2017 amounted to DKK 354 million (2016: DKK 383 million) and the realised gains to DKK 1,149 million (2016: DKK 1,798 million).

The estimated fair value of illiquid bonds depends significantly on the estimated credit spread. If the credit spread widens 50bp, fair value will decrease DKK 87 million (31 December 2016: DKK 85 million). If the credit spread narrows 50bp, fair value will increase DKK 90 million (31 December 2016: DKK 87 million).

A substantial number of derivatives valued on the basis of non-observable input are hedged by similar derivatives or are used for hedging the credit risk on bonds also valued on the basis of non-observable input. Changing one or more of the non-observable inputs to reflect reasonable, possible alternative assumptions would not change the fair value of the derivatives significantly above what is already covered by the reserve related to fair value adjustment for model risk.

Shares, bonds and derivatives valued on the basis of non-observable input

(DKK millions)	30 September 2017			31 December 2016		
	Shares	Bonds	Derivatives	Shares	Bonds	Derivatives
Fair value at 1 January	20,943	4,803	-1,993	18,516	3,170	-1,062
Value adjustment through profit or loss	831	-142	-517	2,552	95	-146
Acquisitions	1,758	1,537	-254	25,940	3,851	-1,098
Sale and redemption	-5,886	-1,880	1,260	-25,758	-2,313	438
Transferred from quoted prices and observable input	-	-	-	-	-	22
Transferred to quoted prices and observable input	-	-	-87	-307	-	-146
Fair value end of period	17,646	4,318	-1,591	20,943	4,803	-1,993

11. Events after the reporting date

In October 2017, Danske Bank entered into a binding contract for the sale of a portfolio of performing Irish mortgage loans with a gross value of DKK 13 billion. Closing will occur mid December 2017, at which point the loans will be derecognised.

Notes – Danske Bank Group

Risk Management

The consolidated financial statements for 2016 provide a detailed description of the Group's risk management practices.

Breakdown of credit exposure

(DKK billions)	Lending activities					
	Total	Core	Non-core	Counterparty risk (derivatives)	Trading and invest- ment securities	Customer-funded investments
30 September 2017						
Balance sheet items						
Demand deposits with central banks	82.2	82.2	-	-	-	-
Due from credit institutions and central banks	244.1	244.1	-	-	-	-
Repo loans with credit institutions and central banks	45.1	45.1	-	-	-	-
Trading portfolio assets	467.6	-	-	262.5	205.1	-
Investment securities	324.2	-	-	-	324.2	-
Loans at amortised cost	958.8	941.8	17.0	-	-	-
Repo loans	185.0	185.0	-	-	-	-
Loans at fair value	784.6	784.6	-	-	-	-
Assets under pooled schemes and unit-linked investment contracts	109.8	-	-	-	-	109.8
Assets under insurance contracts	297.5	-	-	-	-	297.5
Off-balance-sheet items						
Guarantees	80.6	80.6	-	-	-	-
Loan commitments shorter than 1 year	138.6	135.6	3.0	-	-	-
Loan commitments longer than 1 year	167.1	166.5	0.7	-	-	-
Other unutilised commitments	0.5	-	-	-	0.5	-
Total	3,885.7	2,665.4	20.7	262.5	529.8	407.3

31 December 2016

Balance sheet items						
Demand deposits with central banks	43.9	43.9	-	-	-	-
Due from credit institutions and central banks	200.6	200.5	-	-	-	-
Repo loans with credit institutions and central banks	44.9	44.9	-	-	-	-
Trading portfolio assets	509.7	-	-	326.4	183.2	-
Investment securities	343.3	-	-	-	343.3	-
Loans at amortised cost	942.0	923.2	18.9	-	-	-
Repo loans	199.6	199.6	-	-	-	-
Loans at fair value	766.0	766.0	-	-	-	-
Assets under pooled schemes and unit-linked investment contracts	99.8	-	-	-	-	99.8
Assets under insurance contracts	285.4	-	-	-	-	285.4
Off-balance-sheet items						
Guarantees	80.4	80.3	-	-	-	-
Loan commitments shorter than 1 year	117.4	113.7	3.7	-	-	-
Loan commitments longer than 1 year	162.6	161.8	0.9	-	-	-
Other unutilised commitments	0.5	-	-	-	0.5	-
Total	3,796.0	2,533.8	23.4	326.4	527.1	385.2

In addition to credit exposure from lending activities, Danske Bank had made loan offers and granted uncommitted lines of credit of DKK 375 billion at 30 September 2017 (31 December 2016: DKK 385 billion). These items are included in the calculation of the total risk exposure amount in accordance with the Capital Requirements Directive.

Notes – Danske Bank Group

Credit exposure

Credit exposure from core lending activities

Credit exposure from lending activities in the Group's core banking business includes loans, 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. For reporting purposes, all collateral values are net of haircuts and capped at the exposure amount. The credit exposure from Non-core lending activities is disclosed later in these notes.

Classification of customers

The main objectives of risk classification are to rank the Group's customers according to risk and to estimate each customer's probability of default (PD). As part of the credit process, the Group classifies customers according to risk and updates their classifications upon receipt of new information. Risk classification comprises rating and credit scoring of customers.

The Group has developed a number of classification models to assess customer PD and to classify customers in various segments. Large business and financial customers are classified on the basis of rating models, while small business and personal customers are classified by means of scoring models.

In its credit risk management, the Group uses point-in-time (PIT) PD estimates for risk classification. These PIT PD estimates express a customer's probability of default in the current economic situation. The Group's classification scale consists of 11 main rating categories with fixed PD bands. During a downturn, a customer's PIT PD may increase, and the customer may migrate to a lower rating category. The effect from a downturn is thus larger when PIT PD is used than if the classification were based on through-the-cycle (TTC) PD, which the Group uses to calculate the risk exposure amount for credit risk.

Customers with loans for which objective evidence of impairment exists are placed in rating category 10 or 11. This includes customers with loans for which no impairment charges have been recognised, for example because adequate collateral has been provided.

Credit portfolio in core activities broken down by rating category

[DKK billions]	PD level		30 September 2017				31 December 2016			
			Gross exposure	Acc. individual		Net exposure, ex collateral	Gross exposure	Acc. individual		Net exposure, ex collateral
				impairment charges	Net exposure			impairment charges	Net exposure	
Upper	Lower	a	b	=a-b	a	b	=a-b			
1	-	0.01	281.2	-	281.2	254.9	251.3	-	251.3	224.9
2	0.01	0.03	277.7	-	277.7	120.3	252.9	-	252.9	102.9
3	0.03	0.06	449.8	-	449.8	140.2	414.1	-	414.1	127.5
4	0.06	0.14	575.1	-	575.1	221.2	544.3	-	544.3	217.6
5	0.14	0.31	483.5	-	483.5	160.6	460.7	-	460.7	144.2
6	0.31	0.63	301.1	-	301.1	83.6	302.1	-	302.1	79.7
7	0.63	1.90	176.8	-	176.8	50.3	178.7	-	178.7	47.6
8	1.90	7.98	60.6	-	60.6	16.8	64.2	-	64.2	17.3
9	7.98	25.70	11.5	-	11.5	3.7	14.2	-	14.2	4.8
10	25.70	99.99	37.1	5.8	31.3	9.7	40.9	6.0	35.0	10.4
11 (default)	100.00	100.00	27.4	10.6	16.9	2.4	28.9	12.5	16.3	1.2
Total before collective impairment charges			2,681.8	16.4	2,665.4	1,063.8	2,552.3	18.5	2,533.8	978.1
Collective impairment charges			4.3				5.0			
Total gross exposure			2,686.1				2,557.3			

Notes – Danske Bank Group

Credit exposure continued

Credit portfolio in core activities broken down by industry (NACE)

The table below breaks down credit exposure by industry. The industry segmentation follows the classification principles of the Statistical Classification of Economic Activities in the European Community (NACE) standard.

(DKK billions)	30 September 2017				31 December 2016			
	Gross exposure	Acc. individual	Net exposure	Net exposure, ex collateral	Gross exposure	Acc. individual	Net exposure	Net exposure, ex collateral
		impairment charges				impairment charges		
a	b	=a-b		a	b	=a-b		
Public institutions	404.5	-	404.5	343.2	330.0	-	330.0	274.9
Banks	48.2	0.1	48.1	32.0	70.2	0.1	70.0	59.6
Credit institutions	5.1	-	5.1	2.6	10.7	-	10.7	3.5
Insurance	47.8	-	47.8	2.0	47.4	-	47.4	8.0
Investment funds	26.9	0.2	26.8	13.0	40.8	0.2	40.6	8.8
Other financials	72.9	-	72.9	17.7	61.0	-	61.0	14.0
Agriculture	66.2	2.6	63.6	12.1	65.7	3.0	62.7	11.3
Commercial property	310.8	2.6	308.2	58.3	301.8	3.1	298.7	57.1
Construction, engineering and building products	44.0	0.6	43.4	32.7	39.5	1.0	38.5	28.9
Consumer discretionary	100.9	1.3	99.7	58.5	98.3	1.5	96.8	56.6
Consumer staples	56.6	0.2	56.5	39.5	55.1	0.2	54.9	37.6
Energy and utilities	46.9	0.3	46.6	36.9	50.0	0.2	49.8	37.3
Health care	36.4	0.1	36.4	27.6	36.7	0.1	36.6	24.7
Industrial services, supplies and machinery	103.0	1.1	101.9	83.1	103.8	1.2	102.6	81.2
IT and telecommunication services	30.8	0.1	30.7	27.7	29.9	0.1	29.8	26.1
Materials	49.1	0.6	48.5	36.8	45.7	0.8	45.0	33.5
Non-profits and other associations	166.9	0.7	166.2	37.5	152.5	0.8	151.7	28.7
Other commercials	89.6	0.2	89.4	43.6	58.1	0.3	57.8	25.6
Shipping	36.9	0.7	36.2	12.2	39.7	0.7	39.0	14.1
Transportation	24.0	0.1	23.9	13.5	22.0	0.1	21.9	12.1
Personal customers	914.1	4.9	909.2	133.3	893.5	5.1	888.4	134.4
Total before collective impairment charges	2,681.8	16.4	2,665.4	1,063.8	2,552.3	18.5	2,533.8	978.1
Collective impairment charges	4.3				5.0			
Total gross exposure	2,686.1				2,557.3			

Notes – Danske Bank Group

Credit exposure continued

Credit portfolio in core activities broken down by business unit

The table below breaks down credit exposure by core business unit and underlying segment.

(DKK billions)	30 September 2017				31 December 2016			
	Gross exposure	Acc. individual impairment charges	Net exposure	Net exposure, ex collateral	Gross exposure	Acc. individual impairment charges	Net exposure	Net exposure, ex collateral
Denmark	499.7	3.6	496.1	63.3	493.0	3.6	489.5	64.9
Finland	92.1	0.5	91.6	6.3	91.0	0.5	90.5	6.2
Sweden	86.9	0.1	86.8	14.3	78.1	0.1	78.0	14.4
Norway	116.2	0.1	116.1	25.0	113.5	0.1	113.4	25.4
Other	-	-	-	-	-	-	-	-
Personal Banking	794.8	4.3	790.5	108.9	775.6	4.3	771.4	110.9
Denmark	464.5	7.4	457.1	114.6	457.2	8.7	448.5	113.3
Finland	79.2	0.7	78.5	37.7	72.2	0.9	71.3	32.6
Sweden	163.1	0.4	162.7	68.9	150.8	0.6	150.3	59.5
Norway	83.5	1.0	82.5	35.2	78.5	0.7	77.8	33.8
Baltics	20.8	0.2	20.6	11.5	20.1	0.3	19.8	10.6
Other	-	-	-	-	-	-	-	-
Business Banking	811.1	9.7	801.5	268.0	778.8	11.0	767.8	249.8
C&I*	899.4	1.1	898.3	610.6	818.7	1.6	817.1	537.5
Wealth Management	84.1	0.4	83.7	20.1	82.7	0.4	82.3	20.0
Northern Ireland	64.7	0.9	63.9	30.8	64.7	1.2	63.6	31.3
Other	27.5	-	27.5	25.4	31.7	-	31.7	28.6
Total before collective impairment charges	2,681.8	16.4	2,665.4	1,063.9	2,552.3	18.5	2,533.8	978.1
Collective impairment charges	4.3				5.0			
Total gross exposure	2,686.1				2,557.3			

*The Corporates & Institutions (C&I) segment comprises large corporate customers and financial institutions. As these customers typically have business activities in multiple countries, a geographical split is not applicable.

Notes – Danske Bank Group

Credit exposure continued

Forbearance practices and repossessed assets

The Group adopts forbearance plans to assist customers in financial difficulty. Concessions granted to customers include interest-reduction schedules, interest-only schedules, temporary payment holidays, term extensions, cancellation of outstanding fees, waiver of covenant enforcement and settlements. Forbearance plans must comply with the Group's Credit Policy. They are used as an instrument to retain long-term business relationships during economic downturns if there is a realistic possibility that the customer will be able to meet obligations again, or are used for minimising losses in the event of default.

If it proves impossible to improve the customer's financial situation by forbearance measures, the Group will consider whether to subject the customer's assets to a forced sale or whether the assets could be realised later at higher net proceeds. At the end of the first nine months of 2017, the Group recognised properties taken over in Denmark at a carrying amount of DKK 46 million (31 December 2016: DKK 79 million) and properties taken over in other countries at DKK 52 million (31 December 2016: DKK 62 million). The properties are held for sale and included under Other assets in the balance sheet.

The table below shows the exposures that are subject to forbearance measures and is based on the EBA's definition as described in Annual Report 2016. The increase in forborne exposures in the refinancing segment relates to pro-active forbearance measures taken by the Group to improve the financial position of weak customers.

Exposures subject to forbearance measures (DKK millions)	30 September 2017		31 December 2016	
	Performing	Non-performing*	Performing	Non-performing*
Modification	911	1,751	433	1,713
Refinancing	1,979	11,513	1,730	12,079
Under probation	10,626	-	8,682	-
Total	13,516	13,264	10,844	13,793

*These loans are part of the total non-performing loan amount. For more details, see the section "Non-performing loans" on the next page.

Notes – Danske Bank Group

Credit exposure continued

Non-performing loans

The Group defines non-performing loans as facilities with objective evidence of impairment and for which individual impairment charges have been booked. For non-retail exposures with one or more non-performing loans, the entire amount of the customer's exposure is considered to be non-performing. For retail exposures, only impaired facilities are included in non-performing loans. The Group's definition of non-performing loans differs from the EBA's definition by excluding fully covered exposures to customers in default and previously forbore exposures that are now performing and are under probation.

(DKK millions)	30 September 2017	31 December 2016
Total non-performing loans	19,071	21,900
-Portion from customers in default*	7,671	8,828
Coverage ratio (default) (%)	95	95
Coverage ratio (non-default) (%)	65	65
Coverage ratio (total non-performing loans) (%)	82	83
Non-performing loans as a percentage of total gross exposure (%)	1.3	1.6

*Part of which is also shown in the "Exposures subject to forbearance measures" table.

Allowance account in core activities

Allowance account in core activities broken down by segment

(DKK millions)	Personal Banking	Business Banking	C&I	Wealth Management	Northern Ireland	Other	Allowance account total	Impairment	
								Individual	Collective
1 January 2016	6,614	15,091	2,369	606	2,814	2	27,496	23,151	4,346
New and increased impairment charges	1,496	2,587	1,650	77	171	-	5,981	4,558	1,423
Reversals of impairment charges from previous periods	1,743	2,559	562	215	430	1	5,510	4,588	922
Write-offs debited to allowance account	805	2,078	530	32	875	-	4,320	4,320	-
Foreign currency translation	3	21	20	1	-363	-	-319	-324	5
Other items	20	262	-185	98	-45	-1	150	28	122
31 December 2016	5,584	13,324	2,762	534	1,273	1	23,479	18,506	4,974
New and increased impairment charges	1,097	1,690	892	86	94	3	3,862	3,717	145
Reversals of impairment charges from previous periods	909	2,281	464	152	257	-	4,063	3,291	772
Write-offs debited to allowance account	413	1,126	462	4	131	-	2,136	2,136	-
Foreign currency translation	-7	-40	-134	-2	-33	-	-216	-160	-56
Other items	-28	108	-320	3	-24	-2	-263	-263	-
30 September 2017	5,324	11,675	2,275	464	922	2	20,663	16,372	4,291

Collective impairment charges include charges that reflect the migration of customers from one rating category to another without changes being made to the credit margin to reflect the increase in credit risk. If all business customers were downgraded one rating category with no corresponding change in the interest rate charged to the customers, collective impairment charges would increase by about DKK 1.6 billion (31 December 2016: about DKK 1.2 billion).

If the value of collateral provided by customers in rating categories 10 and 11 decreased 10%, individual impairment charges would increase by about DKK 2.1 billion (31 December 2016: about DKK 2.3 billion).

Notes – Danske Bank Group

Credit exposure continued

Credit exposure from Non-core lending activities

The Non-core business unit is responsible for the controlled winding-up and divestment of exposures that are no longer considered part of the Group's core activities. The portfolio consists of the Non-core exposures in Ireland, the Baltics and conduits etc.

Credit portfolio in Non-core activities broken down by industry (NACE)

(DKK millions)	30 September 2017				31 December 2016			
	Gross exposure a	Acc. individual impairment charges b	Net exposure =a-b	Net exposure, ex collateral	Gross exposure a	Acc. individual impairment charges b	Net exposure =a-b	Net exposure, ex collateral
Personal customers	16,653	973	15,679	717	18,446	1,479	16,966	1,765
Consumer discretionary	27	27	-	-	82	65	17	1
Commercial property	64	64	-	-	226	213	13	-
Other	89	89	-	-	376	269	107	-
Non-core banking	16,832	1,153	15,679	717	19,131	2,027	17,103	1,766
Non-core conduits etc.	5,277	245	5,032	1,166	6,582	239	6,343	1,309
Total Non-core before collective impairment charges	22,110	1,398	20,711	1,883	25,713	2,266	23,447	3,075
Collective impairment charges	411				410			
Total gross Non-core exposure	22,521				26,123			

Credit portfolio in Non-core activities broken down by rating category

(DKK millions)	PD level		30 September 2017				31 December 2016			
			Gross exposure a	Acc. individual impairment charges b	Net exposure =a-b	Net exposure, ex collateral	Gross exposure a	Acc. individual impairment charges b	Net exposure =a-b	Net exposure, ex collateral
	Upper	Lower								
1	-	0.01	287	-	287	-	162	-	162	-
2	0.01	0.03	1,205	-	1,205	-	1,903	-	1,903	-
3	0.03	0.06	700	-	700	469	1,544	-	1,544	541
4	0.06	0.14	1,588	-	1,588	301	1,832	-	1,832	488
5	0.14	0.31	222	-	222	1	17	-	17	-
6	0.31	0.63	344	-	344	18	434	-	434	24
7	0.63	1.90	1,921	-	1,921	46	1,918	-	1,918	-
8	1.90	7.98	10,601	-	10,601	537	11,507	-	11,507	1,438
9	7.98	25.70	398	-	398	30	424	-	424	32
10	25.70	99.99	2,808	548	2,260	477	3,003	686	2,317	552
11 (default)	100.00	100.00	2,037	851	1,186	3	2,968	1,580	1,388	-
Total Non-core before collective impairment charges			22,110	1,398	20,711	1,883	25,713	2,266	23,446	3,075
Collective impairment charges			411				410			
Total Non-core exposure			22,521				26,123			

Notes – Danske Bank Group

Credit exposure continued

Non-performing loans in Non-core activities

The net exposure from non-performing loans in Non-core amounted to DKK 2,701 million at 30 September 2017 (31 December 2016: DKK 3,282 million), of which the average unsecured portion of non-performing loans was 13.3% at the end of September 2017 (31 December 2016: 18.5%).

Counterparty risk

Exposure to counterparty risk (derivatives) and credit exposure from trading and investment securities

(DKK billions)	30 September 2017	31 December 2016
Counterparty risk		
Derivatives with positive fair value	262.5	326.4
Credit exposure from other trading and investment securities		
Bonds	520.9	503.5
Shares	8.5	23.1
Other unutilised commitments	0.5	0.5
Total	792.3	853.5

Other unutilised commitments comprises private equity investment commitments and other obligations.

Bond portfolio

(DKK millions)	Central and local government bonds	Quasi-government bonds	Danish mortgage bonds	Swedish covered bonds	Other covered bonds	Corporate bonds	Total
30 September 2017							
Held-for-trading	99,243	1,446	37,896	47,785	5,950	5,925	198,245
Designated at fair value	27,636	652	64,442	7,259	5,391	4,150	109,530
Available-for-sale	2,147	858	69,246	-	1,312	-	73,563
Hold-to-maturity	63,203	1,319	67,478	5,048	1,816	665	139,529
Total	192,229	4,275	239,062	60,092	14,469	10,740	520,867
31 December 2016							
Held-for-trading	70,779	667	32,928	46,657	5,822	5,027	161,880
Designated at fair value	29,597	537	86,838	11,344	5,578	3,596	137,490
Available-for-sale	599	-	69,424	-	703	-	70,727
Hold-to-maturity	66,913	1,319	60,859	1,815	2,054	420	133,379
Total	167,888	2,523	250,050	59,816	14,157	9,043	503,477

At 30 September 2017, the Group had an additional bond portfolio worth DKK 159,844 million (31 December 2016: DKK 157,936 million) recognised as assets under insurance contracts and thus not included in the table above. The section on insurance risk in Annual Report 2016 provides more information. For bonds classified as hold-to-maturity, fair value exceeded amortised cost at the end of 30 September 2017 and 31 December 2016.

Notes – Danske Bank Group

Bond portfolio continued

Bond portfolio broken down by geographical area

(DKK millions)	Central and local government bonds	Quasi-government bonds	Danish mortgage bonds	Swedish covered bonds	Other covered bonds	Corporate bonds	Total
30 September 2017							
Denmark	28,308	-	239,062	-	-	3,950	271,319
Sweden	36,728	-	-	60,092	-	2,168	98,988
UK	8,473	-	-	-	2,089	475	11,039
Norway	8,099	-	-	-	6,610	1,487	16,197
USA	11,303	160	-	-	-	14	11,477
Spain	13,061	-	-	-	53	-	13,114
France	20,640	-	-	-	865	610	22,114
Luxembourg	-	3,322	-	-	-	5	3,326
Finland	15,914	794	-	-	1,808	793	19,310
Ireland	4,130	-	-	-	3	14	4,147
Italy	4,152	-	-	-	-	8	4,160
Portugal	1,414	-	-	-	-	4	1,418
Austria	8,104	-	-	-	227	499	8,830
Netherlands	7,631	-	-	-	239	452	8,322
Germany	17,209	-	-	-	1,755	48	19,013
Belgium	6,790	-	-	-	128	4	6,922
Other	272	-	-	-	691	208	1,171
Total	192,229	4,275	239,062	60,092	14,469	10,740	520,867
31 December 2016							
Denmark	21,663	-	250,050	-	-	3,587	275,301
Sweden	19,253	-	-	59,816	3	1,542	80,614
UK	8,669	1	-	-	2,214	225	11,109
Norway	4,450	-	-	-	6,436	792	11,678
USA	8,638	169	-	-	-	38	8,845
Spain	12,201	-	-	-	210	-	12,411
France	21,311	-	-	-	1,138	448	22,897
Luxembourg	-	2,353	-	-	-	-	2,353
Finland	16,811	-	-	-	2,510	1,076	20,398
Ireland	4,393	-	-	-	32	10	4,435
Italy	7,296	-	-	-	-	-	7,296
Portugal	84	-	-	-	-	-	84
Austria	8,560	-	-	-	227	435	9,222
Netherlands	8,561	-	-	-	271	491	9,323
Germany	17,061	-	-	-	653	58	17,772
Belgium	8,480	-	-	-	128	-	8,608
Other	458	-	-	-	335	340	1,133
Total	167,888	2,523	250,050	59,816	14,157	9,043	503,477

Notes – Danske Bank Group

Bond portfolio continued

Bond portfolio broken down by external ratings

(DKK millions)	Central and local government bonds	Quasi-government bonds	Danish mortgage bonds	Swedish covered bonds	Other covered bonds	Corporate bonds	Total
30 September 2017							
AAA	105,464	2,504	238,888	60,092	12,840	3,913	423,701
AA+	20,513	343	-	-	332	628	21,816
AA	34,507	1,429	57	-	65	747	36,804
AA-	7,730	-	102	-	-	347	8,179
A+	139	-	-	-	2	250	390
A	4,130	-	3	-	1,211	2,047	7,391
A-	-	-	-	-	-	469	469
BBB+	86	-	-	-	-	369	456
BBB	17,910	-	12	-	-	713	18,634
BBB-	-	-	-	-	-	331	331
BB+	1,414	-	-	-	-	154	1,567
BB	-	-	-	-	-	398	398
BB-	-	-	-	-	-	10	10
Sub-inv. grade or unrated	336	-	-	-	19	365	720
Total	192,229	4,275	239,062	60,092	14,469	10,740	520,867
31 December 2016							
AAA	77,321	1,174	249,851	59,816	13,185	2,856	404,203
AA+	32,417	342	-	-	630	568	33,957
AA	24,128	1,007	57	-	177	875	26,244
AA-	9,520	-	111	-	-	314	9,945
A+	919	-	-	-	101	466	1,486
A	1,628	-	-	-	49	1,357	3,034
A-	2,375	-	1	-	-	128	2,504
BBB+	864	-	-	-	-	449	1,312
BBB	18,632	-	30	-	8	751	19,421
BBB-	-	-	-	-	-	291	291
BB+	84	-	-	-	-	192	276
BB	-	-	-	-	-	289	289
BB-	-	-	-	-	-	20	20
Sub-inv. grade or unrated	-	-	-	-	7	487	495
Total	167,888	2,523	250,050	59,816	14,157	9,043	503,477

Derivatives with positive fair value

(DKK millions)	30 September 2017	31 December 2016
Derivatives with positive fair value before netting	427,545	520,722
Netting (under accounting rules)	165,078	194,290
Carrying amount	262,466	326,433
Netting (under capital adequacy rules)	185,443	241,600
Net current exposure	77,024	84,832
Collateral	46,021	43,886
Net amount	31,002	40,946
Derivatives with positive fair value after netting for accounting purposes:		
Interest rate contracts	171,932	210,958
Currency contracts	87,730	112,292
Other contracts	2,804	3,183
Total	262,466	326,433

Statement by the management

The Board of Directors and the Executive Board (the management) have considered and approved Interim report – first nine months 2017 of Danske Bank Group.

The interim financial statements have been prepared in accordance with IAS 34, Interim Financial reporting, as adopted by the EU. Furthermore, the interim report has been prepared in accordance with Danish disclosure requirements for interim reports of listed financial institutions.

In our opinion, the interim financial statements give a true and fair view of the Group's assets, liabilities, total equity and financial position at 30 September 2017 and of the results of the Group's operations and the consolidated cash flows for the period starting 1 January 2017 and ending 30 September 2017. Moreover, in our opinion, the management's report includes a fair review of developments in the Group's operations and financial position and describes the significant risks and uncertainty factors that may affect the Group.

Copenhagen, 2 November 2017

Executive Board

Thomas F. Borgen
CEO

Jacob Aarup-Andersen

Tonny Thierry Andersen

James Ditmore

Carsten Rasch Egeriis

Lars Mørch

Jesper Nielsen

Glenn Söderholm

Board of Directors

Ole Andersen
Chairman

Urban Bäckström
Vice Chairman

Lars-Erik Brenøe

Jørn P. Jensen

Rolv Erik Ryssdal

Carol Sergeant

Martin Tivéus

Hilde Tonne

Dorte Annette Bielefeldt
Elected by the employees

Kirsten Ebbe Brich
Elected by the employees

Carsten Eilertsen
Elected by the employees

Charlotte Hoffmann
Elected by the employees

Supplementary information

Financial calendar

2 February 2018	Annual report 2017
15 March 2018	Annual General Meeting
26 April 2018	Interim report - first quarter 2018
18 July 2018	Interim report - first half 2018
1 November 2018	Interim report - first nine months 2018

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Danske Capital	danskecapital.com
Danica Pension	danicapension.dk

Danske Bank's financial statements are available online at danskebank.com/Reports.