Annual Report 2021

Danske Bank Group

Danske Bank

Contents

Letter to our stakeholders

Finance is a service – a means to help customers achieve their ambitions.

As a bank, we offer products and solutions that serve to make something else possible. It is not a mortgage, a loan or a pension scheme that our customers ultimately desire; they desire what our solutions enable them to do: buy a house, start a new business or plan for a secure and comfortable retirement.

Throughout our history, we have helped our customers achieve their dreams and ambitions. We have provided the financial means that have enabled their success, which is why we say that we exist to release the potential in people and businesses. And it is the reason why we celebrated our 150-year anniversary last year by celebrating the successes and achievements of our customers.

Since the solutions we offer are a means to an end, it is our strategy to invest in further digitalisation of our services. Doing so will make it as easy and seamless as possible for our customers to interact with us and to apply for the loans and services they need – *when* they need them. It is also our strategy to strengthen our advisory expertise to offer unrivalled advisory services, no matter how complex the financial needs of our customers may be.

Our ambitions in both respects have been emboldened by our experiences of dealing with the global COVID-19 pandemic. For almost two years, we have been working with our customers to help them deal with the uncertainties of lockdown, disrupted supply chains, unpredictable demand and financial insecurity. And thanks to our set-up – and because we are fortunate to operate in some of the world's most digitalised economies, we have been able to do so largely undeterred by lockdowns and physical restrictions.

The Nordic economies are emerging from the corona crisis with a more positive economic outlook than most other countries. Together with our colleagues in the financial sector across the Nordic countries, we have worked hard to be part of the solution.

Becoming an integral part of the solution is also the ambition we have in terms of sustainability and the green transition. We see this as both the greatest challenge and the greatest opportunity for us and for our customers.

Climate change poses a risk to lives and livelihoods; it also poses a risk to business models, financial assets and our way of life. But climate change is also a commercial opportunity for entrepreneurs and businesses working to introduce ideas and solutions that make the green transition possible. And climate change is an opportunity for all of us to reinvent our economies to make them more resilient and sustainable.

As the largest financial services provider in Denmark, and as one of the largest financial institutions in the Nordic countries, we have both the power and the responsibility to contribute to positive and sustainable change for the societies we are part of, and we are committed to helping our customers turn challenges into opportunities.

We have faced challenges of our own, and while we have maintained an unrelenting focus on helping our customers with the uncertainties of the corona crisis and helping them to invest and prepare for the green transition, we have also continued our work to address our own legacy issues and to make progress on our ambitions to become a better bank.

We still have work to do, but we have come a long way already. Among our main achievements, we have improved profitability by increasing income and lowering costs, and we have further strengthened our compliance organisation. We have created a more flexible and inclusive workplace, and we now have the highest level of customer satisfaction among large and institutional customers across the Nordic countries. And we also have a Nordic lead within sustainable finance.

These achievements are important steps towards fulfilling the ambitions we have of being a leading Nordic bank across all customer segments, and they demonstrate how we create value for all stakeholders by using the power of finance to create sustainable progress today and for generations to come.

This is our purpose, and it is our promise to all stakeholders.

Karsten Dybvad
Chairman of the Board of Directors

Carsten Egeriis
Chief Executive Officer

Danske Bank 2021 at a glance

Our purpose

We release the potential in people and businesses by using the power of finance to create sustainable progress today and for generations to come

Release the potential in people and businesses	People and businesses hold a lot of untapped potential, and a loss for the individual is also a loss for society. At Danske Bank, we believe that human potential is the most valuable asset in the world and is the key to driving positive change. Therefore, we want to be potential-seekers as well as risk managers. We want to support changemakers, large and small, and break down barriers for action.
The power of finance	When we combine financial solutions with knowledge, we enable people, businesses and society to make a difference and create a positive development. We believe that our resources will create a positive impact if applied with focus and responsibility. We are committed to using our expertise and size to drive scale – alone and in partnership with others – while creating volume by encouraging and inspiring our customers to use their power.
Sustainable progress	We believe that having a long-term approach is key to creating a positive impact. As well as being committed to long-term focus by developing sustainable solutions that contribute to long-term positive impact and that enable all to take part, we also deliver on our short-term goals.

Key figures 2021 for Sustainable Finance solutions

DKK 192 billion
in green bonds issued on behalf of customers

DKK 631 billion
invested in Article 8 and Article 9 funds

DKK 33.5 billion
green investments by Danica Pension since 2019

6,329
start-ups and scale-ups supported with growth and impact tools, services and expertise since 2016

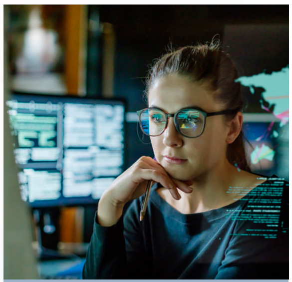
Strategic focus

Our strategic focus is to become a better bank for everyone, and we have four ambitions for becoming a better bank towards 2023.

Customers
On average among the **top two banks** in customer satisfaction in everything we do.

Employees
Target a Satisfaction & Motivation score of **77**

Society
Operate **sustainably, ethically and transparently** – and have a positive impact on the societies we are part of.



Investors
Achieve a return on shareholders' equity of **8.5-9%** and a cost/income ratio in the mid-50s.

Our 2023 ambitions

On the basis of delivering a **total income** of more than **DKK 43 billion** and **costs** of around **DKK 23.5 billion** as well as a normalised capital level, we expect to deliver a **cost/income ratio** in the **mid-50s** and a **return on equity** of **8.5-9%**

This continues to build on a solid foundation and relentless execution on our commercial priorities, coupled with bringing structural costs down by building on the progress we have made with enhancing and digitising processes, a continuous and natural adjustment of our organisation and managing our non-personnel costs.

Key figures 2021

DKK 42,584 million Total income	**DKK 12,920 million** Net profit	**7.6%** Return on shareholders' equity

Financial highlights – Danske Bank Group

Income statement
(DKK millions)

	2021	2020	Index 21/20	2019	2018	2017
Net interest income*	22,049	22,151	100	22,104	23,571	23,806
Net fee income*	13,525	12,217	111	12,636	15,258	15,852
Net trading income*	4,126	4,297	96	4,350	4,570	7,087
Net income from insurance business*	2,088	1,669	125	2,385	-	-
Other income*	797	594	134	1,059	966	1,403
Total income	42,584	40,928	104	42,534	44,365	48,149
Operating expenses*	25,627	26,648	96	25,545	24,991	22,722
Impairment charges on goodwill	-	-	-	803	-	-
Impairment charges, other intangible assets	36	379	9	355	20	-
Profit before loan impairment charges	16,921	13,901	122	15,831	19,354	25,427
Loan impairment charges	348	7,001	5	1,516	-650	-873
Profit before tax, core	16,573	6,900	240	14,315	20,004	26,300
Profit before tax, Non-core	-2	-596	0	-493	-282	-12
Profit before tax	16,571	6,304	263	13,822	19,722	26,288
Tax	3,651	1,715	213	-1,249	4,548	5,388
Net profit	**12,920**	**4,589**	**282**	**15,072**	**15,174**	**20,900**
Attributable to additional tier 1 etc.	451	551	82	786	781	786

Balance sheet (end of year)
(DKK millions)

	2021	2020	Index 21/20	2019	2018	2017
Due from credit institutions and central banks	320,042	345,938	93	174,377	201,435	351,398
Repo loans	253,954	257,883	98	346,708	316,362	228,538
Loans	1,834,372	1,838,126	100	1,821,309	1,769,438	1,723,025
Trading portfolio assets	509,589	682,945	75	495,313	415,811	449,292
Investment securities	303,425	296,769	102	284,873	276,424	324,618
Assets under insurance contracts	547,806	545,708	100	494,992	377,369	296,867
Total assets in Non-core	2,027	2,797	72	7,519	14,346	4,886
Other assets	164,620	139,064	118	135,958	207,282	160,905
Total assets	**3,935,834**	**4,109,231**	**96**	**3,761,050**	**3,578,467**	**3,539,528**
Due to credit institutions and central banks	101,786	125,267	81	98,828	148,095	155,528
Repo deposits	193,391	223,973	86	232,271	262,181	220,371
Deposits	1,167,638	1,193,173	98	962,865	894,495	911,852
Bonds issued by Realkredit Danmark	770,661	775,844	99	795,721	741,092	758,375
Other issued bonds	355,757	360,127	99	350,190	330,477	405,080
Trading portfolio liabilities	374,958	499,331	75	452,190	390,222	400,596
Liabilities under insurance contracts	588,736	591,930	99	535,891	417,279	322,726
Total liabilities in Non-core	2,529	2,975	85	2,501	4,014	3,094
Other liabilities	164,354	135,596	121	128,353	204,243	164,531
Subordinated debt	39,321	32,337	122	31,733	23,092	29,120
Additional tier 1	5,497	8,508	65	14,237	14,300	14,339
Shareholders' equity	171,207	160,171	107	156,271	148,976	153,916
Total liabilities and equity	**3,935,834**	**4,109,231**	**96**	**3,761,050**	**3,578,467**	**3,539,528**

Ratios and key figures

	2021	2020	Index 21/20	2019	2018	2017
Dividend per share (DKK)	2.0	2.0		8.5	8.5	10.0
Earnings per share (DKK)	14.6	4.7		16.7	16.5	22.2
Return on avg. shareholders' equity (%)	7.6	2.6		9.6	9.8	13.6
Net interest income as % of loans and deposits*	0.73	0.76		0.81	0.88	0.89
Cost/income ratio (C/I), (%)*	60.3	66.0		62.8	56.4	47.2
C/I, excluding impairment on intangible assets (%)*	60.2	65.1		60.5	56.3	47.2
Total capital ratio (%)	22.4	23.0		22.7	21.3	22.6
Common equity tier 1 capital ratio (%)	17.7	18.3		17.3	17.0	17.6
Share price (end of year) (DKK)	113.0	100.7		107.8	128.9	241.6
Book value per share (DKK)	200.6	187.6		183.1	174.3	172.2
Full-time-equivalent staff (end of year)	21,754	22,376	97	22,006	20,683	19,768

**The financial highlights have been restated as explained in notes G2(a) and G3(a). The financial highlights represent alternative performance measures that are non-IFRS measures. Notes G1(d) and G3 provide an explanation of differences in the presentation between IFRS and the financial highlights. For a description of the alternative performance measures used and definition of ratios, see Definition of Alternative Performance Measures on page 56.*

Executive summary

For Danske Bank, 2021 was a year in which we continued to make progress with the transformation to become a better bank and delivered structural progress towards our 2023 ambitions. Among other things, we strengthened our value propositions for our customers through digitalisation, expert advisory services and sustainable solutions, and in the third quarter, we updated our 2023 financial ambitions. In 2022, we will continue to further execute on commercial initiatives across our markets.

In 2021, we also celebrated Danske Bank's 150-year anniversary. Throughout its history, Danske Bank has assumed the role of a provider of financial advice and solutions that have enabled our customers to make a successful transition to new times and take advantage of new opportunities. This is exactly the approach we also have today when we engage with customers to help them transform changes in the digital space and the green transition into commercial or personal opportunities.

Following the gradual reopening of societies and the vaccine roll-out during 2021, the recovery in the Nordic economies became evident, with strong labour markets and consumer spending, albeit also with some inflation fears and scarcity of labour being reported. In Denmark, the recovery is broadly based, and the attention has shifted towards mitigating the risk of overheating. However, despite the fact that most of the population has been vaccinated, we saw the coronavirus on the rise again during the last months of the year, leading to new restrictions to contain the virus. Naturally, developments are closely monitored, and at Danske Bank, we are ready to continue supporting our customers with their needs.

Even though the economy is doing well, the government support packages contributed to subdued credit demand in the banking sector in Denmark. The upcoming transition to a gradual return to market-based financing, with banks offering creditworthy and viable businesses loans on reasonable terms, is likely to generate more bank lending from the first half of 2022, thus supporting our income streams.

Despite the subdued credit demand in the banking sector in Denmark, our diversified business model continued to prove valuable. During 2021, we were able to further utilise our platform and strengthen our market position for capital markets-related activities, and our efforts to capitalise on the opportunities for increased investment activity provided by market conditions also paid off.

Danske Bank posted a net profit of DKK 12.9 billion for 2021, against DKK 4.6 billion in 2020. The return on shareholders' equity was 7.6%, against 2.6% in 2020.

Strategic focus
As 2021 is now behind us, we have reached the mid-point of the period for our transformation to become a better bank with satisfactory results, and we will continue to deliver value for all of our stakeholder groups: customers, employees, society and shareholders. Enhancing our services and products to customers as well as supporting innovation in society will continue to be part of the agenda along with focusing on ensuring employee engagement.

In October, we updated our 2023 ambitions. We confirmed that our business model will allow for a sustainable return on shareholders' equity of 8.5-9% in 2023 and 9-10% through the cycle. With recent progress, we are further strengthening our position to deliver long-term sustainable value creation. In addition, following a thorough business review, we also extended the timeline for reaching a more normalised compliance cost level to 2025 to allow us to sustain the resilience of Danske Bank.

As the next step in our ongoing transformation, we announced in January 2022 a further fine-tuning of the organisation that will take effect no later than May 2022. Going forward, the commercial activities will be organised in three business units: Personal Customers, Business Customers and Large Corporates & Institutions. The aim is to become even more customer-centric and to enhance the commercial focus as well as to accelerate execution of our 2023 plan. This work is supported by our Commercial Leadership Team, which was established at the beginning of 2021 to drive the commercial and customer agenda across all our markets. We are now past our foundational work, and in the coming years, we will be focusing even more on our commercial momentum.

Focus on enhancing the customer experience
During 2021, we continued our execution of the Better Bank plan by improving the customer experience as well as enhancing value propositions for our customers.

One of the main focus areas at Personal & Business Customers was and still is to improve the customer experience via digital solutions and advisory services specialisation, and this led to multiple business initiatives throughout the year. For business customers, for example, we launched a new service model across all markets, which allows us to even better match the service level and offerings to a specific customer's needs. At Personal Customers Denmark, we improved our digital self-service options in relation to home finance by enabling customers to perform online remortgaging calculations, and we launched a new modern website for Realkredit Danmark – providing customers with a better overview of their existing loans and the opportunity to calculate the costs associated with the various loan types. On average, the rd.dk website now gets 80,000 visits each month, an increase of 23% from the number of visits to the old site.

We enhanced our value proposition for the Private Banking segment as we started to offer customers in Denmark the opportunity to invest in our Global Portfolio Solution – a solution that was previously available exclusively to our corporate customers.

At Large Corporates & Institutions, we continued our efforts to making daily banking activities easy and safe for our customers, for example by enhancing our financial platform District.

Our efforts to help our large corporate and institutional customers adjust to the post-COVID-19 operating environment and support them with their sustainability transition continued to produce high customer satisfaction in this segment. Across the Nordic countries, we maintained our number one position on the basis of an aggregated ranking in the annual reviews conducted by Prospera. Customer satisfaction also remained strong among business customers in Denmark, Norway and Finland, where we ranked in the top two in 2021, whereas we are more challenged in Sweden. In respect of personal customers, customer satisfaction was challenged in 2021 and below our ambition. The development in the personal customer segment continues to have our attention, and we will keep focusing on improving customer journeys further with emphasis on expert advisory services, digital convenience and sustainability offerings.

During the year, we continued to make progress with the remediation of our legacy issues as a part of our efforts to become a better bank. We are working hard to remediate these issues and compensate affected customers as soon as possible.

Sustainability

On the sustainability agenda, we made considerable progress with our ambitions during the year, and as an integral part of our strategy, Danske Bank is dedicated to further accelerating this agenda. Furthermore, we joined the Net-Zero Banking Alliance and the Net Zero Asset Managers Initiative, and in doing so, committed ourselves to becoming a net-zero bank by 2050 or sooner. Most recently, we have also set targets to reduce carbon emissions in our corporate loan portfolio in three key sectors by 20-50% by 2030.

Within sustainable finance, we continued to take a leading role, supported by our customers' strong positioning in the sustainability transition. During 2021, we supported issuers and investors in a substantial number of transactions, affirming our position as a leading Nordic bank within sustainable finance. Activity was high across business areas, and we are proud to be ranked number one among the Nordic banks within arranging of both sustainability-linked loans and sustainable bonds in terms of volumes supported. In 2021, we arranged sustainable bonds in the amount of USD 12 billion for our customers. For personal customers, we launched a number of initiatives to promote sustainable development, for example an attractive car loan offer for personal customers in Denmark for both electric cars and plug-in hybrid cars.

For business customers, we expanded our sustainable product offering, mainly our offers of green loans for large investments.

Capital, funding and regulation

Our capital position remained strong with a total capital ratio of 22.4% and a CET1 capital ratio of 17.7%.

The total risk exposure amount (REA) increased approximately DKK 76 billion in 2021, due mainly to the implementation of EBA guidelines. In the FSA joint decision, our Pillar II add-on related to model risk was reduced by DKK 4.1 billion in the fourth quarter, partly mitigating the REA increases associated with EBA guidelines.

In 2021, the Group issued covered bonds of DKK 33.3 billion, senior debt of DKK 27.3 billion, non-preferred senior debt of DKK 4.4 billion, tier 2 capital of DKK 5.6 billion and additional tier 1 capital of DKK 4.5 billion, bringing total long-term wholesale funding to DKK 75.1 billion.

Regarding the terminated non-resident portfolio at Danske Bank's former branch in Estonia, the internal investigation work that was planned for completion in 2020 has been finalised, and Danske Bank has reported the findings to the relevant authorities investigating Danske Bank. Danske Bank continues to fully cooperate and will provide the authorities with further information if and when requested.

Financials

Total income was up 4% from the level in 2020. The increase was driven mainly by a strong performance in our capital markets activities on the back of good customer activity, and we continued to support customers with advisory services and capital.

During 2021, we started to see an increased flow into investments, and our repricing initiatives in Denmark for the personal as well as the business segment are having the desired effect. However, continuing margin pressure across the Nordic countries and lending product mix effects more than offset the effect of our repricing initiatives, keeping net interest income at a relatively stable level.

Net fee income increased from the level in 2020, driven by good customer activity and higher assets under management in Asset Management. The strong activity in the debt and equity capital markets we have seen in the past quarters continues, and our leading platform has enabled us to capitalise on this trend. We therefore take a number one position as the leading Nordic bank in terms of volumes in both products.

Net trading income declined from the level in 2020 due to lower activity in 2021 along with less positive value adjustments on the derivatives portfolio. The sale of Aiia to Mastercard and the sale of Visa shares in the Group's private equity portfolio had a positive effect on net trading income.

In 2021, Danica Pension saw good momentum, driven by good performance in the underlying business as well as strong tailwind from higher returns on investments. Danica Pension saw significant growth in premiums of 30% as well as an inflow of new large customers, which shows Danica Pension's strong position in the market.

We continued to see a downward trend in expenses, driven by the cost initiatives we launched during the past year, and operating expenses thus fell from the year-earlier level. The decrease reflects lower costs for transformation and consultancy, and as planned, our AML and compliance costs were lower as well, ensuring that we remain on the right trajectory. However, a provision related to the VAT case in Sweden as well as a provision for taxation of business travellers and a one-off investment ensuring good working–from-home conditions had a partly offsetting effect together with higher expenses for bonus payments that reflect higher customer activity.

During 2021, we saw a low level of actual credit deterioration compared with the level in 2020, also for corona-affected and oil-related portfolios. These portfolios benefited from model-driven reversals made as a result of better-than–expected macroeconomic developments. In addition, Danske Bank has since the end of 2019 actively reduced its net oil-related exposure (excluding oil majors). The post-model adjustments made during 2020 to cover pandemic-related tail risks are largely unchanged, as it remains to be seen how both the rolling off of government support packages and tapering from centrals banks, including the timing of these, might affect those businesses at which earnings are still catching up. Overall, credit quality remained strong, and we remain confident with our current management overlays.

Dividend

In accordance with Danske Bank's dividend policy, Danske Bank intends to pay out a total dividend of DKK 7.5 per share for 2021, corresponding to 50% of the net profit for the year. The Board of Directors proposes an initial dividend payment of DKK 2 per share to the annual general meeting. The remaining DKK 5.5 per share is intended to be paid out in three tranches following the publication of interim reports in 2022, subject to a decision by the Board of Directors in accordance with the authorisation given to the Board and based on the usual assessment of the bank's capital position at the end of each interim period. This approach is taken to preserve the dividend policy of the bank while ensuring a prudent capital management with a high degree of flexibility in light of the Estonia matter, where we remain unable to estimate any potential outcome or timing.

Thus Danske Bank's dividend policy remains unchanged, targeting a dividend of 40-60% of net profit.

Outlook for 2022

We expect net profit to be in the range of DKK 13–15 billion, including the gains from MobilePay, Danske Bank International and Danica Pension in Norway.

We expect income from core banking activities to be higher in 2022 due to good economic activity and progress towards our 2023 financial ambitions. Net income from insurance business and trading activities are expected to be at normalised level, subject to financial market conditions.

We expect costs in 2022 to reflect continued focus on cost management and to be around DKK 25 billion due to elevated remediation costs and the inclusion of Swedish bank tax and regulatory expenses of around DKK 0.4 billion.

Loan impairments are expected to be below normalised level, given stable macroeconomic conditions and our overall strong credit quality.

We maintain our ambition for a return on shareholders' equity of 8.5-9% in 2023.

The outlook is subject to uncertainty and depends on economic conditions.

Strategy execution

Two years ago, we embarked on a multi-year transformation to become a better bank by 2023 and formulated strong ambitions for all of our stakeholder groups: customers, employees, society and shareholders. As we planned for at the time, the key focus for the past two years has been on addressing the challenges facing our core business and reversing the downward trend we saw in 2019.

Now that we are past the mid-point of the transformation period, we continue to be satisfied with its traction. The structural progress we have achieved over the course of the past two years is significant and lays the tracks not only for 2023 but also for the years to come. Thus, we are now well-positioned to deliver sustainable value creation, and the outcomes of our transformation in 2021 are evidence of the progress we are making towards fulfilling the 2023 ambitions for customers, employees, society and shareholders as set out in our Better Bank transformation agenda:

Customers
Customers are the reason why we exist and we strive to deliver the best customer experience. We want to provide our customers with best-in-class, proactive advice and relevant products and services through the channel of their choice and at any time.

We continue to show traction in line with our 2023 ambition to be on average in the top two in customer satisfaction across our customer segments. We have sustained our strong results for business customers and large corporate and institutional customers. Personal customer satisfaction remains challenged, and we are focusing on improving this with a number of initiatives launched in 2021 and are working with our Chief Customer Officers to ensure we take an even more customer-centric approach to everything we do.

High-quality advisory services, innovative digital solutions, and relevant products for our customers are at the core of our business.

In the personal customer segment, we have continued to transform our service model and enhance digital solutions to become more proactive, to provide customers with easier access to banking products and services and to offer a more convenient experience. Our continued efforts to develop our digital solutions led to Danske Bank's Mobile Banking app winning the 2021 award for Best User Experience in the Customer Centricity World Series.

We focus on improving our mortgage offering to regain our leading position in the home finance market and took a series of initiatives to provide a better home loan experience. A second key priority continues to be the expansion of our retail investment offering to address customers' growing need for specialist advice. In Sweden, Norway and Finland, we continued to build and strengthen our partnership offerings.

For our business customers and large corporate and institutional customers, our compelling offering and expertise enabled us to meet their evolving needs, for instance within investments, equity and debt capital markets, as well as green products. We continued to develop District, our financial platform that helps customers get a full overview of their finances across banks and borders. We launched new tools targeted at solving customer needs with regard to payments and risk management, including via partnerships. In addition, for our business customers, we introduced a new service model to better match our customers' needs through a combination of specialised advisory services and digital self-service solutions.

More information is available in the Personal & Business Customers and Large Corporates & Institutions sections of this report.

Employees

Our employees are our most valuable strength, and we aspire to have engaged employees who are proud of working at Danske Bank. Further, we want a skilled and motivated workforce and a strong and diverse talent pool to ensure that we continue to meet increasing customer expectations.

We continue to have a strong focus on improving employee engagement as part of our Better Bank ambitions. Due to a change in survey methodology, we now target a Satisfaction & Motivation score of 77 in 2023. The updated methodology provides us with more in-depth insight into specific drivers of engagement and enables us to focus our investments on proactively driving engagement. The new target of 77 represents the progress expected of a business that invests in employee engagement. Our long-term aspiration is to be a workplace where engagement is an integral part of the culture and a natural part of our everyday focus and how we work together.

During 2021, our Satisfaction & Motivation score increased from 71 to 74, driven by improvements in reputation and working conditions. While engagement is on the right track, we are still striving for further improvement.

Leadership is a key driver of engagement, and we are investing in leadership development and large-scale leadership programmes as part of our cultural transformation. Danske Bank's newly launched Purpose and Culture Commitments ignite our cultural transformation, embody the internal culture we aspire to, and provide purpose to guide our actions. The commitments are essential in guiding our behaviour when engaging with customers, society and each other. Launched in the spring of 2021, our Purpose and Culture Commitments have been well received by employees, and the organisation has engaged in the process of reflecting, interpreting and bringing to life our Purpose and Culture Commitments to ensure they are present in everything we do.

We always strive to grow our attractiveness as an employer as well as our talent pool to ensure that the skills of our workforce match the future needs of our customers and the challenges that a modern financial institution faces. A crucial step in this regard has been the completion of the agile transformation of our development organisation. As a result, more than 4,000 employees in development functions experience new ways of working with increased empowerment and greater end-to-end responsibility. A second key component is our decision to make our flexible ways of working permanent. Our employees have adjusted well to the changes that have become necessary as a result of the pandemic, and we support this transition.

To foster an ever more open, diverse and inclusive culture at Danske Bank, we maintain a dedicated focus on increasing the diversity of our staff.

More information is available in the Sustainability section of this report and in Sustainability Report 2021.

Society

At the core of our societal ambition is our desire to act in the best interest of our customers and the societies that we are a part of. This includes protecting the integrity of markets, supporting innovation in society, maintaining open and transparent communication, and creating sustainable progress for our customers.

Our work to protect society and the integrity of markets continues to be a high priority, and we have a commitment to our customers, the sector as a whole as well as with regulators and authorities to combat financial crime. Our work is guided by a comprehensive plan for regulatory compliance and the prevention of financial crime (Financial Crime Plan), which is showing results in terms of both quality and efficiency gains. Our investment in strengthening our control environment is resulting in tangible progress, for instance in terms of transaction monitoring and trade and communication surveillance.

Furthermore, subsequent to the review of more than 99% of the customers covered by our 'Know your Customer' remediation and additional investment in the process, we are now transitioning into a business-as-usual operating model while also witnessing increased efficiency, better quality and a better customer experience, for instance thanks to process digitalisation.

In parallel, we continue to progress with the remediation of our legacy issues. Following nearly 50,000 customer meetings, we officially closed the Flexinvest Fri case. And despite our challenged starting point for this customer dialogue, one of our main achievements was that customer satisfaction among Flexinvest Fri customers is now on par with that of other customers.

We progressed considerably with our sustainability agenda. Key proof points include the surpassing in 2021 of our 2023 targets in the area of sustainable financing and sustainable investing, which led us to set new 2023 ambitions.

More information is available in the Sustainability section of this report and in Sustainability Report 2021.

Shareholders

Two years ago, we set out an ambitious plan, and in October 2021, we confirmed that our business model will allow for a return on shareholders' equity of 8.5-9% and a cost/income ratio in the mid-50s in 2023, with line of sight to reaching a sustainable return on shareholders' equity of 9-10% and a cost/income ratio in the low 50s through-the-cycle.

Through our transformation efforts, we have gained more clarity on our challenges – and while risks still exist, we are diligently executing our plans and in 2021 delivered a return on shareholders' equity of 7.6%, an improvement from 2.6% in 2020. As a result of our dedicated focus and continuous prioritisation of strengthening our foundation, we are now well-positioned in terms of reaching our profitability potential.

With the current scope and trajectory, we still expect to finalise our financial crime remediation by the end of 2023. However, after a thorough business review during 2021, we are extending the timeline for reaching a more normalised cost level to 2025 to allow us to sustain the resilience of Danske Bank. In parallel, we have validated our commercial plans across all areas and pressure-tested assumptions, ensuring we are well-positioned to deliver sustainable value creation and an improved customer experience.

We have therefore adjusted our 2023 ambition to a return on shareholders' equity of 8.5-9%, but we are still confident that our business model will allow for a sustainable return on shareholders' equity of 9-10% through the cycle.

Our roadmap for delivering a total income level of around DKK 43.5 billion and a cost level of around DKK 23.5 billion, resulting in a cost/income ratio in the mid-50s, in 2023 builds on our strong position and solid momentum within Large Corporates & Institutions and our business customers segment, as well as our efforts to enhance digitalisation and modernising our platform across the Group. In the short term, regaining momentum in relation to personal customers in Denmark is key, and something we need to do while also building the future retail bank across the Nordic countries and capitalising on our momentum in the MidCorp segment. We will leverage our market-leading position for Large Corporates & Institutions and capitalise on the growing activity shift from conventional balance

sheet lending to capital markets activity, including the transition to green products, which our strong franchise is already now well-positioned for and which will support more robust and capital-light income generation going forward.

Throughout this journey, it will be a priority to structurally bring down costs in a sustainable way and enhance capital efficiency without compromising the commercial momentum and income opportunities.

Growth trajectory towards 2023

Our transformation to become a better bank for all our stakeholders continues in 2022. We expect to make significant progress towards our four key stakeholder ambitions for 2023 while at the same time charting the course for sustained value delivery beyond 2023.

As we have progressed on the transformation journey and as our understanding of what needs to be done has matured further, we expect to address the challenges that remain as we continue to progress our plans and concentrate on execution. An example of this is regaining momentum in our retail business in Denmark.

As we move towards 2023 and beyond, our customers will increasingly start to experience the results of our efforts and investments towards simplifying and digitalising key customer journeys. Our focus on developing digital tools that enable self-service and increase adoption rates will allow for both a better customer experience and a lowering of structural costs in a sustainable way. For example, we expect to progress with our ambition to enable digital welcoming and handling of everyday banking and financing needs for all personal and business customers, while also increasing self-service in relation to mortgage products. The progress we have already made on digitising our processes, for example to proactively deliver advice and tailored solutions across digital channels, serves as a strong enabler for further enhancement, coupled with ongoing adjustment of our organisation and stringent focus on non-personnel costs.

To drive our cultural transformation, we will engage with all our employees on activities targeted at anchoring the Purpose and Culture Commitments across the organisation. As part of our commitment to society, our efforts to strengthen our control environment will continue as we execute our Financial Crime Plan. At the same time, we will build on the strong momentum established since 2019 and further integrate sustainability into our products and processes.

Sustainability

The European Green Deal and other political initiatives for a sustainable future require not only technological change but also changes in consumption and social practices. Fortunately, we see a fast-growing demand for sustainable products, solutions and operations across sectors.

Danske Bank's new purpose places people, their potential and sustainable progress for individuals, businesses and society firmly at the heart of everything we do. As a large financial institution, Danske Bank has the ability to instigate change and support sustainable progress by using the power of finance. Our Better Bank plan and our sustainability strategy are helping us to accomplish this.

Sustainability Strategy 2023

We have designed our 2023 Group Sustainability Strategy to optimise synergies between societal and business interests to create value for all key stakeholder groups and to enable us to deliver on our purpose. In 2021, this involved elevating our ambition of being merely one of the leading banks for sustainable finance in the Nordic countries to also being the leading bank for sustainable finance in Denmark.

Sustainable finance is at the core of our sustainability strategy, and surrounding this are five additional focus areas that cover themes that are important for our stakeholders and business.

Our sustainability strategy has a heightened focus on five of the 17 UN Sustainable Development Goals (SDGs). Through our sustainable finance offerings, we have a potential indirect impact on all 17 SDGs – impact that can be both positive and negative, depending on the underlying activities, and which we are working to measure. As there is currently no common impact measurement and valuation approach tailored to banks, we in 2021 co-founded the global Banking for Impact consortium, the aim of which is to support the development of new guidelines on impact measurement for financial institutions in order to accelerate the transition to a more sustainable economy.

Danske Bank supports a number of other sustainability initiatives, including the Task Force on Climate-related Financial Disclosures (TCFD) and the Principles for Responsible Banking (PRB). In view of our commitment to helping to fight climate change, we joined two new

Group Sustainability Strategy

SUSTAINABLE FINANCE
We help our customers achieve their sustainability ambitions through financing and investing
(13 CLIMATE ACTION)

ENTREPRENEURSHIP
We support new businesses in creating sustainable growth
(8 DECENT WORK AND ECONOMIC GROWTH)

FINANCIAL CONFIDENCE
We help people become financially confident
(4 QUALITY EDUCATION)

GOVERNANCE & INTEGRITY
We operate in a responsible and transparent manner
(16 PEACE, JUSTICE AND STRONG INSTITUTIONS)

EMPLOYEE WELL-BEING & DIVERSITY
We foster well-being, diversity and inclusion in our workplace
(5 GENDER EQUALITY)

ENVIRONMENTAL FOOTPRINT
We minimise our own environmental footprint
(13 CLIMATE ACTION)

significant industry initiatives in 2021: the UN-convened Net-Zero Banking Alliance and the Net Zero Asset Managers Initiative. By joining these initiatives, we are consolidating our commitments towards becoming a net-zero bank by 2050 or sooner.

Governance, transparency and stakeholder dialogue are key elements when it comes to ensuring an efficient execution of our strategy towards 2023 and for delivering on our key sustainability commitments. Our governance structure sets clear roles and responsibilities, and it supports alignment across the Group.

Entrepreneurship

6,329 start-ups and scale-ups supported with growth and impact tools, services and expertise since 2016. The implications of COVID-19 on the Nordic start-up ecosystem are still uncertain, but supporting **10,000 startups by 2023** remains our focus.

Financial confidence

Since 2018, we have supported almost **1.6 million people** with financial literacy tools and expertise, and we are well on our way to reaching the target of **2 million people by 2023.**

Governance & integritet

96% of employees trained annually in risk and compliance, which is in line with our annual target of **over 95%.**

Employee well-being & diversity

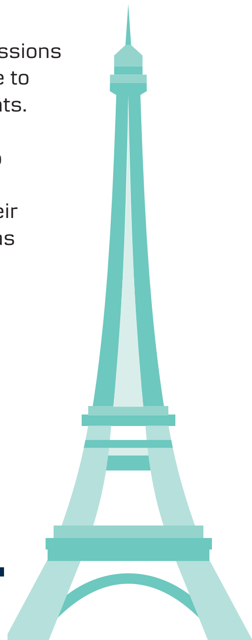
With a gender balance of **32% women** in senior leadership positions, we maintain our focus to ensure that we reach our target of **more than 35% by 2023.**

Environmental footprint

COVID-19 restrictions have led to a **69% carbon emission reduction** since 2019, but new initiatives are needed to reach our updated target of **40% by 2023.**

TCFD – climate-related risks and opportunities
Since 2019, Danske Bank has been reporting in line with the recommendations of the TCFD. Every year, we develop our disclosures to reflect our increasing climate ambitions and our actions to embed all the necessary climate data for sufficient climate risk and opportunity disclosures. To explain our approach, we published our first Climate and TCFD progress update report in June 2021, which supplements the Group's TCFD reporting in our Sustainability Report 2021.

Taxonomy regulation
Reporting in accordance with EU Taxonomy Regulation became a requirement in 2021, and we disclose the proportion of taxonomy-eligible and taxonomy non-eligible activities in our Sustainability Report 2021. As such, the disclosures comprise association to economic activities that contribute significantly to environmental objectives in the form of climate change mitigation and climate change adaptation.



Sustainable finance

In 2021, Danske Bank raised the standards for sustainable finance, and we will utilise our expertise and size – alone and in partnership with others – to create volume and provide transition finance by encouraging and inspiring our customers to use their leverage. This is reflected in our updated sustainable finance volume targets and the short- and medium-term carbon emission reduction targets which we are introducing across our financing and investments portfolios. We set reduction targets based on analysis of our portfolios' actual carbon footprint following current best standards.

Our main approach is to work with our customers and support them in reducing their absolute emissions as much as possible and to use offsetting only as a supplement to decarbonisation – and only for emissions that cannot be further reduced due to technological or financial constraints. Although divestments may be unavoidable, we generally prefer to engage with businesses to explore their potential and help them in their green transition – both in our role as investor and as lender.

Our sustainable finance commitments and approach

	Lending	Asset management	Asset ownership
Sustainable finance volume targets	**DKK 300 billion** in sustainable financing, including granted green loans and arranged sustainable bonds by 2023.	**DKK 150 billion** investments in funds with sustainable investment objective by 2030.	**DKK 50 billion** investments in the green transition by Danica Pension by 2023 – and DKK 100 billion by 2030.
Net-zero commitments	**Net-Zero Banking Alliance** (NZBA) joined in October 2021.	**Net Zero Asset Managers Initiative** joined in March 2021.	**Net-Zero Asset Owner Alliance** joined in June 2020 by Danica Pension.
Carbon emission reduction targets	Reduce carbon emissions in our corporate lending portfolio in three key sectors by between **20-50%** by 2030 against a 2020 baseline.	Reduce the carbon intensity of our investment products by **at least 50%** by 2030 against a 2020 baseline.	Reduce carbon emissions in Danica Pension's portfolio in five key sectors by between **15-35%** by 2025 against a 2019 baseline.
Approach to net-zero path	• Provide financing for innovative and low-carbon solutions • Decarbonise our overall balance sheet by actively engaging with customers through our provision of advice and financing to enable decarbonisation journeys in line with the Paris Agreement (transition finance) • Engage with investee companies to guide and influence from a decarbonisation perspective • Restrict financial flows to carbon intensive companies, e.g. by limiting credit risk exposures and investments		

Overall, we made good progress on our sustainable finance ambition in 2021, maintaining our ranking as number one among Nordic arrangers in Bloomberg's Global League Table for bookrunners of sustainable bonds. Our Green Bond Framework defines the loans or investments eligible to be funded by the proceeds from green bonds issued by Danske Bank.

Since 2019, we have quadrupled our sustainable financing through green loans and through sustainable bonds arranged for customers to DKK 192 billion in 2021. Sustainable bonds cover green, social and sustainability bonds. Through Danica Pension, we have more than tripled our investments in the green transition to DKK 33.5 billion. During the year, we also launched competitive responsible investment offerings in line with the EU's Sustainable Finance Disclosure Regulation (SFDR). Accordingly, our ESG funds (which comply with Article 8 of the SFDR) had DKK 566 billion invested, and our funds with a sustainable objective (which comply with Article 9 of the SFDR) had DKK 65 billion invested at the end of the year.

Our Group-wide sustainable finance framework continues to provide guidance on the implementation of our ambition and

targets, and it helps to ensure that we work in an effective and consistent manner as we develop our offerings and products. Both the framework and our new Sustainable Finance Policy, which was introduced in 2021, are inspired by and aligned with the PRB. In our policy, we recognise the need to channel more capital towards sustainable activities – and less towards activities that are not compatible with a sustainable future.

Entrepreneurship
Danske Bank supports new businesses that will create innovative solutions in which growth and positive societal impact go hand in hand. Since December 2015, we have supported 6,329 start-ups and scale-ups – with our target being to reach 10,000 by 2023 – and facilitated more than 43,000 jobs. The implications of COVID-19 for the Nordic start-up ecosystem are still uncertain. Start-ups and scale-ups have proven to be robust, but the development of the ecosystem as a whole is yet not clear. Our free, digital community platform, The Hub, is a key initiative in helping growth companies to recruit the talent they need to scale up and to gain access to venture capital. In 2021, the online profiles of impact start-ups were integrated into The Hub from +impact, the former digital matchmaking platform, and impact start-ups now represent about 18% of the businesses listed on The Hub.

Financial confidence
Since early 2018, Danske Bank has supported almost 1.6 million children, young people and parents by providing financial literacy tools and expertise, and we are making progress on reaching the target of 2 million by 2023. This is an essential part of our efforts to help people across our markets to achieve greater financial confidence. In 2021, we updated all Danske Bank's educational programmes. For example, our free digital learning tool, Moneyville, through which children aged 5 to 9 can learn about money in an interactive and colourful universe, was relaunched and now includes a sustainability dimension.

Governance and integrity
Danske Bank continues to develop and embed a strong compliance culture that sets clear expectations for the conduct of employees and of the Group. Our Code of Conduct Policy outlines a set of principles that govern our behaviour and way of doing business, and in 2021, the code was updated to connect our new Purpose and Culture Commitments with key Group policies. Following this, we also released new code of conduct training as part of our annual mandatory risk and compliance training courses. In 2021, 96% of our employees completed and passed the training on time, which is in line with our annual target of over 95%. Furthermore, we also launched a mandatory eLearning course that teaches all employees how we work with sustainability, how they can get involved, and how they can use this insight when they engage in discussions with colleagues, customers and partners.

In 2021, we also continued to make substantial investments to enhance our financial crime prevention procedures and competencies, and we made solid progress on strengthening our defences. We introduced a new Financial Crime Policy, which sets the principles for governance of all financial crime risks across the Group, including bribery and corruption, and we further developed our anti-bribery and corruption control framework. We also strengthened the mandatory risk and compliance training course on anti-bribery and corruption as well as the training on conflicts of interest and market abuse. The training on financial crime prevention includes understanding tax affairs at customer level and detecting tax evasion. We have a firm position on tax compliance, and, as a matter of policy, we do not participate in any aggressive tax arrangements.

Danske Bank promotes a working culture in which employees feel they can share their concerns with their colleagues, managers or HR, and we encourage employees to speak up about suspected wrongdoing as soon as possible. Employees can also report concerns anonymously through our whistleblowing scheme, which also applies to external stakeholders. In 2021, we demonstrated our ongoing commitment to ensuring that employees have the right tools to voice their concerns with confidence by enhancing our whistleblowing reporting site further through the introduction of the option to submit concerns via voice recording and using voice-altering software. The number of reports submitted in 2021 was similar to that in 2020, and this consistency demonstrates that whistleblowing is now properly embedded in the organisation.

Danske Bank is upgrading procurement processes to strengthen risk mitigation and to build a resilient and sustainable supply chain, and we have started implementing a new supplier ESG assessment platform. In 2021, 141 high-risk suppliers were ESG assessed, and our target is that all active suppliers – handled through Group Procurement – are ESG assessed by 2023.

Diversity & Inclusion
At Danske Bank, we believe that a diverse and inclusive culture will help us to release the full potential of our employees and to become a better bank for all our stakeholders. In 2021, we continued our efforts to advance our Diversity & Inclusion (D&I) agenda, both at Danske Bank and towards society in general. During the year, we reviewed our D&I Policy and hired D&I subject matter experts to develop and implement actions, and our D&I Council, local D&I Leads and advocates worked to anchor D&I efforts centrally and across the Group. In our aim for gender equality, we focus on preventing biases and developing gender-balanced recruitment processes. With a gender balance of 32% women in senior leadership positions in 2021, we maintain our focus to ensure that we reach our target of more than 35% by 2023. We also further improved LGBTQ+ rights and conditions, and in 2021, we implemented a Group-wide Transgender Instruction.

Employee well-being
Our ways of working and engaging with each other are currently undergoing significant change, with a transition

towards more hybrid and flexible ways of working. Building employee and leadership capabilities to embrace and thrive in a hybrid work environment is a key focus for us in our cross-functional programme Working@Danske – and it goes hand in hand with our ongoing culture transformation. In 2021, we negotiated local collective agreements with the Danish financial services union regarding working from home, and approximately 18,000 employees across the Group received a DKK 8,000 cash allowance to upgrade their individual home offices.

In February 2021, we launched our new agile development organisation that encourages more collaborative relationships between departments and a reduction in bureaucracy. This entailed reorganising more than 4,000 employees, moving them from specialist departments into 26 cross-functional teams.

Environmental footprint
Reducing carbon emissions from our premises and travel is a central element in our efforts to minimise our environmental footprint. In 2021, our operations resulted in 4,733 tonnes of $CO2$ emissions, which is a 69% decrease from 2019. The COVID-19 pandemic has led to a significant change in our ways of working, with digital meetings replacing a number of physical meetings, thereby reducing travel-related emissions on a more permanent basis. To reflect this, we in 2021 updated our target to a 40% reduction by 2023 in relation to 2019 – complemented by a 60% reduction by 2030 in relation to 2019. Alongside this, we will continue to increase the scope of our reporting, including categories such as employee commuting and emissions associated with employees working from home in our scope 3 emissions.

More information
We have continued to integrate ESG and sustainability considerations into our Risk Management Framework, which is covered in our Risk Management 2021 report.

In terms of ESG ratings, these cover a range of analytical activities that address a business's societal impact. Danske Bank has chosen to focus on dialogue with five providers, who are selected on the basis of their importance to our investors. This is described further in the Capital and liquidity management section on p. 50.

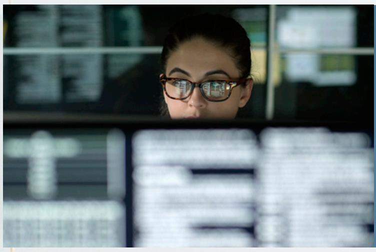
Altogether, our Sustainability Report 2021 serves as our Communication on Progress to the UN Global Compact, it meets proposal 14, cf. the 25 proposals by Finance Denmark's Anti-money Laundering Task Force, and ensures compliance with sections 135a and b of the Danish Executive Order on Financial Reports for Credit Institutions and Investment Firms etc. The report is supplemented by our Sustainability Fact Book 2021, which also includes our PRB reporting obligation. Our Sustainability Report 2021 is available for download at danskebank.com/sustainability.

Business units

Our four commercial business units support our strategy for each customer segment.

Personal & Business Customers

Our Personal & Business Customers unit provides advisory services to personal customers, Private Banking customers and small and medium-sized businesses in Denmark, Sweden, Norway and Finland. We offer customised advice based on the customer's current situation and needs. With our intuitive digital solutions, we aim to make it as easy as possible for our customers to do most of their banking business whenever and wherever they want. Our business customers have access to the market's most innovative digital solutions that make day-to-day banking easy.



Large Corporates & Institutions

Large Corporates & Institutions aims to be the preferred long-term financial partner for the largest Nordic corporate and institutional customers, supporting them throughout their life cycle in good and bad times by applying a holistic view on their business needs, while also delivering best-in-class products to customers in Personal & Business Customers. We are supporting our customers by providing easy day-to-day banking offerings, risk facilitation, execution services and strategy advice via the preferred platform of our customers.

Danica Pension

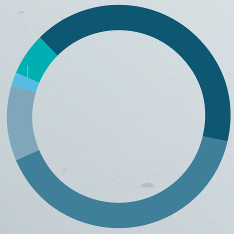
Danica Pension's strategy is based on our ambition to be our customers' financial security provider and thereby enhance customer satisfaction. We focus on proactively helping our customers – both personal and business customers – to ensure that they have the right pension, insurance and healthcare solutions, while we also generate attractive returns after costs and contribute to creating a more sustainable society.

Northern Ireland

Danske Bank is the leading bank in Northern Ireland, serving personal, business and corporate customers. The business is also a growing bank in targeted sectors across the rest of the United Kingdom. We support our customers through face-to-face, online and mobile solutions. Danske Bank was delighted to win the 2021 Business in the Community 'Environmental Leadership' award and is seen as one of the leading companies in the country when it comes to sustainability diversity and being responsible.

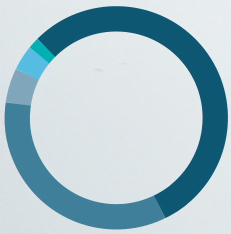
Business units contribution, 2021

Profit before tax



P&BC
LC&I
Danica Pension
Northern Ireland
Non-core
Group Functions

Total income



P&BC
LC&I
Danica Pension
Northern Ireland
Non-core
Group Functions

FTE

P&BC
LC&I
Danica Pension
Northern Ireland
Non-core
Group Functions

Personal & Business Customers

During 2021, Personal & Business Customers launched a number of initiatives to digitalise services with the aim of improving the customer experience. Customer activity increased in many of our market areas and especially within investment offerings. We continue to progress with the Better Bank plan. At the end of 2021, we saw mortgage activity in Personal Customers Denmark pick up, leading to improvements in our market share.

In 2021, profit before tax increased DKK 2,243 million from the level in 2020, due primarily to lower loan impairment charges and lower expenses. The decrease in impairment charges was attributable to fewer charges against individual exposures and overall stronger credit quality.

Personal & Business Customers
(DKK millions)

	2021	2020	Index 21/20	Q4 2021	Q3 2021	Index Q4/Q3
Net interest income	15,664	16,018	98	3,909	3,988	98
Net fee income	6,516	6,080	107	1,711	1,538	111
Net trading income	673	575	117	177	184	96
Other income	791	702	113	177	202	88
Total income	23,644	23,375	101	5,974	5,913	101
Operating expenses	15,253	15,716	97	4,420	3,544	125
Profit before loan impairment charges	8,391	7,659	110	1,554	2,368	66
Loan impairment charges	486	1,996	24	31	-96	-
Profit before tax	**7,906**	**5,663**	**140**	**1,522**	**2,464**	**62**
Loans, excluding reverse transactions before impairments	1,536,121	1,532,786	100	1,536,121	1,522,000	101
Allowance account, loans	14,146	13,957	101	14,146	14,206	100
Deposits, excluding repo deposits	700,434	685,609	102	700,434	693,548	101
Covered bonds issued	1,040,484	1,058,209	98	1,040,484	1,042,506	100
Allocated capital (average)	73,861	68,929	107	73,006	74,136	98
Net interest income as % p.a. of loans and deposits	0.71	0.75	-	0.71	0.72	-
Profit before loan impairment charges as % p.a. of allocated capital	11.4	11.1	-	8.5	12.8	-
Profit before tax as % p.a. of allocated capital (avg.)	10.7	8.2	-	8.3	13.3	-
Cost/income ratio (%)	64.5	67.2	-	74.0	59.9	-
Full-time-equivalent staff	6,565	6,913	95	6,565	6,669	98

Assets under management
(DKK millions)

Assets under custody	713,745	596,467	120	713,745	681,626	105

Fact Book Q4 2021 provides financial highlights at customer type level for Personal & Business Customers. Fact Book Q4 2021 is available at danskebank.com/ir.

Business initiatives and strategy
In 2021, Personal & Business Customers focused on the execution of the Better Bank plan and on releasing the potential of the commercial organisation. Our main areas of attention were scalability, a faster time to market via digital solutions, and advisory services specialisation.

Personal customers
The personal customer segment is a key part of Danske Bank's business. It is our ambition to be the leading bank for personal customers in Denmark and a strong challenger in the other Nordic markets. To realise this ambition, we are putting strategic focus on our home finance and investment offerings, alongside enhancing the value propositions for specific segments. In addition, core partnerships continue to play a pivotal role in our ability to increase scalability as part of the growth strategy.

To execute the plan, we implemented a number of strategic changes and initiatives in 2021.

Improved customer experience for homeowners
In Denmark, we want to be the preferred bank for homeowners.

We reached an important milestone for the fixed-rate FlexLife® loan offered by Realkredit Danmark when we reached a loan portfolio of DKK 22 billion. Furthermore, we improved our digital self-service options for home loans by enabling customers to perform remortgaging calculations online at rd.dk. In October, we launched a new modern website for Realkredit Danmark to make it easier for customers to navigate the site. Customers are now provided with a better overview of their existing loans and the opportunity to calculate the costs associated with the various loan types. On average, the rd.dk website now gets 80,000 visits each month, an increase of 23% from the number of visits to the old site. Furthermore, at the end of 2021, we launched a new home purchase calculator, which gives customers looking to buy a home an estimate of the home they can afford.

In the other Nordic countries, we also accelerated the digital customer experience within home finance. In Norway for example, we launched a digital solution for customers who would like to request changes to their existing home loans.

Enhanced value propositions

To further strengthen our position among the mass-affluent customers, in the third quarter of 2021, we launched a new value proposition that caters to this customer group's more complex finances and advisory needs. It includes access to wealth advisers specialised in asset planning and investment and a new financial planning simulation tool that provides an easy overview with targeted recommendations. The offering combines strong digital solutions with advisory services to release our customers' financial potential. The offering has been well received by customers, and we see increased activity, especially in the investment area.

To be a leading bank for personal customers in Denmark and a challenger in the other Nordic countries, we need to be a preferred bank for the next generation. In the fourth quarter of 2021, we therefore strengthened our proactivity and value proposition towards this segment, including enhanced digital 1:1 dialogue, increased accessibility and targeted campaigns.

Strengthened investment offering

One of our key focus areas is to increase investment sales, which represent a significant part of the segment income. We do this in several ways, including through more digitalisation and more time for advisory services, a simplified price structure and an attractive product offering.

This resulted in an increase in investment activity among our personal customers, and we saw growth, especially for our digital investment robot June. The inflow was two and a half times higher than in 2020. June was created to make investments easy and simple, providing customers and non-customers, new and seasoned investors alike with a digital self-service solution that delivers attractive returns.

In the first quarter of 2021, we launched a new digital investment tool for our personal customers called Proctor. Proctor is designed to provide customers with an improved and more customised overview of the costs associated with investing.

In our Private Banking segment, we started offering customers in Denmark the opportunity to invest in our Global Portfolio Solution, which was previously available exclusively to our corporate customers, marketed under the name Danske Porteføljepleje GPS. Danske Porteføljepleje GPS combines a number of the latest investment tools and aims to create more robust portfolios that produce a higher risk-adjusted return than Danske Bank's other investment solutions.

Continued Nordic growth via partnerships
Across the Nordic countries, partnerships continue to be a key lever for growth. In the third quarter of 2021, we successfully entered into a new partnership with members of the Norwegian Journalists' Association, and in Finland, we extended our agreement with Akava. Our partnership strategy enables us to team up with strong partners across our markets and gives us access to a large number of potential customers. The strategy is to provide a competitive, full-range offering to the partnership customers to create mutual value, increase scalability and strengthen our green offering proposition. We continue to accelerate the implementation of a more harmonised Nordic service model with digital sales and data-driven leads.

Supporting sustainable progress
Sustainability continues to be a strategic top priority at Personal & Business Customers, and sustainability is embedded in everything we do, including our efforts to continue to improve the customer experience and our products.

The green transition on the roads was also a key focus area, and in Denmark, we introduced a new, attractive car loan offer for personal customers for both electric cars and plug-in hybrid cars to support the transition to more sustainable and less carbon-demanding means of transportation. We also launched payment cards made of recycled plastic for our youngest customers who have the so-called Pocket Money cards. The cards were introduced across Denmark, Sweden, Norway and Finland.

In Finland, we launched a new service to help our customers make more sustainable housing choices in cooperation with our partner Akava. The service helps customers get a better overview of how to improve the environmental footprint of their homes, for example through renovation, energy classification and heating.

Business customers
Business customers continue to be of high strategic importance to us, and our ambition is to be the number one bank for business customers in the Nordic countries. We want to achieve this by leveraging enhanced digital solutions combined with market-leading advisory services to create focused value propositions.

Launch of new service model
In the fourth quarter of 2021, we increased our competitive strongholds for business customers with a new, modified service model launched across Denmark, Sweden, Norway and Finland. The service model allows us to even better match our service level and offerings to the customers' needs, thereby embracing the new way of banking with a combination of specialist advice for customers with complex needs and increased focus on digital self-service solutions and online advice for customers with less complex needs.

Improved customer experience with digital solutions
In the last quarter of 2021, we took another step towards delivering best-in-class self-service solutions for our business customers by further enhancing our District platform. With a new solution called Marketplace, customers are able to browse products and initiate the ordering process themselves, which empowers them to cover new needs within a short time frame. Additionally, Marketplace enables customers to explore new and relevant solutions offered digitally. The solution was initially launched in Sweden, and the rest of the Nordic markets will follow in 2022.

In 2021, we continued to strengthen our ability to serve our business customers remotely across all markets – a trend that accelerated with the rise of the pandemic, as more and more customers requested online services. This development has brought us a step closer to our ambition of delivering high satisfaction through our digital solutions, securing more scalability in how we deliver our advice and services, and – ultimately – helping more customers realise their potential.

Sustainability
In Denmark, we experienced an acceleration of green financing, and Realkredit Danmark's green mortgage loans for properties in Denmark passed the DKK 10 billion mark.

Furthermore, we lowered the threshold for obtaining green loans from Realkredit Danmark from DKK 100 million to DKK 30 million and removed the threshold for obtaining green loans for real estate in Norway and Sweden, which we expect will increase demand for these loan types even further.

In Sweden, via Danske Finans, we launched GreenFleet 70 for businesses. GreenFleet70 is a tool for mapping the environmental footprint of a business's car fleet, and the tool offers advice on how to reduce emissions.

Customer satisfaction
Customer satisfaction for business customers in 2021 continued to be in line with our ambitions. Among our

business customers in Denmark, Norway and Finland, we were ranked in the top two in 2021.

Customer satisfaction among our personal customers was challenged primarily by reputation and capacity constraints. To tackle these challenges, we launched a number of initiatives in 2021.

Feedback shows that the satisfaction rate among personal customers is higher when we advise customers through direct dialogue. We have therefore focused on improving our digital solutions and self-service tools to free up more time for proactivity, accessibility and dialogue with our customers. We also support our customers in their use of our digital solutions, such as our globally award-winning Mobile Banking app, which is tremendously popular among users and proves that a great customer experience can take place digitally as well. We received further recognition in the third quarter of 2021 for having the best digital customer experience on the market in Denmark and were named Digital Financial Corporation of the year by Danish financial news medium FinansWatch and research company Wilke. We will maintain our dedicated focus on creating market-leading digital tools, services and experiences for our customers – something we consider a trademark of Danske Bank.

2021 vs 2020

Profit before tax amounted to DKK 7,906 million (2020: DKK 5,663 million), mainly as a result of a decrease in loan impairment charges and lower operating expenses.

Net interest income decreased 2% due to a lower funding value of deposits across all markets as well as margin pressure and a challenged interest rate environment across the Nordic countries. These effects were only partly mitigated by repricing initiatives for deposits.

Net fee income stood at DKK 6,516 million, an increase of 7% (2020: DKK 6,080 million). This was driven by an increase in investment activity and growth in assets under management.

Net trading income increased to DKK 673 million (2020: DKK 575 million) due to higher foreign exchange activity in line with the reopening of the societies in which we operate.

Other income amounted to DKK 791 million (2020: DKK 702 million). The increase was due primarily to our real estate agency *home* seeing good activity in the housing market in the first half of 2021 as well as to good activity within Asset Finance.

Operating expenses decreased 3% as a result of lower costs in relation to the Better Bank transformation.

In 2021, loan impairment charges amounted to DKK 486 million (2020: DKK 1,996 million), and impairments thus returned to a more normal level. The impairment charges for 2021 were driven mainly by charges against individual customer exposures made as a result of the corona crisis as well as model adjustments.

Credit quality

Credit quality remained solid in 2021. The COVID-19 effects on the personal customer portfolio remained modest. We continue to be vigilant for any possible deterioration as uncertainty remains high.

Credit exposure

Credit exposure increased to DKK 1,768 billion at end-2021 (end-2020: DKK 1,763 billion), driven mainly by positive developments for Personal Customers Norway and developments for Business Customers outweighing the decreases seen for Personal Customers Denmark and Global Commercial Real Estate.

Q4 2021 vs Q3 2021

Profit before tax in the fourth quarter amounted to DKK 1,522 million, a decrease of 38%, due primarily to an increase in operating expenses caused by higher expenses in the fourth quarter resulting from changes to the allocation of costs between the business units.

- **Net interest income** amounted to DKK 3,909 million (Q3 2021: DKK 3,988 million), a decrease of 2%, which was driven by challenging interest markets in Denmark, where rates decreased, and in Norway, where rates increased. In Demark, this resulted in a continued decline in the funding value of deposits, which prompted us to take repricing actions toward the end of the year.
- **Net fee income** increased 11% from the preceding quarter as a result of increased customer activity and refinancing activity in the fourth quarter.
- **Operating expenses** increased to DKK 4,420 million (Q3 2021: DKK 3,544 million), as the changes to the allocation of costs between the business units related to the reorganisation at the beginning of the year were implemented mainly in the fourth quarter. This resulted in higher allocated costs for risk management and technology development.
- **Loan impairment charges** amounted to DKK 31 million (Q3 2021: a reversal of DKK 96 million). The increase in impairment charges was attributable to a one-off charge related to forborne customer exposures in the fourth quarter.
- **Lending** volumes were on par with volumes in the third quarter of 2021 as the need for credit facilities continued to be at a low level among business customers, who were generally helped by government support packages. For personal customers, we saw a slight increase.
- **Deposit** volumes were on par with the third quarter of 2021.

DKK 1,522 million
Profit before tax
for the fourth quarter of 2021

Large Corporates & Institutions

Economic activity improved during 2021 as societies gradually reopened. This led to high activity across most business areas, as we continued to work alongside our customers to help them adjust to the changing-COVID-19 operating environment and with the transition towards a low-carbon economy. The investments we have made over the years to improve our Investment Banking & Securities offering meant that not only did we take advantage of the elevated market activity and deliver record-high net fee income from our capital markets activities, we also managed to increase our market shares in the Nordic debt and equity capital markets – two of our strategic focus areas. Overall, market conditions were favourable, and we made good progress on a number of strategic priorities, as reflected in our number one position among the Nordic banks within arranging of sustainability-linked loans and sustainable bonds in terms of volumes supported. Profit before tax increased DKK 5,492 million from the level in 2020, driven by significantly lower loan impairment charges, higher net fee income and lower operating expenses.

Large Corporates & Institutions
(DKK millions)

	2021	2020	Index 21/20	Q4 2021	Q3 2021	Index Q4/Q3
Net interest income	4,732	5,034	94	1,179	1,161	102
Net fee income	6,777	5,911	115	2,057	1,499	137
Net trading income	3,137	3,485	90	720	565	127
Other income	5	6	83	3	-	-
Total income	14,650	14,437	101	3,959	3,225	123
Operating expenses	7,025	7,672	92	1,463	1,811	81
Profit before loan impairment charges	7,625	6,764	113	2,495	1,414	176
Loan impairment charges	-13	4,619	-	-243	-22	-
Profit before tax	**7,638**	**2,146**	**-**	**2,738**	**1,436**	**191**
Loans, excluding reverse trans. before impairments	264,824	271,359	98	264,824	244,046	109
of which loans in General Banking	232,890	225,067	103	232,890	220,608	106
Allowance account, loans (incl. credit institutions)	4,363	4,557	96	4,363	3,974	110
Deposits, excluding repo deposits	383,547	433,090	89	383,547	376,909	102
of which deposits in General Banking	340,477	378,939	90	340,477	330,126	103
Covered bonds issued	26,055	22,728	115	26,055	26,862	97
Allocated capital (average)	43,591	44,825	97	41,915	42,916	98
Net interest income as % p.a. of loans and deposits	0.73	0.79	-	0.76	0.76	-
Profit before loan impairment charges as % p.a. of allocated capital	17.5	15.1	-	23.8	13.2	-
Profit before tax as % p.a. of allocated capital (avg.)	17.5	4.8	-	26.1	13.4	-
Cost/income ratio (%)	48.0	53.1	-	37.0	56.2	-
Full-time-equivalent staff	2,684	2,553	105	2,684	2,716	99

Total income
(DKK millions)

	2021	2020	Index 21/20	Q4 2021	Q3 2021	Index Q4/Q3
General Banking	6,203	6,322	98	1,555	1,535	101
Markets	3,909	4,345	90	1,005	685	147
of which xVA*	104	309	34	50	-40	-
Asset Management	2,653	2,555	104	912	637	143
of which performance fees	385	640	60	305	25	-
Investment Banking & Securities (IBS)	1,886	1,214	155	487	368	132
Total income	**14,650**	**14,437**	**101**	**3,959**	**3,225**	**123**

**The xVA acronym covers Credit (CVA), Debit (DVA), Funding (FVA) and Collateral (ColVA) Valuation Adjustments to the fair value of the derivatives portfolio. Danske Bank has a centralised xVA desk responsible for quantifying, managing and hedging xVA risks. The PnL result of the xVA desk is thus the combined effect of the net xVA position, and funding and collateral costs of the trading book.*

Assets under management
(DKK millions)

	2021	2020	Index 21/20	Q4 2021	Q3 2021	Index Q4/Q3
Institutional clients	487,560	464,890	105	487,460	478,051	102
Retail clients	325,025	288,207	113	325,025	313,311	104
Total assets under management[1]	**812,585**	**753,097**	**108**	**812,585**	**791,362**	**103**

[1] Includes assets under management from Group entities.

Large Corporates & Institutions will contribute to the Group's 2023 ambitions by leveraging our strong market position and by capitalising on the growing Nordic capital markets. Two years into the Better Bank transformation, we have laid the tracks for a profitable growth journey in the years ahead, as we become even more efficient and focused in our activities. During the global pandemic, we proved our commitment to being a relationship-driven bank. We leveraged Danske Bank's financial strength to support our customers with credit and risk management throughout the crisis, which brought significant costs for all of society but also enabled us to forge even stronger ties with our customers.

Business initiatives and strategy
It is our ambition at Large Corporates & Institutions to be the preferred strategic financial partner for our customers by supporting them throughout their life cycle and by applying a holistic view to their business to help them reach their ambitions. At the beginning of the year, we were part of the launch of the Group's new agile development organisation and the reorganisation of business units in order to create a simpler organisation that is better equipped to develop improved customer offerings at a higher speed and at a lower cost.

As part of the Better Bank strategy and to further strengthen our commercial momentum, Large Corporates & Institutions has identified four focus areas.

Enable growth with sustainable finance and investments
The sustainable finance market continued to grow rapidly in 2021 and we supported issuers and investors in a substantial number of transactions, affirming our position as a leading Nordic bank within the area of sustainable finance. It is our ambition to integrate sustainability into everything we do – across products and advisory services – and use the power of finance to support our customers on their sustainable transition. Significant investments are needed over the coming decades across the private and public sectors in order to transition society to a low-carbon economy, and banks have an important role to play in terms of not only financing this journey but also advising customers as they make the transition, and we continue to invest in both our advisory resources and our product capabilities to support our customers.

Danske Bank is well-positioned to take an active role and be a strategic financial partner to corporates and institutions in the Nordic countries, as evidenced, for example, by our role as lead manager and Sustainability Linked Bond structuring adviser for Elekta AB (publ) in connection with the first sustainability-linked bond issue in Sweden with a purely social KPI. We are also proud to have assisted the Danish central bank with its issue of Denmark's first green government bond, which will finance renewable energy and the green transition of the transport sector and is an important step in the Danish government's ambitious climate plan. In a very active year, we were also pleased to be ranked number one among Nordic banks according to the Bloomberg League tables for arrangers of both sustainability-linked loans and sustainable bonds in terms of volumes supported with many high-profile green and ESG-linked transactions, including financing to Copenhagen Infrastructure Partners. In 2021, we arranged sustainable bonds in the amount of USD 12 billion for our customers, which is more than we or any Nordic arranger has ever arranged in a full year.

In 2021, we also reached our ambition of having at least DKK 400 billion in funds that promote environmental and/ or social characteristics and ensure good governance as categorised in Article 8 of the Sustainable Finance Disclosure Regulation. By 2030, we aim to have DKK 150 billion in funds with a sustainable investment objective (Article 9 category). To meet our customers' demand for investments with varying degrees of sustainability focus, we already now have 10 investment strategies categorised and disclosed under Article 9 and more than 130 strategies under Article 8. Furthermore, we have recertified 71 of our funds for the LuxFLAG ESG label and remain the fund manager in Europe with the highest number of funds granted an ESG label from LuxFLAG.

Advisory and investment offering
The favourable market environment in 2021 contributed to record-high fee income from our capital markets activities, but also led to a period during which corporate customers drew less on their credit facilities. This illustrates the value of our diversified business model, as higher net fee income more than compensated for lower net interest income and net trading income.

In order to support our customers in executing their strategic agendas, and to enable growth in capital-light income areas, we have during recent years invested in building a strong capital markets advisory offering across the Nordic markets with a heightened focus on advice relating to the sustainable transition. Among many successful transactions executed during 2021, we are proud to have supported insurance company Tryg as Joint Global Coordinator and Joint Bookrunner in a DKK 37 billion rights issue – the largest ever ECM capital-raising transaction in the Nordic countries. For ECM in Sweden, 2021 was a record year with many highlights, such as the successful Cary Group IPO and the Real Estate IPO of Nivika, which illustrate our successful long-term journey in the Swedish ECM market – an important part of our focus on strengthening our offerings and growing our franchise in Sweden. Overall, we ended 2021 as the leading Nordic bank in terms of supported volumes within debt and equity capital markets – ensuring a strong foundation for the future.

Strengthen our position outside Denmark
We see further growth potential across our home markets and particularly in Sweden where we have successfully, profitably and with balanced risks, grown our customer base and income over the past years. During 2021, we welcomed a number of new customers to Large Corporates Sweden, and we continued to mature and expand our existing customer relations. For example, we are proud to have been chosen by OX2 (a leading European developer of wind and solar farms) as supplier of a number of core services across financing and cash management, and as bookrunner in their recent IPO.

To support our growth ambitions, we have further developed and formalised our customer acquisition process, drawing on in-depth screening and thorough analysis of the fit between potential customer needs and our strengths, and we have utilised strategic advisory services to support our customers in transformational developments within their business.

Deploy capital more efficiently
A prerequisite for being able to both offer a competitive and attractive service to customers and an attractive return to shareholders is to continuously become more effective in our capital deployment. During the past years, we have executed a number of capital efficiency initiatives that will continue as part of our 2023 ambitions, and we have reduced allocated capital by 3% from 2020, despite an underlying increase from the implementation of new regulation. We have improved our income composition to achieve a larger share of capital-light income, and we are becoming less reliant on our balance sheet – enabled for example by the continued development of our capabilities to originate bond and loan transactions for corporate customers and distribute to debt investors and banks where feasible. This has led to several lead positions this year both within Leveraged Finance and Corporate M&A financings, with bond and loan transactions for customers such as Coloplast.

Digitalisation efforts continued
In order to support customers in making their daily banking activities easy and safe, we launched a range of new products, for instance new and enhanced functionality and features in our corporate banking platform District, including a new self-service cash flow forecasting module that enables customers to forecast and prepare for their liquidity needs accordingly. We also launched a new, advanced third-party offering for payroll management and made significant progress with the delivery of a new expense management solution as well as a credit management software helping businesses reduce outstanding invoices and credit risk – both expected to be launched in early 2022.

We are continuing our investments in digitalising our 'Know Your Customer' processes and controls in order to improve efficiency and the customer experience – all part of making daily banking activities easier and safer for our customers.

Customer satisfaction
During 2021, we continued to receive overall positive customer satisfaction scores as measured by Prospera, the independent market research company in the Nordic market, and as reflected in league tables. We maintained our number one position across the Nordic countries on the basis of an aggregated ranking of the annual reviews conducted by Prospera, and our strong position within day-to-day banking services as reflected in number one positions in the Nordic aggregated Prospera reports across cash management, foreign exchange, trade finance, external asset management and interest rate swaps.

While this suggests that our holistic coverage model and product competencies are appreciated by our customers, there are also clear indications of areas where we need to improve – including a better customer experience with our KYC processes.

2021 vs 2020
Profit before tax increased to DKK 7,638 million (2020: DKK 2,146 million), as a result of significantly lower loan impairment charges, higher fee income and lower operating expenses.

Net interest income decreased to DKK 4,732 million (2020: DKK 5,034), due mainly to lower income from deposits, as the significant increase in volumes lowered the value of surplus deposits. However, deposits were repriced with effect from the third quarter to reflect the reduced funding value. Higher activity-driven net interest income and higher net interest income from undrawn committed credit facilities more than compensated for the decline in net interest income from lower average lending volumes.

General Banking lending volumes have declined from the level in the first half of 2020, when we committed substantial credit facilities in order to support our customers in managing the impact of the corona crisis. As the economic outlook improved, customers drew less on their credit facilities, and the facilities provided in 2020 began to roll off. Lending demand did, however, pick up during the second half of 2021, and General Banking lending volumes increased 6% from the third quarter.

Net fee income increased to DKK 6,777 million (2020: DKK 5,911 million), reflecting record-high income from capital markets activities. Income from corporate daily banking products, such as FX and cash management, also improved net fee income, as did increased assets under management. Assets under management increased 8% from the level in 2020, driven by rising asset prices. During 2021, Asset Management realised positive net sales in the retail segment, whereas there was a net outflow in the institutional segment. Performance fees in Asset Management were significantly below the record level in 2020, reflecting, among other things, more challenging market conditions for Fixed Income hedge funds.

Net trading income declined 10% and amounted to DKK 3,137 million (2020: DKK 3,485 million) due to lower value adjustments on the derivatives portfolio than in 2020 and to the fact that trading income was high in 2020 amid volatile markets and high customer activity.

Operating expenses declined 8% (2020: DKK 7,672 million), mainly because the reorganisation at the beginning of the year resulted in changes to the allocation of costs between the business units. Lower transformation costs also contributed to the decrease, while higher performance-based compensation had the opposite effect.

Credit quality
Overall credit quality remained strong. During 2021, the general rating trend was slightly positive, and loan impairment charges amounted to a net reversal of DKK 13 million, a notable decrease from the level in 2020 (DKK 4.6 billion). In 2020, most of the net charge was attributable to oil- and gas-related exposures. In 2021, we saw an ongoing strengthening of credit quality. Since the fourth quarter of 2019, we have actively reduced net oil-related exposure (excluding oil majors) by 54%.

Q4 2021 vs Q3 2021

Profit before tax increased to DKK 2,738 million (Q3 2021: DKK 1,436 million), mainly as a result of higher income and lower operating expenses.

- **Net interest income** increased 2% from the third quarter, driven by higher activity-driven income and higher net interest income from lending.
- **Net fee income** amounted to DKK 2,057 million (Q3 2021: DKK 1,499 million), a significant increase from the level in the third quarter, driven by seasonality in Investment Banking & Securities and performance fees in Asset Management.
- **Net trading income** amounted to DKK 720 million (Q3 2021: DKK 565 million). The increase was driven by positive value adjustments on the derivatives portfolio and higher underlying trading income amid more volatile fixed income markets.
- **Operating expenses** decreased 19% from the level in the third quarter, as the changes to the allocation of costs between the business units related to the reorganisation at the beginning of the year were mainly implemented in the fourth quarter. The decrease was partly offset by higher performance-based compensation.
- **Loan impairments** amounted to a net reversal of DKK 243 million in the fourth quarter, (Q3 2021: a reversal of DKK 22 million). The reversal in the fourth quarter of 2021 related primarily to individual exposures, but general improvements in credit quality also contributed.

DKK 2,738 million
Profit before tax
for the fourth quarter of 2021

Danica Pension

An exciting year has ended, and we can look back on a year that started with lockdowns, government support packages, re-opening, new lockdowns and high returns on equities and alternative investments. Our customers received high returns in 2021 – in fact, our returns were at the top of the market. However, the second part of 2021 was also characterised by uncertainty and nervousness in the financial markets. We saw significant growth in premiums as well as an inflow of new large business customers, which shows that we have a strong position in the market. The inflow of new customers and the increase in assets under management will help support Danica Pension and the Group's ambitions for the future.

Danica Pension generated a solid financial result in 2021, delivering good returns both to our customers and to the Group. Profit was up 25% from the level in 2020 due to an improved health and accident business, good investments results and a healthy underlying business that is growing rapidly.

Danica Pension
(DKK millions)

	2021	2020	Index 21/20	Q4 2021	Q3 2021	Index Q4/Q3
Result, life insurance	2,642	2,517	105	780	550	142
Result, health and accident insurance	-438	-643	-	-236	160	-
Return on investments, shareholders' equity etc.	-20	-78	-	5	-94	-
Net income before tax in Danica Pension[1]	**2,184**	**1,797**	**122**	**549**	**616**	**89**
Included within Group Treasury[2]	-96	-127	-	-37	-22	-
Net income from insurance business	**2,088**	**1,669**	**125**	**512**	**594**	**86**
Premiums, insurance contracts	37,617	28,958	130	10,416	9,369	111
Premiums, investment contracts	5,563	1,292	431	1,936	1,582	122
Provisions, insurance contracts	449,344	428,736	105	449,344	441,804	102
Provisions, investment contracts	20,847	29,525	71	20,847	35,775	58
Allocated capital (average)	12,918	13,735	94	12,317	12,411	99
Net income as % p.a. of allocated capital	16.2	12.2	-	16.6	19.1	-
Solvency coverage ratio	210	191	-	210	222	-
Full-time-equivalent staff	960	817	-	960	963	-

Assets under management
(DKK millions)

	2021	2020	Index 21/20	Q4 2021	Q3 2021	Index Q4/Q3
Life insurance	462,930	447,783	103	462,930	465,430	99
Health and accident insurance	17,449	16,822	104	17,449	17,362	101
Total[3]	**480,379**	**464,605**	**103**	**480,379**	**482,792**	**100**

[1] *Figures are for the Danica Group.*
[2] *Includes the difference between the actual return on the investment of shareholders' equity (net of interest on subordinated debt) and the sum of interest on allocated capital and allocated capital and shareholder costs. Special allotments are also included. Note G38 of Annual Report 2021 provides further information.*
[3] *Assets under management in Q4 2021 and full year 2021 are reduced by the reclassification of DKK 24 billion regarding Danica Norway to assets held for sale.*

During 2021, we improved our health package, and towards the end of the year, we moved the target for investments of DKK 50 billion in the green transition forward from 2025 to 2023.

In December, Danica Pension announced the sale of its Norwegian activities. With the sale, Danica Pension is focusing its business further and is in an even stronger position to develop the best pension solutions for the customers in Denmark. The sale is subject to approval by the Norwegian authorities, which is expected in the first half of 2022. Because the sale is subject to approval by the Norwegian authorities, the expected profit from the sale of approximately DKK 400 million will be recognised in 2022.

Business initiatives and strategy

Health solutions

One of our key strategic areas is the continued development of our health solutions, and at the beginning of 2021, Danica Pension launched a new health package, which gives customers quick and easy access to online consultations with doctors, psychologists and dieticians.

We were pleased to see that our health package helped more than 8,000 customers in 2021. Over 6,000 consultations were with psychologists. A total of 40% of these customers would not have sought help from our psychologists had our digital solution not been available.

We know that early treatment of both mental and physical issues reduces the long-term consequences. Thus, it is our ambition that the early involvement of health personnel will lead to less long-term illness and ultimately have a positive effect on our health and accident results.

Improved health and accident results
We were pleased to note that the large investments made in our healthcare solutions and in the health and accident business meant that we successfully contributed to preventing long-term illness and to ensuring a faster return to work for more of our customers. This is of great benefit to the individual, to businesses, to society, as well as to our financial results. Danica Pension's improved health and accident result was due to a combination of an improved investment result and fewer claims in 2021 than in 2020. The corona crisis and its after-effects – particularly the mental effects – remain an unknown factor, however, and we are not yet able to predict how they will impact our customers. We are certain that in this respect too, it is the right decision for us to focus on prevention and early action to reduce absence due to illness among our customers.

More sustainable investments
One of our key strategic aims is to further enhance our 800,000 customers' options for investing their pension savings with a strong focus on sustainability.

For the Danica Balance Sustainable Choice investment solution, we select investments that actively contribute to making a difference within areas such as climate, environment, health, food production and other social aspects and that thus support the UN Sustainable Development Goals. Our customers are free to choose the percentage of their savings that they want to invest with this special sustainability focus.

An example of our strong focus on sustainability is our DKK 1 billion investment in an impact fund managed by BlackRock. The companies in which the fund invests work actively to promote one or more of the UN Sustainable Development goals. Part of the investment will be placed in Danica Balance Sustainable Choice.

Investments in the green transition
It is Danica Pension's ambition that by 2050, all of its investments are carbon neutral. In the first quarter of 2021, Danica Pension set new sub-targets for investments targeted at reducing carbon intensity in key sectors towards 2025. These include the energy, utilities, transport, steel and cement sectors. Danica Pension aims to help reduce carbon emissions in these key sectors by between 15% and 35% relative to 2019 levels. In November 2021, Danica Pension's target of investing DKK 50 billion in the green transition was moved forward from 2025 to 2023, as we reached the original target of investing DKK 30 billion in the green transition by 2023 already in 2021.

Financial security and proactive advisory services
We will continue to focus on creating financial security for our customers through relevant and proactive advisory services with the aim of creating attractive returns after costs.

Customer satisfaction
We maintain a focus on improving customer satisfaction by providing pension savings products that meet customer needs and demands. According to the December 2021 Aalund Research survey on customer satisfaction, Danica Pension is the new number one in terms of business-to-customer ratings. Despite an improved overall score for our business customer segment, Danica Pension drops from first to fourth place in Aalunds business-to-business rating.

2021 vs 2020
Danica Pension saw good momentum during 2021, a momentum that was driven by a good performance in the underlying business as well as higher returns on investments.

Net income from insurance business increased to DKK 2,088 million (2020: DKK 1,669 million), due primarily to a better result for the health and accident business and the life insurance business.

The result of the life insurance business increased to DKK 2,642 million (2020: DKK 2,517 million). Positive investment results on life insurance products where Danica Pension has the investment risk and an increase in fees resulting from higher assets under management had a positive impact on the result for 2021. Life insurance products where Danica Pension has the investment risk benefited from an increase in the interest yield curve (including the volatility adjustment) and high returns on risky assets. An accounting correction of DKK 250 million had a negative effect on the result in 2021.

The result of the health and accident business was a loss of DKK 438 million (2020: a loss of DKK 643 million). The underlying business improved, and the investment result increased considerably from 2020, but was also in 2021 affected by provisions for potential pension yield tax.

The return on investments allocated to shareholders' equity etc. increased DKK 58 million from 2020, mainly because the result in 2020 was affected by write-downs of assets in connection with the clean-up of accounting balances after the merger of Danica Pension and the former SEB Pension. The investment return on assets and liabilities allocated to shareholders' equity was lower in 2021 than in 2020.

Total premiums increased 32%, driven mainly by an increase in single premiums due to an inflow of new business customers.

Assets under management increased DKK 39 billion due to the positive developments in the financial markets and an inflow of new business customers. Assets under management were, however, also affected by the reclassification in December of almost DKK 24 billion regarding Danica Norway to assets held for sale.

Q4 2021 vs Q3 2021

Net income from insurance business decreased to DKK 512 million (Q3 2021: DKK 594 million). The result of the life insurance business increased from the third-quarter result, whereas the result in the health and accident business decreased to a loss of DKK 236 million. The return on investments allocated to shareholders' equity increased in the fourth quarter.

- **The result of the life insurance business** increased 42%, as the third quarter of 2021 was negatively affected by an accounting correction of DKK 250 million. Adjusted for the accounting correction in the third quarter, the result of the life insurance business was on the same level in the fourth quarter as in the third quarter.
- **The result of the health and accident business** decreased in the fourth quarter to a more normal level, as the third quarter saw a high investment result. The underlying business was still stable and developing in the right direction.
- **The return on investments allocated to shareholders' equity etc.** increased DKK 99 million, due mainly to higher returns on assets allocated shareholders' equity.
- **Total premiums** increased 13%, driven mainly by an increase in single premiums due to an inflow of new business customers.
- **Assets under management** increased DKK 21 billion. The increase in assets under management was due mainly to positive developments in the financial markets. Assets under management were, however, also affected by the reclassification in December of almost DKK 24 billion regarding Danica Norway to assets held for sale.

DKK 512 million
Net income from insurance business
for the fourth quarter of 2021

Northern Ireland

In 2021, we moved forward with growing optimism, ensuring that Danske Bank plays a key role in the economic recovery across Northern Ireland. 2021 saw an increase in profit before tax, which was DKK 240 million higher than in 2020, due to net loan impairment reversals.

Northern Ireland
(DKK millions)

	2021	2020	Index 21/20	Q4 2021	Q3 2021	Index Q4/Q3
Net interest income	1,341	1,359	99	346	334	104
Net fee income	288	264	109	87	72	121
Net trading income	-66	98	-	-53	-13	-
Other income	12	16	75	2	3	67
Total income	1,576	1,736	91	382	395	97
Operating expenses	1,317	1,212	109	380	367	104
Profit before loan impairment charges	259	524	49	2	29	7
Loan impairment charges	-127	378	-	-31	-31	-
Profit before tax	**386**	**146**	**264**	**33**	**60**	**55**
Loans, excluding reverse transactions before impairments	55,848	52,179	107	55,848	57,365	97
Allowance account, loans	802	890	90	802	857	94
Deposits, excluding repo deposits	98,980	84,158	118	98,980	99,665	99
Allocated capital (average)*	6,713	6,269	107	6,682	6,936	96
Net interest income as % p.a. of loans and deposits	0.87	1.02		0.87	0.85	
Profit before tax as % p.a. of allocated capital (avg.)	5.8	2.3		2.0	3.5	
Cost/income ratio (%)	83.6	69.8		99.5	92.9	
Full-time-equivalent staff	1,268	1,353	94	1,268	1,289	98

* *Allocated capital equals the legal entity's capital.*

In a challenging environment, we maintained the quality of our loan book, and the economic outlook for Northern Ireland improved, supporting a reduction in loan impairment charges. UK interest rates rose in the fourth quarter, which, while it had a negative impact on net trading income in 2021, also provides an opportunity for income growth in 2022. Throughout the year, we executed our strategy to digitally transform the bank and improve the customer experience.

Business initiatives and strategy
As the biggest bank in Northern Ireland, in 2021, we showed leadership through the pandemic, supporting economic growth by launching the 'Helping Northern Ireland Grow Again' business fund – targeted at medium to large-sized business customers. This evolved into a wider campaign to boost growth in areas such as small businesses, asset finance and mortgages.

Residential mortgages was a particularly strong focus area, and the bank introduced the UK's first ever carbon neutral mortgage – a groundbreaking product that reflects our focus on sustainability. The Danske Bank carbon neutral mortgage was showcased at the global COP26 climate change conference.

Small business lending, excluding government-backed corona support loans in 2020, was up 9% year-on-year and is approaching pre-pandemic levels. Lending to larger businesses was more subdued, with many organisations carrying excess liquidity and some delaying growth plans.

Digital banking trends continued to accelerate in Northern Ireland. Logons to Danske Bank's digital channels increased 10% year-on-year, and we are now seeing around 6 million logons per month. Payments from wearable technologies, which include Apple Pay and Google Pay, were up 54% year-on-year.

To ensure we keep pace with customer expectations around digital banking in the UK marketplace, we have established a Technology and Digital Development unit within the bank in Northern Ireland, working closely with Group teams to ensure collaboration and shared learnings that enhance customer journeys, provide opportunities for cost reduction and help us become a better bank.

Sustainability
On sustainability, the bank was delighted to win the 2021 Business in the Community 'Environmental Leadership' award and to be accredited at platinum level in their annual

Northern Ireland environmental benchmarking survey. These accolades showcased Danske Bank as one of the leading companies in the country when it comes to environmental responsibility.

The bank also leads the way when it comes to diversity and inclusion. In Northern Ireland, we have won multiple awards for our work in this area. In 2021, we set up an internal diversity network for race equality, which complements existing colleague networks on gender equality, LGBTQ+ and disabilities.

Strategic focus

Customers

The vision for the business unit is to sustain its leading position in Northern Ireland, while pursuing opportunities in low-risk sectors in other parts of the United Kingdom. This includes focusing on areas in Great Britain like provision of social housing, syndicated lending and targeted residential mortgage lending through selected broker networks. This will help enable risk-astute growth and diversified credit quality and make the business more geographically diverse within the UK.

Alongside driving commercial momentum, the bank will continue to work hard to maintain its high customer service levels.

Customer satisfaction

We were very pleased to finish the year in first place across both Personal Banking and Corporate & Business Banking.

2021 vs 2020

Profit before tax increased to DKK 386 million (2020: DKK 146 million), driven by lower loan impairment charges. Profit before loan impairments continued to be impacted by the corona crisis with customer activity remaining below pre-pandemic levels.

Net interest income was down slightly to DKK 1,341 million (2020: DKK 1,359 million). Lower demand for loans was largely offset by ongoing pricing actions. Customer borrowing activity remained subdued, aside from public sector balances, with many personal and business customers continuing to pay off debt and hold additional liquidity, as reflected in deposit growth rates.

Net fee income grew 9% to DKK 288 million (2020: DKK 264 million), reflecting the combined benefit of a partial recovery in customer activity levels and pricing actions implemented during the year.

Net trading income was negatively impacted by adverse mark-to-market movements on hedging portfolios reflecting UK interest rate expectations in the third and fourth quarter supported by a rise in the Bank of England Base Rate in December.

Operating expenses increased to DKK 1,317 million (2020: DKK 1,212 million), driven by increased allocated costs for Group-supplied services.

Net loan impairment reversals for the full year primarily reflected an improved economic outlook in the UK.

Q4 2021 vs Q3 2021

The fourth quarter saw a profit before tax of DKK 33 million (Q3 2021: DKK 60 million), with the reduction driven by adverse mark-to-market movements in trading income.

- **Net interest income** increased to DKK 346 million (Q3 2021: DKK 334 million) and **net fee income** increased to DKK 87 million (Q3 2021: DKK 72 million), reflecting continued improvement in commercial activity and the impact of pricing actions.
- **Net trading income** was negative in the third and fourth quarters due to adverse mark-to-market movements.
- **Operating expenses** increased to DKK 380 million (Q3 2021: DKK 367 million).
- **Lending** activity remained subdued with many personal and business customers continuing to pay off debt and hold additional liquidity.

DKK 33 million
Profit before tax
for the fourth quarter of 2021

Non-core

Non-core comprises legacy credit exposures, mainly in Lithuania, Ireland and the UK as well as non-strategic private equity investments. The winding up of the Non-core portfolios is proceeding ahead of plan. Total lending stood at DKK 2.1 billion at the end of 2021, around DKK 1 billion less than at the end of 2020, which led to lower capital requirements for the Group. Profit before tax in 2021 amounted to a loss of DKK 2 million, against a loss of DKK 596 million in 2020.

Non-core
(DKK millions)

	2021	2020	Index 21/20	Q4 2021	Q3 2021	Index Q4/Q3
Total income	25	-215	-	2	22	9
Operating expenses	234	293	80	152	28	-
Profit before loan impairment charges	-210	-508	-	-149	-6	-
Loan impairment charges	-207	88	-	-124	-11	-
Profit before tax	**-2**	**-596**	**-**	**-25**	**6**	**-**
Loans, excluding reverse transactions before impairments*	2,123	3,083	69	2,123	2,429	87
Allowance account, loans	811	771	105	811	814	100
Deposits, excluding repo deposits	2,191	2,146	102	2,191	2,128	103
Allocated capital (average)	872	1,473	59	735	809	91
Net interest income as % p.a. of loans and deposits	0.38	0.96		-0.10	0.10	
Profit before tax as % p.a. of allocated capital (avg.)	-0.2	-40.5		-13.6	3.0	
Cost/income ratio (%)	-	-		-	-	
Full-time-equivalent staff	25	32	78	25	25	100

Loan impairment charges
(DKK millions)

	2021	2020	Index 21/20	Q4 2021	Q3 2021	Index Q4/Q3
Non-core banking**	-254	-27	-	-124	-11	-
Non-core conduits etc.	47	116	41	-	-	-
Total	**-207**	**88**	**-**	**-124**	**-11**	**-**

** Loans, excluding reverse transactions before impairments includes loans held for sale in the Baltics.*
*** Non-core banking encompasses the Group's activities in Lithuania and Non-core Ireland.*

Strategy and initiatives
The Non-core unit focuses on actively managing down legacy assets and portfolios by way of divestment, refinancing with other credit institutions or amortisation.

2021 vs 2020
Profit before tax amounted to a loss of DKK 2 million (2020: a loss of DKK 596 million). The improvement in the result was due mainly to the sale of the remaining loan portfolio in Danske Bank Ireland and the corresponding net reversal of loan impairment charges. In addition, divestment of the Latvian commercial loan portfolio held by the Lithuanian branch and some 70% of the remaining Lithuanian commercial loan portfolio also contributed positively to the improvement in the result, as did a slight decrease in operating expenses. Operating expenses related primarily to the closing of the subsidiary bank in Luxembourg and the branch in Hamburg. Further, the result for 2020 was affected by losses related to the final exit from Estonia.

After the sale of the portfolios held by the Lithuanian branch, the only portfolio remaining at the Lithuanian branch is a small portfolio of commercial loans to local customers, for which amortisation is accelerated further.

At the end of 2021, total lending amounted to DKK 2.1 billion. The sale of most of the Baltic loan portfolios resulted in a reduction of total lending at Non-core to around DKK 1 billion less than the amount at the end of 2020, which led to lower capital requirements for the Group.

Q4 2021 vs Q3 2021

The Non-core unit posted a loss before tax of DKK 25 million (Q3 2021: a profit of DKK 6 million), due primarily to an increase in operating expenses in the fourth quarter from the level in the third quarter.

- **Total income** amounted to DKK 2 million (Q3 2021: DKK 22 million). In terms of the Group's private equity investments, the portfolio has been split into a core portfolio and a non-core portfolio, with the core portfolio representing strategic investments. The non-core portfolio was transferred to the Non-core unit in the third quarter of 2021.
- **Operating expenses** amounted to DKK 152 million (Q3 2021: DKK 28 million). The increase related to the closing of the subsidiary bank in Luxembourg and the branch in Hamburg.
- **Loan impairment charges** amounted to a net reversal of DKK 124 million (Q3 2021: a net reversal of DKK 11 million). The decrease was due to net reversals in Ireland and Lithuania.

DKK -25 million
Profit before tax
for the fourth quarter of 2021

Group Functions

Group Functions includes Group Treasury, Technology & Services and other Group functions. In addition, Group Functions includes eliminations.

In 2021, the loss before tax decreased DKK 1,279 million from the level in 2020, due primarily to increases in net interest income and net trading income.

Group Functions
(DKK millions)

	2021	2020	Index 21/20	Q4 2021	Q3 2021	Index Q4/Q3
Net interest income	312	-260	-	117	50	234
Net fee income	-56	-37	-	-31	-4	-
Net trading income	381	139	274	171	84	204
Other income	-10	-131	-	-9	-39	-
Total income	627	-289	-	249	91	274
Operating expenses	2,032	2,048	99	490	382	128
Impairment charges, other intangible assets	36	379	9	36	-	-
Profit before loan impairment charges	-1,442	-2,716	-	-277	-291	-
Loan impairment charges	2	8	25	4	-2	-
Profit before tax	**-1,444**	**-2,723**	**-**	**-280**	**-290**	**-**
Full-time-equivalent staff	10,252	10,708	96	10,252	10,364	99

Profit before tax
(DKK millions)

	2021	2020	Index 21/20	Q4 2021	Q3 2021	Index Q4/Q3
Group Treasury	599	-754	-	319	-2	-
Own shares and issues	-67	94	-	1	27	4
Additional tier 1 capital	451	550	82	101	118	86
Group support functions	-2,427	-2,614	93	-702	-432	163
Total Group Functions	**-1,444**	**-2,723**	**53**	**-280**	**-290**	**97**

Strategy and initiatives
Group Functions supports the business units by handling the pricing of funding, the allocation of funding costs for lending and deposit activities to the business units and the investment of shareholders' equity. The operating expenses related to the sub-units within Group Functions are allocated to the business units. To further strengthen cost management and drive cost efficiency, a new, simplified and automated cost allocation model was implemented in 2021.

2021 vs 2020
Group Functions posted a loss before tax of DKK 1,444 million, (2020: a loss of DKK 2,723 million). The improvement was due primarily to increases in net interest income and net trading income.

Net interest income amounted to DKK 312 million (2020: a loss of DKK 260 million), due primarily to an increase in allocated liquidity costs at Group Treasury's Internal Bank following a number of corrective actions to reduce internal deposit compensation to the business units.

Net trading income increased to DKK 381 million (2020: DKK 139 million), due primarily to a gain of DKK 180 million on the sale of Aiia to Mastercard, but also driven by developments in unrealised market value adjustments on interest rate hedges subject to fair value accounting.

Operating expenses, after allocation to the business units, were on par with the level in 2020 and amounted to DKK 2,032 million (2020: DKK 2,048 million).

The number of full-time-equivalent staff has decreased by 456 since the end of 2020.

Q4 2021 vs Q3 2021

Group Functions posted a loss before tax of DKK 280 million (Q3 2021: loss of DKK 290 million), due primarily to higher net interest and net trading income, which was partly offset by higher operating expenses.

- **Net interest income** amounted to DKK 117 million (Q3 2021: DKK 50 million), due primarily to a decrease in central bank funding costs in connection with the Group's borrowings from the European Central Bank's targeted longer-term refinancing operations. A provision for taxation of business travellers had a negative impact on net interest income.

- **Net trading income** amounted to DKK 171 million (Q3 2021: DKK 84 million), due mainly to a gain of DKK 180 million on the sale of Aiia to Mastercard.

- **Operating expenses** increased to DKK 490 million (Q3 2021: DKK 382 million). The increase was due primarily to a provision for taxation of business travellers in the fourth quarter.

DKK -280 million
Profit before tax
for the fourth quarter of 2021

Financial review

Income statement
(DKK millions)

	2021	2020	Index 21/20	Q4 2021	Q3 2021	Index Q4/Q3
Net interest income*	22,049	22,151	100	5,551	5,533	100
Net fee income*	13,525	12,217	111	3,824	3,106	123
Net trading income*	4,126	4,297	96	1,015	820	124
Net income from insurance business*	2,088	1,669	125	512	594	86
Other income*	797	594	134	174	166	105
Total income	42,584	40,928	104	11,076	10,218	108
Operating expenses*	25,627	26,648	96	6,753	6,104	111
Impairment charges, other intangible assets	36	379	9	36	-	-
Profit before loan impairment charges	16,921	13,901	122	4,286	4,114	104
Loan impairment charges	348	7,001	5	-239	-151	158
Profit before tax, core	16,573	6,900	240	4,525	4,265	106
Profit before tax, Non-core	-2	-596	0	-25	6	-
Profit before tax	16,571	6,304	263	4,500	4,270	105
Tax	3,651	1,715	213	846	936	90
Net profit	**12,920**	**4,589**	**282**	**3,654**	**3,334**	**110**
Attributable to additional tier 1 etc.	451	551	82	102	117	87

** Comparative information has been restated as described in notes G2(a) and G3(a).*

2021 vs 2020
Net profit increased to DKK 12,920 million (2020: DKK 4,589 million) due to an increase in income driven by higher net fee income and net income from insurance business combined with a decrease in operating expenses. Furthermore, there was a significant decrease in loan impairment charges achieved on the basis of strong credit quality.

Income
Net interest income amounted to DKK 22,049 million (2020: DKK 22,151 million). Net interest income saw a positive impact from the deposit repricing initiatives at Personal & Business Customers Denmark that were implemented during 2021. Continuing margin pressure across the Nordic countries and lending product mix effects, however, more than offset the effect of the repricing initiatives, keeping net interest income at a relatively stable level. At Large Corporates & Institutions, we saw higher activity-driven net interest income and higher net interest income from undrawn committed credit facilities, which compensated for the decline in net interest income from lower average lending volumes.

Net fee income increased to DKK 13,525 million (2020: DKK 12,217 million). Good customer activity and higher assets under management were the main driver of higher net fee income. We saw strong activity in the capital markets, and our leading platform enabled us to capitalise on this trend. Performance fees in Asset Management were significantly below the record level in 2020, reflecting, among other things, more challenging market conditions for Fixed Income hedge funds.

Net trading income stood at DKK 4,126 million (2020: DKK 4,297 million). A gain of DKK 180 million on the sale of Aiia to Mastercard and a gain of DKK 227 million on the sale of VISA shares in the Group's private equity portfolio had a positive effect on net trading income. In 2021, we saw lower activity along with less positive value adjustments on the derivatives portfolio than in 2020.

Net income from insurance business amounted to DKK 2,088 million (2020: DKK 1,669 million). Income from insurance business had strong tailwind from higher returns on investments, just as the underlying business within health and accident insurance delivered a good performance. Some of the effect was offset by provisions related to potential pension yield tax and an accounting correction of DKK 250 million.

Other income amounted to DKK 797 million (2020: DKK 594 million), due partly to our real estate agency *home* seeing good activity on the housing market as well as good activity within Asset Finance.

Expenses
Operating expenses decreased to DKK 25,627 million (2020: DKK 26,648 million). We continued to see a downward trend driven by the cost initiatives launched during the past year. The decrease mainly reflects lower costs for transformation and consultancy but also our constant focus on lowering the cost base. As planned, our AML and compliance costs were lower as well, ensuring that we remain on the right trajectory. However, a number of items had a partly offsetting effect: provisions of DKK 500 million related to a VAT case in Sweden following

a ruling by the European Court of Justice, a provision of DKK 190 million for taxation of business travellers, and a one-off investment of DKK 122 million to ensure good working-from-home conditions, along with higher expenses for employee bonus pools and other bonuses that reflect higher customer activity.

Loan impairments
Credit quality remained strong in 2021. Loan impairment charges in core activities were at a low level in 2021 compared with the level in 2020, amounting to DKK 348 million (2020: DKK 7,001 million).

Impairments mainly reflected credit deterioration relating to individual customers, primarily in segments hit by the lockdown of societies in parts of 2021. The full effect of the corona crisis is, however, still uncertain and depends on possible changes in consumer spending patterns, upcoming payment of postponed VAT, the decrease in savings accumulated during the crisis and the further risk of lockdowns due to new variants of the corona virus.

Personal & Business Customers accounted for the main part of the loan impairment charges made in 2021, which were made against individual customer exposures as a result of the corona crisis, for instance in the hotel, restaurants and leisure segments. We continue to see more normalised impairment levels than in 2020, although on a quarterly basis, impairments were up slightly due to changes in macroeconomic scenarios.

At Large Corporates & Institutions, loan impairment charges fell significantly in 2021 from the level in 2020 owing to a decline in charges against exposures to customers in the oil and gas industry. Charges against exposures to customers outside the oil and gas industry were limited.

The effects of new macroeconomic scenarios are driven primarily by changes in property prices and inflation expectations. The scenario weights were changed as follows in the fourth quarter of 2021:

The base-case scenario has a probability of 70% (2020: 60%), the upside scenario has a probability of 10% (2020: 15%), and the downside scenario has a probability of 20% (2020: 25%).

The changes reflect the increasing risk of a downside scenario in 2022, for example as a result of new virus variants affecting the economy.

Loan impairment charges

(DKK millions)	2021 Charges	2021 % of net credit exposure*	2020 Charges	2020 % of net credit exposure*
Personal & Business Customers	486	0.03	1,996	0.13
Large Corporates & Institutions	-13	-0.00	4,619	1.69
Northern Ireland	-127	-0.24	378	0.69
Group Functions	2	0.04	8	0.14
Total core	**348**	**0.02**	**7,001**	**0.37**

** 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 profit for year amounted to DKK 3,651 million, or 22.0% of profit before tax, which is on par with corporate income tax in Denmark (2020: 27.2%).

Q4 2021 vs Q3 2021

Net profit increased to DKK 3,654 million (Q3 2021: DKK 3,334 million), due mainly to higher net fee and net trading income and a net reversal of loan impairment charges.

- **Net interest income** increased to DKK 5,551 million (Q3 2021: DKK 5,533 million). Higher activity-driven income and higher net interest income from lending at Large Corporates & Institutions were partly offset by challenging interest markets in Denmark and Norway. In Demark, this resulted in a continued decline in the funding value of deposits. Furthermore, a provision for business traveller's tax also had a negative impact on net interest income.

- **Net fee income** continued its strong performance and amounted to DKK 3,824 million (Q3 2021: DKK 3,106 million), a significant increase from the level in the third quarter, driven by seasonality in Investment Banking & Securities and performance fees in Asset Management, as well as increased customer activity and refinancing activity in the Personal & Business Customers segment.

- **Net trading income** increased to DKK 1,015 million (Q3 2021: 820 million), driven mainly by positive value adjustments on the derivatives portfolio and increased underlying trading activity along with a gain of DKK 180 million on the sale of Aiia to Mastercard.

- **Net income from insurance business** amounted to DKK 512 million (Q3 2021: DKK 594 million). The underlying business was still stable and developing in the right direction. The result of the health and accident business decreased to a more normal level, as the third quarter saw a high investment result.

- **Operating expenses** amounted to DKK 6,753 million (Q3 2021: DKK 6,104 million). The increase was driven primarily by expenses for holiday pay and for employee bonus pools and other bonuses due to higher activity, combined with a provision of DKK 190 million for taxation of business travellers.

- **Loan impairments** were down further due to model-driven reversals as credit quality improved more than expected. Loan impairments amounted to a net reversal of DKK 239 million (Q3 2021: net reversal of DKK 151 million). Impairment reversals relating to individual customer exposures subject to credit deterioration amounted to DKK 184 million.

DKK 3,654 million
Net profit
for the fourth quarter of 2021

Balance sheet

Lending (end of period)
(DKK millions)

	2021	2020	Index 21/20	Q4 2021	Q3 2021	Index Q4/Q3
Personal & Business Customers	1,536.1	1,532.8	100	1,536.1	1,522.0	101
Large Corporates & Institutions	264.8	271.4	98	264.8	244.0	109
Northern Ireland	55.8	52.2	107	55.8	57.4	97
Group Functions incl. eliminations	-2.9	1.6	-	-2.9	-2.6	-
Allowance account, lending	19.6	19.8	99	19.6	19.4	101
Total lending	**1,834.4**	**1,838.1**	**100**	**1,834.4**	**1,801.4**	**102**

Deposits (end of period)
(DKK millions)

	2021	2020	Index 21/20	Q4 2021	Q3 2021	Index Q4/Q3
Personal & Business Customers	700.4	685.6	102	700.4	693.5	101
Large Corporates & Institutions	383.5	433.1	89	383.5	376.9	102
Northern Ireland	99.0	84.2	118	99.0	99.7	99
Group Functions incl. eliminations	-15.3	-9.7	-	-15.3	-15.4	-
Total deposits	**1,167.6**	**1,193.2**	**98**	**1,167.6**	**1,154.7**	**101**

Covered bonds
(DKK millions)

	2021	2020	Index 21/20	Q4 2021	Q3 2021	Index Q4/Q3
Bonds issued by Realkredit Danmark	770.7	775.8	99	770.7	761.7	101
Own holdings of bonds	42.4	43.5	97	42.4	44.9	94
Total Realkredit Danmark bonds	**813.1**	**819.4**	**99**	**813.1**	**806.6**	**101**
Other covered bonds issued	165.1	160.9	103	165.1	166.0	99
Own holdings of bonds	86.9	97.1	89	86.9	95.4	91
Total other covered bonds	**252.0**	**258.0**	**98**	**252.0**	**261.4**	**96**
Total deposits and issued mortgage bonds etc.	**2,232.7**	**2,270.5**	**98**	**2,232.7**	**2,222.7**	**100**
Lending as % of deposits and issued mortgage bonds etc.	82.2	81.0		82.2	81.0	100

** Includes only bonds issued to fund lending. For further information, see the Definition of alternative performance measures section.*

Lending
Lending amounted to DKK 1,834.4 billion, a minor decrease from the level at the end of 2020. Lending demand did, however, pick up during the second half of 2021. At Personal & Business Customers, an increase in lending at Personal Customers Nordic was offset by a decrease in lending at Personal Customers Denmark, as customers repaid bank loans faster and switched to mortgage loans. The decline in lending at Large Corporates & Institutions was due to customers drawing less on a substantial number of the credit facilities committed in 2020 in order to support customers in managing the impact of the corona crisis in step with the improvement of the economic outlook.

In Denmark, new gross lending, excluding repo loans, amounted to DKK 91.4 billion. Lending to personal customers accounted for DKK 31.4 billion of this amount.

Our market share of lending decreased in Denmark, Finland, Norway and Sweden. In Denmark, our market share of lending, excluding repo loans, decreased to 24.8% at the end of 2021 (end-2020: 25.6%).

Our personal banking activities do not have the desired momentum, but we are optimistic that we have the ability to implement initiatives that will enable us to work in a more efficient and simple way, thereby improving our market position.

Market shares of lending

(%)	31 December 2021	31 December 2020
Denmark incl. RD (excl. repo)	24.8	25.6
Finland*	9.3	9.7
Sweden (excl. repo)*	5.1	5.4
Norway*	6.4	6.5

Source: Market shares are based on data from central banks at the time of reporting.
** The market shares for Finland and Norway are based on data as at 30 November 2021.*

Lending equalled 82.2% of the total amount of deposits, mortgage bonds and other covered bonds (2020: 81.0%).

Deposits
Deposits amounted to DKK 1,167.6 billion, down 2% from the level at the end of 2020. Deposits continued to be affected by low consumer spending, direct government support to customers and business customers having secured backup liquidity.

In Denmark, our market share of deposits decreased to 29.1% at the end of 2021 (end-2020: 30.2%). In Sweden, our market share of deposits was on par with the level at end-2020, whereas in Finland and Norway, our market share of deposits was lower than at the end of 2020.

Market shares of deposits

(%)	31 December 2021	31 December 2020
Denmark (excl. repo)	29.1	30.2
Finland*	10.1	12.8
Sweden (excl. repo)*	5.1	5.1
Norway**	7.8	7.9

Source: Market shares are based on data from central banks at the time of reporting.
** The market shares for Finland and Norway are based on data as at 30 November 2021.*

Credit exposure
Credit exposure from lending activities in core segments decreased to DKK 2,716 billion (end-2020: DKK 2,728 billion), as higher activity among personal customers in Norway was more than offset by lower activity among personal customers in Denmark, in particular, and at Large Corporates & Institutions, combined with lower deposits with central banks.

Risk Management 2021, section 3, which is available at danskebank.com/ir, provides details on Danske Bank's credit risks.

Credit quality
Credit quality remained strong in 2021, supported by a positive rating trend. However, we remain vigilant for any possible deterioration as the uncertainty associated with the corona crisis remains. Large Corporates & Institutions has actively reduced its net oil-related exposure (excluding oil majors) by 54% since the end of 2019.

Non-performing loans (NPL) in core segments

(DKK millions)	31 December 2021	31 December 2020
Gross NPL	27,636	31,776
NPL allowance account	11,980	12,934
Net NPL	**15,657**	**18,842**
Collateral (after haircut)	**14,258**	**14,567**
NPL coverage ratio (%)	89.5	75.2
NPL coverage ratio of which is in default (%)	99.8	100.0
NPL as a percentage of total gross exposure (%)	1.0	1.2

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

Total net non-performing loans (NPL) decreased DKK 3.2 billion from the level at the end of 2020, driven mainly by a lower level of NPL in the shipping, oil and gas, agriculture, transportation, and hotels, restaurants and leisure industries, offsetting higher NPL in the personal customers segment driven by the introduction of a new loss given default (LGD) model.

The NPL coverage ratio increased to 89.5% from 75.2% at the end of 2020 due to a combination of lower exposure and a close-to-unchanged level of collateral.

The risk management notes on pp. 159-195 provide more information about non-performing loans.

Accumulated impairments decreased to 1.0% (end-2020: 1.2%) of lending and guarantees due to the lower allowance account.

Allowance account by business units

(DKK millions)	31 December 2021 Accum. impairm. charges	31 December 2021 % of net credit exposure*	31 December 2020 Accum. impairm. charges	31 December 2020 % of net credit exposure*
Personal & Business Customers	15,840	1.01	15,773	1.01
Large Corporates & Institutions	5,227	1.84	5,777	1.84
Northern Ireland	850	1.44	990	1.87
Group Functions	17	0.36	15	0.31
Total	**21,935**	**1.15**	**22,554**	**1.17**

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

Trading and investment activities

Credit exposure from trading and investment activities amounted to DKK 1,068 billion at the end of 2021 (end-2020: DKK 1,239 billion). The decrease was due primarily to decreased bond holdings.

The Group has made netting agreements with many of its counterparties concerning positive and negative market values of derivatives. The net exposure was DKK 76.8 billion (end-2020: DKK 109.6 billion).

The value of the bond portfolio was DKK 540 billion (end-2020: DKK 583 billion). Of the total bond portfolio, 73% was recognised at fair value and 27% at amortised cost.

Bond portfolio

(%)	31 December 2021	31 December 2020
Government bonds and bonds guaranteed by central or local governments	45	45
Bonds issued by quasi-government institutions	3	1
Danish mortgage bonds	35	37
Swedish covered bonds	10	12
Other covered bonds	5	2
Corporate bonds	2	2
Total holdings	**100**	**100**
Bonds at amortised cost included in total holdings	27	23

The financial highlights on page 8 provide information about the balance sheet.

Trading portfolio assets and trading portfolio liabilities decreased to net assets of DKK 134.6 billion (end-2020: net assets of 183.6 billion). The decrease in net assets was due mainly to decreased bond holdings and less positive value adjustments on the derivatives portfolio.

Other balance sheet items

Due from credit institutions and central banks decreased to DKK 320.0 billion (end-2020: DKK 345.9 billion). The decrease was due to general liquidity management. More information on this is provided under the Funding and liquidity heading in the Capital and liquidity management section.

Estonia matter

Investigation

Danske Bank continues to cooperate with various authorities regarding the terminated non-resident portfolio at Danske Bank's former branch in Estonia. This includes criminal and regulatory investigations by authorities in Estonia, Denmark, France and the US.

Danske Bank reports to, responds to and cooperates with various authorities, including the Danish Special Crime Unit ("SCU") (formerly the Danish State Prosecutor for Serious Economic and International Crime), the U.S. Department of Justice (DOJ) and the U.S. Securities and Exchange Commission (SEC), in relation to the Estonia matter.

The internal investigation work that was planned for completion in 2020 has been finalised, and Danske Bank has reported the findings to the relevant authorities investigating Danske Bank. We continue to fully cooperate and will provide the authorities with further information if and when requested.

The completion and the outcome of the investigations by and subsequent discussions with the authorities are uncertain. It is not yet possible to reliably estimate the timing, form of resolution, or amount of potential settlement, or fines, which could be material.

Civil claims

Danske Bank is also subject to ongoing litigation in relation to the Estonia matter. This includes, inter alia, an action against Danske Bank and Danske Markets, Inc. (and other defendants) in the United States District Court for the Eastern District of New York and a number of court cases initiated against Danske Bank in Denmark. Danske Bank intends to defend itself against the various claims. The timing of completion of any such lawsuits (pending or threatening) and their outcome are uncertain and could be material.

Other legacy issues

The remediation of other legacy issues, which a central unit has been overseeing since October 2020, has progressed throughout the year, and several of the issues have been closed. We are still working on remediating the issues related to our tax services that were communicated in September 2021.

We are working hard to remediate these issues and will contact and compensate affected customers as soon as possible.

While we cannot guarantee that other issues will not emerge in the remediation process, we remain committed to solving any issue that emerges with transparency and to compensate all affected customers.

Debt collection case
In our efforts to become a better bank, we have in recent years systematically improved compliance, risk and control capabilities and processes and sought to foster a culture under which potential issues are raised and addressed.

In connection with this work, several issues have been identified. These include the debt collection issues. At the end of October 2021, we had reviewed all of the 197,000 customer cases in our debt collection systems for which there is a risk of overcollection as a result of the data errors originally identified. The review has shown that actual overcollection has taken place for approximately 7,800 of these customers.

As we have communicated on an ongoing basis, our investigation of the data errors originally identified has also uncovered a number of potential additional issues that we are still investigating, which means that the number of customers who are expected to be eligible for compensation is increasing. We will continue to update affected customers and other stakeholders on our progress on the debt collection matter.

On 3 December 2021, the Danish FSA ordered Danske Bank to extend and broaden the impartial investigation of Danske Bank's debt collection. We welcome the continued impartial investigation, and will continue the cooperation with the Danish FSA.

Market monitoring
In June 2020, the Danish FSA filed a criminal complaint against Danske Bank A/S for violation of the Market Abuse Regulation on account of inadequate market monitoring and market manipulation in respect of self-matching trades, and on 25 June 2021, Danske Bank was preliminarily charged with this alleged violation. Danske Bank has a dialogue with and cooperates with the SCU, but cannot comment further as long as the SCU is investigating the case.

Flexinvest Fri case
All affected customers have been contacted and compensated in the Flexinvest Fri case, and the orders we received in connection with this issue are considered complied with by the Danish FSA. We have taken several initiatives to make sure something similar should not happen again.

Capital and liquidity management

The main purposes of our capital management practices are to support our business strategy and to ensure a sufficient level of capital to withstand even severe downturns without breaching regulatory requirements.

Capital ratios
At the end of 2021, the total capital ratio was 22.4%, and the CET1 capital ratio was 17.7%, against 23.0% and 18.3%, respectively, at the end of 2020. The movement in the capital ratios in 2021 was driven mainly by an increase in the total REA, which was partly countered by the realised net profit and a decline in the capital deduction for Danica Pension. The total capital ratio was supported by net issues of additional tier 1 and tier 2 capital amounting to about DKK 4.4 billion.

During 2021, the total REA increased approximately DKK 76 billion, due mainly to the implementation of the EBA guidelines. Part of the REA increase was mitigated by the removal of Pillar II add-ons related to model risk.

Capital requirements
Danske Bank's capital management policies are based on the Internal Capital Adequacy Assessment Process (ICAAP). In this process, Danske Bank determines its solvency need ratio. The solvency need ratio consists of the 8% minimum capital requirement under Pillar I and an individual capital add-on under Pillar II.

At the end of 2021, the Group's solvency need ratio was 11.4%, a decrease of 1.2 percentage points from the level at the end of 2020. The decrease was due primarily to the above-mentioned removal of Pillar II add-ons associated with the implementation of EBA guidelines.

The solvency need still includes the DKK 10 billion required under the orders issued by the Danish FSA in 2018 as a consequence of the Estonia case. The amount is covered by common equity tier 1 (CET1) capital, as ordered by the Danish FSA.

A combined buffer requirement (CBR) applies to financial institutions in addition to the solvency need ratio. At the end of 2021, the Group's combined capital buffer requirement was 5.6%.

In June 2021, the Danish Minister for Industry, Business and Financial Affairs reactivated the countercyclical buffer at 1.0% from 30 September 2022, while the Norwegian central bank raised its national buffer requirement to 1.5%, effective from 30 June 2022. In September 2021, the Swedish FSA also decided to increase the countercyclical buffer rate to 1.0%, effective as of 29 September 2022. In December 2021, the national buffer requirements in both Denmark and Norway were further increased to 2.0%, effective from 31 December 2022. This will increase the Group's CBR by 1.4 percentage points. Consequently, the fully phased-in countercyclical buffer requirement will be 1.5%, bringing the fully phased-in CET1 requirement to 13.9%.

Capital ratios and requirements

(% of total REA)	2021	Fully phased-in*
Capital ratios		
CET1 capital ratio	17.7	17.4
Total capital ratio	22.4	22.1
Capital requirements (incl. buffers)**		
CET1 requirement	12.5	13.9
- portion from countercyclical buffer	0.1	1.5
- portion from capital conservation buffer	2.5	2.5
- portion from SIFI buffer	3.0	3.0
Solvency need ratio	11.4	11.4
Total capital requirement	**17.0**	**18.4**
Excess capital		
CET1 capital	5.1	3.4
Total capital	5.4	3.7

** Based on fully phased-in rules and requirements incl. the fully phased-in impact of IFRS 9.*
*** The total capital requirement consists of the solvency need ratio and the combined buffer requirement. The fully phased-in countercyclical capital buffer is based on the buffer rates announced at the end of 2021.*

The calculation of the solvency need ratio and the combined capital buffer requirement is described in more detail in section 6 of Risk Management 2021, which is available at danskebank.com/ir.

Minimum requirement for own funds and eligible liabilities
On 20 December 2021, the Group received an updated decision, effective from 1 January 2022, from the Danish FSA on the minimum requirement for own funds and eligible liabilities (MREL) based on data from the fourth quarter of 2020. The MREL decision further takes into account the aforementioned Pillar II add-on conversion, which took place in the fourth quarter of 2021.

The requirement is set at two times the solvency need and one time the SIFI buffer and the capital conservation buffer. Further, the CBR must be met in addition to the MREL. At the end of 2021, the point-in-time requirement including the CBR was equivalent to DKK 243 billion, or 33.9% of the REA adjusted for Realkredit Danmark. The backward-looking MREL at the end of 2021, set by the Danish FSA, was 30.5% of the REA adjusted for Realkredit Danmark. Taking the deduction of capital and debt buffer requirements in Realkredit Danmark into account, MREL eligible liabilities amounted to DKK 287 billion.

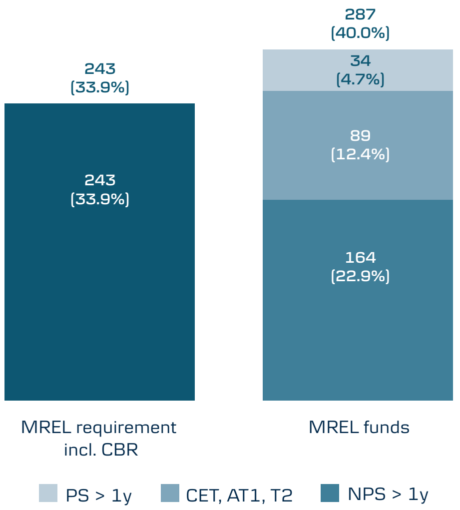
The transition to the full MREL has been relatively shorter for the Group than for its peers. In combination with a relatively high Danish MREL, the Group has issued a significant amount of non-preferred senior debt over the past couple of years.

The Danish FSA has set the subordination requirement as the higher of 8% of total liabilities and own funds (TLOF) and two the times the solvency need plus one time the CBR.

At the end of 2021, the subordination requirement was equivalent to DKK 219 billion. Subordinated MREL-eligible liabilities stood at DKK 253 billion.

Point-in-time MREL requirement and eligible funds; Q4 2021

(DKK billions) (% of total REA)



Note: The requirement and eligible funds are adjusted for Realkredit Danmark's capital and debt buffer requirements.

Leverage ratio

A minimum leverage ratio requirement of 3% became applicable in the second quarter of 2021 with the application of the amendments to the Capital Requirements Regulation (CRR II). At the end of 2021, the Group's leverage ratio was 4.9% under the transitional rules and 4.8% under the fully phased-in rules.

Capital targets

The CET1 capital ratio target was kept at above 16% in the short term to ensure a sufficiently prudent buffer in relation to the capital requirement. The total capital target was kept at above 20%. Danske Bank fully meets these capital targets.

The Board of Directors will continue to adapt its capital targets to regulatory developments in order to ensure a strong capital position.

Capital distribution policy

In accordance with Danske Bank's dividend policy, Danske Bank intends to pay out a total dividend of DKK 7.5 per share for 2021, corresponding to 50% of the net profit for the year. The Board of Directors proposes an initial dividend payment of DKK 2 per share to the annual general meeting. The remaining DKK 5.5 per share is intended to be paid out in three tranches following the publication of interim reports in 2022, subject to a decision by the Board of Directors in accordance with the authorisation given to the Board and based on the usual assessment of the bank's capital position at the end of each interim period. This approach is taken to preserve the dividend policy of the bank while ensuring a prudent capital management with a high degree of flexibility in light of the Estonia matter, where we remain unable to estimate any potential outcome or timing.

Thus Danske Bank's dividend policy remains unchanged, targeting a dividend of 40-60% of net profit.

Danske Bank has strong capital and liquidity positions, and the Board of Directors remains committed to returning excess capital to shareholders.

Credit ratings

On 11 June 2021, Fitch Ratings (Fitch) revised its outlook on Danske Bank A/S's long-term issuer rating to Stable from Negative, while affirming Danske Bank's long-term issuer rating at 'A' and the short-term issuer rating at 'F1'.

The outlook revision reflects Danske Bank's resilient asset quality and profitability as well as solid capital ratios, which provide a sizeable buffer to absorb any potential fines from ongoing regulatory investigations.

On 13 July 2021, Moody's Investors Service (Moody's) revised its outlook on Danske Bank's deposit rating to Stable from Negative, while affirming Danske Bank's long-term deposit rating at 'A2' and the short-term deposit rating at 'F1'.

At the same time, Moody's upgraded its rating of Danske Bank's non-preferred senior debt to 'Baa2' from 'Baa3', to better capture the risk characteristics of the debt class. This is the result of the implementation of revised Moody's bank rating methodology.

Stable outlooks incorporate the economic uncertainties relating to the fallout from the corona crisis as well as the financial uncertainties relating to the Estonia case.

On 16 December 2021, S&P Global Ratings (S&P) upgraded Danske Bank's counterparty rating to 'AA-/A-1+' from 'A+/A-1' and raised its issuer and senior debt ratings to 'A+' from 'A'. At the same time, S&P revised its outlook to Negative from Stable. The rating action concludes S&P's rating criteria revision, while the Negative outlook reflects S&P's concern about the fallout from the Estonia case.

Danske Bank's ratings, 31 December 2021

	Fitch	Moody's	S&P
Counterparty rating	A+	A1/P-1	AA-/A-1+
Deposits	A+/F1	A2/Stable/P-1	
Senior debt	A+/F1	A3/P-2	A+/A-1
Issuer rating	A/F1	A3/P-2	A+/A-1
Outlook	Stable	Stable	Negative
Non-preferred senior debt	A	Baa2	BBB+
Tier 2	BBB+	-	BBB
AT1	BBB-	-	BB+

Covered bonds issued by Realkredit Danmark (RD) are rated 'AAA' (Stable outlook) by Fitch, S&P and Scope Ratings. Fitch upgraded the covered bonds issued from RD's capital centre T to 'AAA' (Stable outlook) from 'AA+' (Stable outlook) on 8 January 2021, due to a lowering of the required amount of overcollateralisation.

Covered bonds issued by Danske Bank A/S are rated 'AAA' (Stable outlook) by both Fitch and S&P.

Covered bonds issued by Danske Hypotek AB are rated 'AAA' (Stable outlook) by S&P and 'AAA' by Nordic Credit Rating.

Covered bonds issued by Danske Mortgage Bank Plc are rated 'Aaa' by Moody's.

Environmental, Social and Governance (ESG) ratings
Danske Bank currently focuses on the following ESG rating agencies (a reflection of investor priorities).

ESG rating agency

	Score at 31 December 2021	Score at 31 December 2020
CDP Worldwide, UK	B	B
ISS ESG, USA	C+ Prime*	C+ Prime
MSCI ESG Ratings, USA	BBB	BB
Sustainalytics, USA	Medium Risk	High Risk
Vigeo Eiris, France	61	64

** Raised on 13 January 2022.*

On 10 June 2021, ISS ESG downgraded Danske Bank to C Prime from C+ Prime, due primarily to announced staff redundancies since they impact its assessment of employment security and responsible workforce restructuring. On 13 January 2022, ISS ESG again raised its rating to C+ Prime, reflecting a reassesment of its Corporate Governance and Business Ethics factor.

On 24 June 2021, Sustainalytics upgraded Danske Bank's ESG Risk Rating to Medium Risk from High Risk. The improved rating reflects its assessment of business ethics.

On 28 September 2021, MSCI upgraded Danske Bank to BBB from BB due to an improvement in the score related to social factors and an improvement in the score related to governance factors.

In December 2021, Vigeo Eiris downgraded Danske Bank's ESG score to 61 from 64, due primarily to a deterioration of its environment performance score for Danske Bank.

Funding and liquidity
During 2021, market attention gradually shifted away from the impact of the COVID-19 pandemic to traditional themes such as inflation and central bank monetary policies. Throughout the year, the markets proved to be liquid with stable investor appetite for Danske Bank issues.

At the end of December 2021, the Group had issued covered bonds of DKK 33.3 billion, senior debt of DKK 27.3 billion, non-preferred senior debt of DKK 4.4 billion, tier 2 capital of DKK 5.6 billion and additional tier 1 capital of DKK 4.5 billion, bringing total long-term wholesale funding to DKK 75.1 billion.

Our strategy of securing more funding directly in our main lending currencies, including NOK and SEK, remains in place, but we will also utilise central bank facilities to obtain funding in the most cost-efficient manner.

We plan for regular issues in the EUR benchmark format in covered bonds, senior and non-preferred senior bonds as well as issues in the domestic USD market for senior and non-preferred senior bonds in the Rule 144A format. The benchmark issues are expected to be supplemented by private placements of bonds.

From time to time, we will make issues in GBP, JPY, CHF and other currencies when market conditions allow. Issuance plans for subordinated debt in either the additional tier 1 or tier 2 formats will depend on balance-sheet growth and redemptions on the one side and our capital targets on the other. Any issuance of subordinated debt may cover part of our funding need. Note G22 provides more information about bond issues in 2021.

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 December 2021, our liquidity coverage ratio stood at 164% (31 December 2020: 154%), with an LCR reserve of DKK 687 billion (31 December 2020: DKK 710 billion).

The requirement for the net stable funding ratio forms an integral part of our funding planning, and we are already comfortably adhering to the requirement.

At 31 December 2021, the total nominal value of outstanding long-term funding, excluding equity-accounted additional tier 1 capital and debt issued by Realkredit Danmark, was DKK 381 billion (31 December 2020: DKK 369 billion).

The Supervisory Diamond

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

At the end of 2021, 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

In December 2017, the Basel Committee on Banking Supervision (BCBS) published the finalisation of the Basel III framework, which includes the following:

- standardised approach for credit risk
- internal ratings-based (IRB) approach for credit risk
- minimum capital requirements for CVA risk
- minimum capital requirements for operational risk
- output floor
- leverage ratio

In addition, the BCBS published the revised minimum capital requirements for market risk in January 2019. These standards are collectively referred to as “Basel IV”.

As a part of the EU’s Banking Package 2021 and in order to implement Basel IV, the European Commission adopted proposals in October 2021 to amend, inter alia, Regulation (EU) No 575/2013 (CRR) and Directive 2013/36/EU (CRD). The proposals include some adjustments to the Basel IV standard, and the output floor is subject to a transitional arrangement that means that the output floor must be fully implemented by 1 January 2030.

In order to estimate any effects that the finally adopted regulation and directive may have on the Group, the Group continuously monitors the legislative negotiations and conducts impact assessments. On the basis of the Group’s current and updated analysis of the EU Banking Package 2021, the Group’s current capital planning takes into account the expected REA impact of the initial implementation expected in 2025. The fully phased-in impact of the EU Banking Package 2021 on the Group depends on the final outcome of the EU legislative process, including the calibration of the output floor. Taking into account the proposed transitional arrangements with regards to the output floor, the Group currently expects the output floor to restrict the Group at the earliest in 2033, when the transitional arrangements are set to lapse.

The outcome of the EU legislative negotiations on the proposals is uncertain and may result in further adjustments.

The EBA roadmap to enhance internal models used for calculating credit risk has materialised in the expected increase in the REA for Danske Bank. In 2021, Danske Bank’s REA thus increased by DKK 98 billion as a result of the EBA IRB roadmap.

Investor Relations

Investor Relations keeps investors and analysts updated on Danske Bank's strategic development, financial performance and outlook through participation in all types of proactive investor communication such as roadshows, conferences and consultations, including roadshows for debt investors on specific major transactions.

Throughout 2021, virtual events continued to be the preferred type of event. However, in relation to the update of Danske Bank's financial targets for 2023 on 29 October, Investor Relations hosted a hybrid event with physical attendance from institutional investors and analysts in Denmark alongside the virtual participation of internationally-based investors and analysts. At this event, the Executive Leadership Team presented the commercial plans towards 2023 and associated financial targets.

In 2021, investor events were held with participation of more than 500 investors from the Nordic countries, other European countries, Asia and the US.

Danske Bank shares

Danske Bank shares are listed on Nasdaq Copenhagen and are included in a number of Danish and international equity indices, such as the OMX Copenhagen 25 CAP Index (OMXC25CAP). At the end of 2021, Danske Bank shares had an index weighting of 3%.

Danske Bank's share price increased from DKK 100.65 at 31 December 2020 to DKK 112.95 at 31 December 2021, an increase of 12%. In comparison, the OMXC25CAP Index increased 17%, while the Europe 600 Banks Index increased 34%.

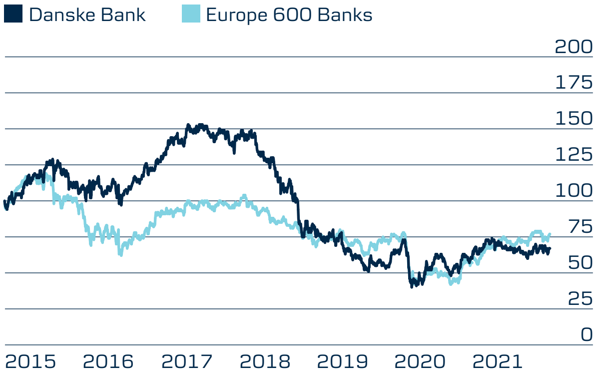
Danske Bank shares
(DKK)

	2021	2020
Share capital (millions)	8,622	8,622
Share price (end of year)	113.0	100.7
Total market capitalisation (end of year) (billions)	96.4	85.9
Earnings per share	14.6	4.7
Dividend per share	2.0	2.0
Book value per share	200.6	187.6
Share price/book value per share	0.6	0.5

Danske Bank is covered by 29 sell-side analysts, who regularly publish research reports and sector reports. A list of the analysts and other relevant information, including financial reports, investor presentations, share and bond information, is available at danskebank.com/investor-relations/reports.

The average daily trading volume of Danske Bank shares was 4.7 million. The Danske Bank share was the 7th most actively traded share on Nasdaq Copenhagen during 2021.

Danske Bank shares
Index 2015 = 100

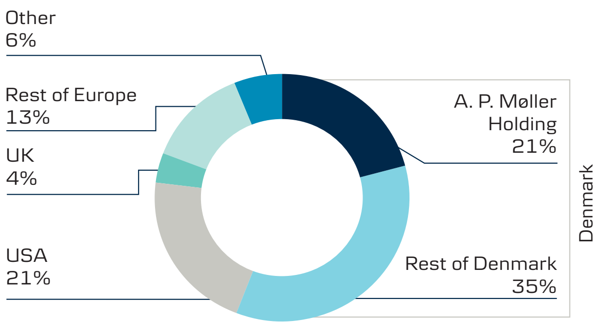


Shareholders

At the end of 2021, Danske Bank had about 291,000 shareholders. The 10 largest shareholders together owned about 40% of the share capital.

We estimate that shareholders outside Denmark, mainly in the US and the UK, hold around 38% of the share capital.

Danske Bank shareholders 2021



According to the Danish Companies Act, shareholders must notify the company if the voting rights of their shares represent 5% or more of the voting rights of the company's share capital or if the nominal value of their shares represents 5% or more of the share capital. Shareholders must also disclose changes in shareholdings if they exceed or fall below specified percentage thresholds.

One shareholder has notified Danske Bank of holding 5% or more of the share capital:

- The A.P. Møller Holding Group holds about 21% of the share capital.

Organisation and management

General meeting
The general meeting is Danske Bank's highest decision-making authority.

In 2021, the annual general meeting was held on 16 March.

Danske Bank's Articles of Association are available at danskebank.com/corporate-governance and contain information about the notice convening the general meeting, the shareholders' admission and voting rights as well as the shareholders' right to submit proposals and have specified business transacted at the meeting.

All shareholders have voting rights according to the number of shares held at the date of registration and each share of DKK 10 carries one vote. No share has any special rights attached to it.

Only the general meeting can amend Danske Bank's Articles of Association. Any amendment requires not less than a two-thirds majority of the votes cast and not less than two-thirds of the share capital represented at the general meeting and entitled to vote.

A resolution to wind up Danske Bank by merger or voluntary liquidation can be passed only if adopted by not less than three-quarters of the votes cast and not less than three-quarters of the share capital represented at the general meeting and entitled to vote.

Board of Directors
The Board consists of eleven members, seven elected by the general meeting and four elected by and among the employees.

Board members elected by the general meeting stand for election each year. As prescribed by Danish law, members elected by and among the employees serve on the Board of Directors for a four-year term, with the next election to be held prior to the annual general meeting in 2022.

The Nomination Committee operates as a preparatory committee for the Board of Directors with respect to the nomination and appointment of candidates to the Board of Directors and to the Executive Leadership Team of Danske Bank. Board candidates are nominated by the Board of Directors or the shareholders and are elected by the general meeting.

On 15 March 2021, Topi Manner withdrew his candidacy for the Board of Directors of Danske Bank A/S. The members of the Board of Directors were re-elected at the annual general meeting on 16 March 2021, except for Christian Sagild, who did not seek re-election. Gerrit Zalm stepped down from the Board of Directors on 19 April 2021.

Pages 226-231 of Annual Report 2021 provide information about the individual members of the Board of Directors, including their directorships. Note G37 on page 154 provides information on the number of Danske Bank shares held by the members of the Board of Directors, and note G36 on page 151 provides information on the remuneration of the Board of Directors.

Work of the Board of Directors in 2021
In 2021, the Board of Directors held 26 meetings, of which 1 was held as a written meeting and 10 were extraordinary meetings. As to committee meetings (ordinary and extraordinary), the Audit Committee held 5 meetings, the Risk Committee held 8 meetings, the Conduct & Compliance Committee held 7 meetings, the Nomination Committee held 6 meetings and the Remuneration Committee held 8 meetings.

The members' participation in Board and Committee meetings in 2021 is illustrated below.

	Board			Committees		
		Audit	CCC	Nomina-tion	Remune-ration	Risk
Karsten Dybvad*	26/26		7/7	6/6	8/8	6/6
Jan Thorsgaard Nielsen	26/26	5/5	7/7			
Carol Sergeant	26/26		7/7			8/8
Bente Bang	26/26					
Martin Blessing	26/26					8/8
Lars-Erik Brenøe	26/26			6/6	8/8	
Kirsten Ebbe Brich	26/26		7/7			
Thorbjørn Lundholm Dahl	26/26					
Raija-Leena Hankonen-Nybom	26/26	5/5			8/8	
Charlotte Hoffmann	26/26				8/8	
Bente Avnung Landsnes	26/26	5/5		6/6		
Christian Sagild**	5/5	1/1				2/2
Gerrit Zalm***	6/6			1/3		2/2

**Karsten Dybvad joined the Risk Committee in April 2021*
***Christian Sagild stepped down from the Board of Directors in March 2021*
**** Gerrit Zalm stepped down from the Board of Directors in April 2021*

In the fourth quarter, the Board of Directors carried out its annual evaluation of i.a. its composition, the work of the Board committees, the Board committee structure and the leadership of the Board chairman. To ensure anonymity, an external consulting firm facilitated the evaluation. All members of the Board of Directors and the Executive Leadership Team answered comprehensive questionnaires. The findings and conclusions were subsequently presented to and discussed by the Board of Directors.

The aim of the evaluation was to ensure, among other things, that the composition of the Board of Directors as well as the special competencies of each Board member enable the Board of Directors to perform its tasks. As the Board of Directors operates as a collegial body, its overall competencies and experience are the sum of the individual board members' competencies and experience. The composition of the Board of Directors aims to ensure the stable and satisfactory development of Danske Bank for the benefit of its customers, employees, shareholders and other stakeholders. The competencies of the Board of Directors collectively are described in the Competency profile, which is available at danskebank.com. Pages 226-231 of Annual Report 2021 provide information on the competencies of the individual Board members.

The results of the 2021 evaluation were overall good and showed good alignment both within the Board of Directors and between the Board of Directors and the Executive Leadership Team. The Board of Directors will work on the agreed focus areas in 2022.

Executive Leadership Team

Team members	Title
Carsten Rasch Egeriis	Chief Executive Officer
Magnus Agustsson	Chief Risk Officer
Berit Behring	Head of Large Corporates & Institutions
Karsten Breum	Head of Group HR
Stephan Engels	Chief Financial Officer
Glenn Söderholm	Head of Personal & Business Customers
Philippe Vollot	Chief Administrative Officer
Frans Woelders	Chief Operating Officer

On 19 April 2021, Chris Vogelzang, Chief Executive Officer and member of the Executive Leadership Team, resigned and the Board of Directors appointed Carsten Rasch Egeriis new Chief Executive Officer.

On 25 May 2021, Danske Bank announced that the Board of Directors had appointed Magnus Agustsson new Chief Risk Officer.

On 25 November 2021, Danske Bank announced that Philippe Vollot had been appointed Chief Administrative Officer with overall responsibility for Group Compliance as well as First Line Financial Crime Prevention and Financial Crime Risk divisions. Philippe Vollot continues as member of the Executive Leadership Team.

On 7 January 2022, Danske Bank announced changes to the Executive Leadership Team, as the commercial activities are to be organised in three business units headed by Berit Behring, Christian Bornfeld and Johanna Norberg, respectively. New Head of Personal Customers Christian Bornfeld and new Head of Business Customers Johanna Norberg will join the Executive Leadership Team no later than 1 May 2022 replacing Glenn Söderholm. Glenn Söderholm will step out of the Executive Leadership Team when the changes take effect, after which he will stay on as senior adviser to the Executive Leadership Team. Berit Behring will continue to head Large Corporates & Institutions.

Changes to the organisation

A new Commercial Leadership Team was established with effect from 1 January 2021. In addition to the Executive Leadership Team, the Commercial Leadership Team consists of 12 experienced leaders who undertake important commercial roles in the Danske Bank Group. The Commercial Leadership Team is responsible for ensuring strong cooperation across the Group and focuses on developing Danske Bank's customer offerings. The team is the key driver behind the Group's 2023 plan to become a better and more competitive bank.

Commercial Leadership Team

Team members	Title
Lars Alstrup	Head of Products and Solutions, Personal & Business Customers
Stojko Gjurovski	Head of Personal Customers Nordic and Country Manager Finland
Paul Gregory	Head of Corporate and Institutional Banking
Claus Harder	Head of Markets & Transaction Banking
Kim Larsen*	Head of Group Communications, Brand & Marketing
Trond Mellingsæter	Country Manager Norway
Christoffer Møllenbach	Head of Group Finance
Johanna Norberg	Head of Business Customers and Country Manager Sweden
Atilla Olesen	Head of Investment Banking & Securities
Linda Olsen	COO for Personal & Business Customers
Rob de Ridder	COO for Large Corporates & Institutions
Mark Wraa-Hansen	Head of Personal Customers Denmark

** Resigned from his position with Danske Bank in 2021*

Corporate governance recommendations

Corporate governance recommendations issued by the Danish Committee on Corporate Governance are available at corporategovernance.dk. The recommendations are best practice guidelines for the management of companies with shares admitted for trading on a regulated market in Denmark, including Nasdaq Copenhagen A/S. If a company fails to comply with a recommendation, it must explain why it has chosen a different approach. Danske Bank complies with all recommendations.

The statutory corporate governance report issued in accordance with section 134 of the Danish FSA's Executive Order on Financial Reports for Credit Institutions and Investment Firms etc., section 107b of the Danish Financial Statements Act and the Nasdaq Nordic Main Market Rulebook for Issuers of Shares ("Nordic Main Market Rulebook") is available at danskebank.com/about-us/corporate-governance. The report includes an explanation of Danske Bank's status on all recommendations.

The Danish Bankers Association, which is now part of Finance Denmark, has issued a Corporate Governance Code, which Danske Bank must comply with or explain why it does not comply. The Corporate Governance Code is available at finansdanmark.dk. Danske Bank complies with all recommendations set out in the Code. Danske Bank's explanation of the status on all recommendations is included in section E of its Corporate Governance Report 2021.

Data ethics

The rapid technological development has in many ways changed the way in which Danske Bank operates. The rising level of digitalisation and the increased amount of data offer Danske Bank new possibilities for using data to the benefit of both Danske Bank and its customers, but also raise several ethical dilemmas related to the use of the data available.

Data ethics is about responsible use of data. Ethical data management includes transparency and accountability in decisions and processes that involve the use of data – promoting the values of respect, integrity and fairness. Data ethics is about doing the right thing for people and society.

To address the dilemmas, Danske Bank has developed ethical principles for its use of data. They define how Danske Bank strives to act with regard to data use across the Group and in its business relations. The application of the principles of data ethics enables Danske Bank to do more than merely comply with the law, thus supporting good conduct across the Group and building trust in Danske Bank.

Danske Bank strives to be transparent about the purposes for which data is used and to communicate this clearly. We aim to ensure that processes are clearly understood in terms of risk as well as social, ethical and societal consequences of our use of data. We assess and evaluate the impact of the use of advanced technologies, analytics, and computational methods on the parties involved.

Some of the principles are already integrated into Danske Bank's privacy and security processes, and during 2022, Danske Bank will elaborate on the principles and continue to integrate them into its processes and steering and control mechanisms.

The Data Ethics Principles document constitutes our Report on Data Ethics as required under section 135d of the Danish Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc.

The principles are available on Danske Banks website here: danskebank.com/corporate-governance.

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 to certain changes in the presentation. Net profit is the same in the financial highlights and in the IFRS income statement. Notes G1 and G3 to the financial statements describe the differences between the financial highlights and the IFRS financial statements, and each line item in the financial highlights is reconciled with the consolidated financial statements prepared under IFRS.

Definitions of additional ratios presented on page 8 and in other sections of the Management's report:

Ratios and key figures	Definition
Dividend per share (DKK)	The dividend per share proposed in the annual report and paid to shareholders in the subsequent year. Accordingly, for 2021, it is the dividend to be paid in 2022.
Return on average shareholders' equity (% p.a.)	Net profit as disclosed in the financial highlights divided by the average of the quarterly average shareholders' equity (beginning and end of each quarter) within the year. Net profit and shareholders' equity are stated as if the equity-accounted additional tier 1 capital was classified as a liability. In the numerator, net profit is reduced by interest expenses of DKK 451 million (full-year 2020: DKK 551 million). The denominator represents equity, excluding additional tier 1 capital and other non-controlling interests equal to a reduction in the average of the quarterly average of equity of DKK 7,733 million (2020: DKK 13,526 million) compared to a simple average of total equity (beginning and the end of the period).
Net interest income as % p.a. of loans and deposits	Net interest income in the financial highlights divided by the daily average of the sum of loans and deposits. If the ratio was calculated applying the sum of loans and deposits end of period, the ratio for 2021 would be 0.73% (2020: 0.73%) due to the daily average of the sum of loans and deposits being DKK 5.4 billion higher (2020: DKK 124.8 billion lower) than calculating the ratio by applying the end-of-period sum of loans and deposits. The purpose of the ratio is to show if the growth in net interest income follows the growth in loans and deposits. The daily average is a more faithful representation of the growth in loans and deposits.
Cost/income ratio (C/I), (%)	Operating expenses, impairment charges on goodwill and impairment charges other intangible assets divided by total income. All amounts are from the financial highlights.
C/I, excluding impairment on intangible assets (%)	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 as % of net credit exposure	This ratio is calculated on the basis of loan impairment charges and loans and guarantees in core segments. The numerator is the loan impairment charges of DKK 348 million (2020: DKK 7,001 million) from the financial highlights and annualised. The denominator is the sum of Loans at amortised cost of DKK 1,022.7 billion (2020: DKK 1,022.3 billion), Loans at fair value of DKK 816.3 billion (2020: DKK 802.6 billion) and guarantees of DKK 71.7 billion (2020: DKK 68.7 billion) at the beginning of the year, as disclosed in the column "Lending activities – core" in the "Breakdown of credit exposure" table in the notes to the financial statements. The ratio is calculated for each business unit.
Allowance account as % of net credit exposure	This ratio is calculated on the basis of the allowance account and loans and guarantees in core segments. The numerator is the allowance account of DKK 21.9 billion (2020: DKK 22.6 billion) at the end of the period, as disclosed in the "Allowance account in core activities broken down by segment" table in the notes to the financial statements. The denominator is the sum of Loans at amortised cost of DKK 1,026.1 billion (2020: DKK 1,022.7 billion), Loans at fair value of DKK 809.9 billion (DKK 816.3 billion), and guarantees of DKK 81.0 billion (2020: DKK 71.7 billion), at the end of the period, as disclosed in the column "Lending activities –core" in the "Breakdown of credit exposure" table in the notes to the financial statements. The ratio is calculated for each business unit.
Realkredit Danmark bonds funding loans	On page 44, information is provided on the funding of lending by deposits and covered bonds. The 'Bonds issued by Realkredit Danmark' line equals the carrying amount in the balance sheet, that is, issued bonds held by the Group's external investors. The 'Total Realkredit Danmark bonds' line item equals loans funded by Realkredit Danmark bonds. The 'Own holdings of bonds' line item is a residual item that includes the net amount of the elimination of own holdings less issued bonds backed by collateral other than mortgage loans, such as securities.
Market shares of lending and deposits	Market shares are based on data from central banks at the time of reporting. Comparative information is updated on the basis of the latest available data, for example Annual Report 2020 included November 2020 data for Finland and Norway as December 2020 data was not available at the time of publication of Annual Report 2020. This was subsequently updated to December 2020 data in Interim report – first quarter 2021.

Financial statements

Income statement – Danske Bank Group

Note	(DKK millions)	2021	2020
G5	Interest income calculated using the effective interest method	22,077	23,219
G5	Other interest income	35,601	41,133
G5	Interest expense	30,904	36,234
	Net interest income	26,774	28,118
G6	Fee income*	18,495	17,025
G6	Fee expenses	6,378	5,760
G5	Net trading income or loss*	36,600	21,962
G7	Other income*	5,733	4,360
G8	Net premiums	37,518	28,795
G8	Net insurance benefits	71,208	48,284
G9	Operating expenses	30,822	32,822
	Profit before loan impairment charges	16,712	13,393
G11	Loan impairment charges	141	7,089
	Profit before tax	16,571	6,304
G21	Tax	3,651	1,715
	Net profit	**12,920**	**4,589**
	Portion attributable to		
	Shareholders of Danske Bank A/S (the Parent Company)	12,469	4,038
	Additional Tier 1 capital holders	451	551
	Net profit	**12,920**	**4,589**
	Earnings per share (DKK)	14.6	4.7
	Diluted earnings per share (DKK)	14.6	4.7
	Proposed dividend per share (DKK)	2.0	2.0

* Comparative information has been restated as described in note G2(a)

Statement of comprehensive income – Danske Bank Group

Note	(DKK millions)	2021	2020
	Net profit	12,920	4,589
	Other comprehensive income		
	Remeasurement of defined benefit pension plans	-90	304
G21	Tax*	-146	38
	Items that will not be reclassified to profit or loss	**56**	**266**
	Items that are or may be reclassified subsequently to profit or loss		
	Translation of units outside Denmark	1,708	-1,902
G12	Hedging of units outside Denmark	-1,270	1,224
	Unrealised value adjustments of bonds at fair value (OCI)	-326	264
	Realised value adjustments of bonds at fair value (OCI)	6	-12
G21	Tax*	-152	70
	Items that are or may be reclassified subsequently to profit or loss	**270**	**-496**
	Total other comprehensive income	**326**	**-230**
	Total comprehensive income	**13,246**	**4,359**
	Portion attributable to		
	Shareholders of Danske Bank A/S (the Parent Company)	12,795	3,808
	Additional Tier 1 capital holders	451	551
	Total comprehensive income	**13,246**	**4,359**

*A positive amount is a tax expense and a negative amount is a tax income

Balance sheet – Danske Bank Group

Note	(DKK millions)	2021	2020
	Assets		
G14	Cash in hand and demand deposits with central banks	293,386	320,702
G14	Due from credit institutions and central banks	71,156	81,428
G12	Trading portfolio assets	509,590	682,948
G13	Investment securities	303,777	296,769
G15	Loans at amortised cost	1,027,442	1,024,607
G16	Loans at fair value	1,024,461	1,023,323
G17	Assets under pooled schemes and unit-linked investment contracts	76,654	82,795
G18	Assets under insurance contracts	547,806	545,708
G23	Assets held for sale*	28,800	709
G19	Intangible assets	8,819	8,785
G21	Tax assets	4,510	5,202
G24	Other assets*	39,433	36,255
	Total assets	**3,935,834**	**4,109,231**
	Liabilities		
G20	Due to credit institutions and central banks	172,976	211,182
G12	Trading portfolio liabilities	374,959	499,334
G20	Deposits	1,292,030	1,333,781
G22	Issued bonds at fair value	794,909	784,027
G22	Issued bonds at amortised cost	223,854	245,573
G17	Deposits under pooled schemes and unit-linked investment contracts	76,982	82,905
G18	Liabilities under insurance contracts	588,736	591,930
G23	Liabilities in disposal groups held for sale*	29,577	47
G21	Tax liabilities	1,864	1,821
G24	Other liabilities*	56,268	51,244
G22	Non-preferred senior bonds	107,654	106,371
G22	Subordinated debt	39,321	32,337
	Total liabilities	**3,759,130**	**3,940,552**
	Equity		
	Share capital	8,622	8,622
G25	Foreign currency translation reserve	-612	-1,050
	Reserve for bonds at fair value (OCI)	34	354
	Retained earnings	161,439	150,521
	Proposed dividends	1,724	1,724
	Shareholders of Danske Bank A/S (the Parent Company)	171,207	160,171
G25	Additional tier 1 capital holders	5,497	8,508
	Total equity	**176,704**	**168,679**
	Total liabilities and equity	**3,935,834**	**4,109,231**

* Comparative information has been restated as described in note G2(a)

Statement of capital – Danske Bank Group

Changes in equity

(DKK millions)	Share capital	Foreign currency translation reserve	Reserve for bonds at fair value (OCI)	Retained earnings	Proposed dividends	Total	Additional tier 1 capital	Total
	Shareholders of Danske Bank A/S (the Parent Company)							
Total equity as at 1 January 2020	8,622	-372	102	140,590	7,329	156,271	14,237	170,508
Net profit	-	-	-	4,038	-	4,038	551	4,589
Other comprehensive income								
Remeasurement of defined benefit pension plans	-	-	-	304	-	304	-	304
Translation of units outside Denmark	-	-1,902	-	-	-	-1,902	-	-1,902
Hedging of units outside Denmark	-	1,224	-	-	-	1,224	-	1,224
Unrealised value adjustments	-	-	264	-	-	264	-	264
Realised value adjustments	-	-	-12	-	-	-12	-	-12
Tax	-	-	-	-108	-	-108	-	-108
Total other comprehensive income	**-**	**-678**	**252**	**196**	**-**	**-230**	**-**	**-230**
Total comprehensive income	**-**	**-678**	**252**	**4,234**	**-**	**3,808**	**551**	**4,359**
Transactions with owners								
Paid interest on additional tier 1 capital	-	-	-	-	-	-	-625	-625
Proposed dividends	-	-	-	-1,724	1,724	-	-	-
Proposed dividends reversed	-	-	-	7,329	-7,329	-	-	-
Redemption of additional tier 1 capital	-	-	-	-4	-	-4	-5,596	-5,600
Acquisition of own shares and additional tier 1 capital	-	-	-	-29,252	-	-29,252	-59	-29,311
Sale of own shares and additional tier 1 capital	-	-	-	29,228	-	29,228	-	29,228
Share based payments	-	-	-	108	-	108	-	108
Tax	-	-	-	12	-	12	-	12
Total equity as at 31 December 2020	**8,622**	**-1,050**	**354**	**150,521**	**1,724**	**160,171**	**8,508**	**168,679**
Net profit	-	-	-	12,469	-	12,469	451	12,920
Other comprehensive income								
Remeasurement of defined benefit pension plans	-	-	-	-90	-	-90	-	-90
Translation of units outside Denmark	-	1,708	-	-	-	1,708	-	1,708
Hedging of units outside Denmark	-	-1,270	-	-	-	-1,270	-	-1,270
Unrealised value adjustments	-	-	-326	-	-	-326	-	-326
Realised value adjustments	-	-	6	-	-	6	-	6
Tax	-	-	-	298	-	298	-	298
Total other comprehensive income	**-**	**438**	**-320**	**208**	**-**	**326**	**-**	**326**
Total comprehensive income	**-**	**438**	**-320**	**12,677**	**-**	**12,795**	**451**	**13,246**
Transactions with owners								
Paid interest on additional tier 1 capital	-	-	-	-	-	-	-466	-466
Dividends paid	-	-	-	16	-1,724	-1,708	-	-1,708
Proposed dividends	-	-	-	-1,724	1,724	-	-	-
Redemption of additional tier 1 capital	-	-	-	-	-	-	-3,000	-3,000
Acquisition of own shares and additional tier 1 capital	-	-	-	-19,801	-	-19,801	-	-19,801
Sale of own shares and additional tier 1 capital	-	-	-	19,715	-	19,715	4	19,719
Share based payments	-	-	-	146	-	146	-	146
Tax	-	-	-	-111	-	-111	-	-111
Total equity as at 31 December 2021	**8,622**	**-612**	**34**	**161,439**	**1,724**	**171,207**	**5,497**	**176,704**

Statement of capital – Danske Bank Group

Dividend

In accordance with Danske Bank's dividend policy, Danske Bank intends to pay-out a total dividend of DKK 7.5 per share for 2021, corresponding to 50 per cent of the net profit for the year. The Board of Directors proposes an initial dividend payment of DKK 2 per share to the annual general meeting. The remaining DKK 5.5 per share is intended to be paid out in three tranches following the publication of interim reports in 2022, subject to a decision by the Board of Directors in accordance with the authorisation given to the Board and based on the usual assessment of the bank's capital position at the end of each interim period. This approach is taken to preserve the dividend policy of the bank while ensuring a prudent capital management with a high degree of flexibility, in light of the Estonia matter, where we remain unable to estimate any potential outcome or timing.

Thus Danske Bank's dividend policy remains unchanged, targeting a dividend of 40-60% of net profit.

Earnings per share (DKK millions)	2021	2020
Net profit attributable to the shareholders of the parent company	12,469	4,038
Number of shares issued at 1 January	862,184,621	862,184,621
Average number of own shares held by the Group (including share buy-back programme)	8,804,138	9,046,467
Average number of shares outstanding	853,352,805	853,138,154
Number of dilutive shares issued for share-based payments	621,939	332,271
Adjusted average number of shares outstanding after share capital reduction, including dilutive shares	**853,974,744**	**853,470,424**
Earnings per share (DKK)	14.6	4.7
Diluted earnings per share (DKK)	14.6	4.7

The share capital consists of shares of a nominal value of DKK 10 each. All shares carry the same rights; there is thus only one class of shares.

Number of shares outstanding	2021	2020
Issued at 1 January	862,184,621	862,184,621
Holding of own shares	8,832,178	8,535,245
Shares outstanding at 31 December	**853,352,443**	**853,649,376**

(DKK millions) Holding of own shares	Number 2021	Number 2020	Value 2021	Value 2020
Trading portfolio	4,223,165	4,034,791	477	406
Investment on behalf of customers	4,609,013	4,500,454	521	453
Total	**8,832,178**	**8,535,245**	**998**	**859**

Danske Bank Group accounts for all shares issued by Danske Bank A/S and held by Danske Bank Group as own shares that are eliminated in the statement of changes in shareholders' equity. The disclosures above clarify the purpose of the acquisitions made by Danske Bank Group of its own shares.

(DKK millions)	Trading portfolio	Investment on behalf of customers	Total 2021	Total 2020
Holding as at 1 January	406	453	859	914
Acquisition of own shares	19,629	124	19,754	29,252
Sale of own shares	19,603	112	19,715	29,228
Value adjustment	45	56	100	-79
Holding as at 31 December	**477**	**521**	**998**	**859**

The Board of Directors is authorised to let Danske Bank acquire own shares up to a total nominal amount of 10% of the share capital. The shares may be held for ownership or provided as collateral. If shares are acquired for ownership, the acquisition price may not deviate by more than 10% from the price quoted at the time of acquisition. Danske Bank A/S has obtained permission from the Danish Financial Supervisory Authority to acquire own shares for market-making purposes etc. and this amount is deducted from the Group's common equity tier 1 capital.

Statement of capital – Danske Bank Group

Total capital and total capital ratio

(DKK millions)	31 December 2021	31 December 2020
Total equity	176,704	168,678
Revaluation of domicile property at fair value	200	176
Tax effect of revaluation of domicile property at fair value	-23	-17
Total equity calculated in accordance with the rules of the Danish FSA	176,881	168,836
Additional tier 1 capital instruments included in total equity	-5,419	-8,415
Accrued interest on additional tier 1 capital instruments	-78	-93
Common equity tier 1 capital instruments	171,384	160,329
Adjustment to eligible capital instruments	-104	-75
IFRS 9 reversal due to transitional rules	2,593	2,551
Prudent valuation	-983	-690
Prudential filters	-173	-147
Expected/proposed dividends	-6,466	-1,724
Intangible assets of banking operations	-5,325	-5,354
Minimum Loss Coverage for Non-Performing Exposures	-51	-
Deferred tax on intangible assets	198	204
Deferred tax assets that rely on future profitability, excluding temporary differences	-35	-168
Defined benefit pension plan assets	-2,220	-2,206
Statutory deduction for insurance subsidiaries	-6,882	-8,992
Common equity tier 1 capital	**151,935**	**143,727**
Additional tier 1 capital instruments	19,933	17,282
Tier 1 capital	**171,868**	**161,009**
Tier 2 capital instruments	20,888	19,108
Total capital	**192,757**	**180,117**
Total risk exposure amount	**860,173**	**784,184**
Common equity tier 1 capital ratio (%)	17.7%	18.3%
Tier 1 capital ratio (%)	20.0%	20.5%
Total capital ratio (%)	22.4%	23.0%

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

In terms of the transitional arrangements for the impact of IFRS 9 on regulatory capital, the Group applies the so-called dynamic approach in accordance with the CRR.

Risk Management 2021 provides more details about the Group's total capital, the total risk exposure amount and the Group's solvency need. The report is available at danskebank.com/investorrelations/reports and is not covered by the statutory audit.

Cash flow statement – Danske Bank Group

	(DKK millions)	2021	2020
	Cash flow from operations		
	Profit before tax	16,571	6,304
	Tax paid	-2,459	-4,315
	Adjustment for non-cash operating items	4,916	12,993
	Cash flow from operations before changes in operating capital	**19,028**	**14,982**
	Changes in operating capital		
	Amounts due to/from credit institutions and central banks	-38,509	59,794
	Trading portfolio	48,984	-140,495
	Acquisition/sale of own shares and additional tier 1 capital	-82	-83
	Investment securities	-7,007	-11,896
	Loans at amortised cost and fair value	-4,114	95,039
	Deposits	-41,751	193,055
	Issued bonds at amortised cost and fair value	-7,596	-33,550
	Assets/liabilities under insurance contracts	-5,291	5,323
	Other assets/liabilities	-1,224	4,337
	Cash flow from operations	**-37,562**	**186,506**
	Cash flow from investing activities		
	Acquisition/sale of businesses	-	5
	Acquisition of intangible assets	-885	-872
	Acquisition of tangible assets	-686	-408
	Sale of tangible assets	8	12
	Cash flow from investing activities	**-1,563**	**-1,263**
	Cash flow from financing activities		
G26	Issue of subordinated debt	10,102	3,721
G26	Redemption of subordinated debt	-3,718	-2,180
G26	Issue of non-preferred senior bonds	4,352	23,610
G26	Redemption of non-preferred senior bonds	-6,309	-
	Dividends paid	-1,708	-
	Redemption of equity accounted additional tier 1 capital	-3,000	-5,600
	Paid interest on equity accounted additional tier 1 capital	-466	-625
	Principal portion of lessee lease payments	-654	-653
	Cash flow from financing activities	**-1,401**	**18,273**
	Cash and cash equivalents as at 1 January	400,889	199,608
	Foreign currency translation	2,634	-2,235
	Change in cash and cash equivalents	-40,526	203,516
	Cash and cash equivalents, end of period	**362,997**	**400,889**
	Cash and cash equivalents, end of period		
G14	Cash in hand	6,765	6,131
G14	Demand deposits with central banks	286,621	314,572
G14	Amounts due from credit institutions and central banks within three months	69,611	80,186
	Total	**362,997**	**400,889**

Note G26 provides further information on the cash flow statement.

Notes – Danske Bank Group

G1. Basis of preparation

(a) General

Danske Bank Group prepares its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRSs) and applicable interpretations (IFRIC) issued by the International Accounting Standards Board (IASB), as adopted by the EU. Furthermore, the consolidated financial statements comply with the Danish FSA's Executive Order No. 1306 dated 16 December 2008 on the use of IFRSs by undertakings subject to the Danish Financial Business Act.

On 1 January 2021 the Group implemented the amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16 (Interest Rate Benchmark Reform, phase 2) and IFRS 16 (Covid-19 Related Rent Concessions). The Group has changed the presentation in the income statement of indirect fees earned when customers are granted, refinance or prepay Danish mortgage loans. Further information on the changes to accounting policies in 2021 can be found in note G2. Except for these changes, the Group has not changed its significant accounting policies from those applied in the Annual Report 2020. The implementation of the amendments to IFRSs had no impact on the financial statements.

For changes in the financial highlights and segment reporting, see note G3.

Financial statement figures are stated in Danish kroner and whole millions, unless otherwise stated. As a result, rounding discrepancies may occur because totals have been rounded off and the underlying decimals are not presented to financial statement users.

Monetary assets and liabilities in foreign currency are translated at the exchange rates at the balance sheet date. Exchange rate adjustments of monetary assets and liabilities arising as a result of differences in the exchange rates at the transaction date and at the balance sheet date are recognised in the income statement. Non-monetary assets and liabilities in foreign currency that are subsequently revalued at fair value are translated at the exchange rates at the date of revaluation. Exchange rate adjustments are included in the fair value adjustment of an asset or liability. Other non-monetary items in foreign currency are translated at the exchange rates at the transaction date. The accounting treatment of foreign currency translation of units outside Denmark is described in note G25.

For the purpose of clarity, the primary financial statements and the notes to the financial statements are prepared using the concepts of materiality and relevance. This means that line items not considered material in terms of quantitative and qualitative measures or relevant to financial statement users are aggregated and presented together with other items in the primary financial statements. Similarly, information not considered material is not presented in the notes.

The significant accounting policies are incorporated into the notes to which they relate.

(b) Significant accounting estimates and judgements

The preparation of financial information requires, in some cases, the use of judgements and estimates by management. This includes judgements made when applying accounting policies. The most significant judgements made when applying accounting policies relate to the classification of financial assets and financial liabilities under IFRS 9, especially related to the business model assessment, and the SPPI test (further explained in note G15) and the designation of financial liabilities at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch (further explained in note G16). An overview of the classification and measurement basis for financial instruments can be found in section (c) of this note.

Further, the determination of the carrying amounts of some assets and liabilities requires the estimation of the effects of uncertain future events on those assets and liabilities. The estimates 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. In view of the inherent uncertainties and the high level of subjectivity and judgement involved in the recognition and measurement of the items listed below, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based.

Measurement of expected credit losses on loans, financial guarantees and loan commitments, and bonds measured at amortised cost or fair value through other comprehensive income

The three-stage expected credit loss impairment model in IFRS 9 depends on whether the credit risk has increased significantly since initial recognition. If the credit risk has not increased significantly, the impairment charge equals the expected credit losses resulting from default events that are possible within the next 12 months (stage 1). If the credit risk has increased significantly, the loan is more than 30 days past due, or the loan is in default or otherwise impaired, the impairment charge equals the lifetime expected credit losses (stages 2 and 3). In determining the impairment for expected credit losses, management exercises judgement and uses estimates and assumptions as explained below.

Notes – Danske Bank Group

G1. Basis of preparation continued

(b) Significant accounting estimates and judgements

The expected credit loss is calculated for all individual facilities as a function of probability of default (PD), exposure at default (EAD) and loss given default (LGD) and incorporates forward-looking information. The estimation of expected credit losses involves forecasting future economic conditions over a number of years. Such forecasts are subject to management judgement and those judgements may be sources of measurement uncertainty that have significant risk of resulting in a material adjustment to a carrying amount in future periods. The incorporation of forward-looking elements reflects the expectations of the Group's senior management and involves the creation of scenarios (base case, upside and downside), including an assessment of the probability for each scenario. The purpose of using multiple scenarios is to model the non-linear impact of assumptions about macroeconomic factors on the expected credit losses. See further in the section below and in the risk management notes for the impact from the corona crisis on the macroeconomic scenarios used.

With the new suite of scenarios, the base case scenario enters with a probability of 70% (2020: 60%), the upside scenario with a probability of 10% (2020: 15%) and the downside scenario with a probability of 20% (2020: 25%). On the basis of these assessments, the allowance account at the end of 2021 amounted to DKK 22.7 billion (2020: DKK 23.3 billion). If the base case scenario was assigned a probability of 100%, the allowance account would decrease DKK 1.7 billion (2020: 0.4 billion). Compared to the base case scenario, the allowance account would increase DKK 8.5 billion (2020: DKK 1.7 billion), if the downside scenario was assigned a probability of 100%. The increase reflects primarily the transfer of exposures from stage 1 to stage 2 and increased expected credit losses within stage 2. If instead the upside scenario was assigned a probability of 100%, the allowance account would decrease DKK 0.2 billion (2020: DKK 0.4 billion) compared to the base case scenario.

In determining the expected credit losses, management is required to exercise judgement in defining what is considered a significant increase in credit risk. According to the Group's definition of a significant increase in credit risk, i.e. when a loan is transferred from stage 1 to stage 2, facilities with an initial PD below 1% are transferred to stage 2 if the facility's 12-month PD has increased by at least 0.5 of a percentage point and the facility's lifetime PD has doubled since origination. The allowance account is relatively stable in terms of changes to the definition of significant increase in credit risk. At the end of 2021, the allowance account would increase by DKK 0.03 billion (2020: DKK 0.03 billion), if instead an increase in the facility's 12-month PD by at least 0.25 of a percentage point combined with a doubling of the lifetime PD was considered a significant increase in credit risk.

Management applies judgement when determining the need for post-model adjustments. At the end of 2021, the post-model adjustments amounted to DKK 6.3 billion (2020: DKK 6.4 billion) and continue to include the risks arising from the corona crisis due to the continued significant uncertainty related to the economic effects of the pandemic. See further in the separate section below. Further information on the types of risks covered by post-model adjustments and the allocation of post-model adjustments to the underlying exposures can be found in the section 'Classification of customers' in the risk management notes.

Loan impairment charges for 2021 amounted to DKK 141 million (2020: DKK 7,089 million). The Group saw more normalised impairment levels during 2021. There was a low level of credit deterioration, including for corona-affected and oil-related portfolios. These portfolios also benefitted from model-driven reversals made as a result of better than expected macroeconomic developments. In 2020, impairments were affected by both exposure to the oil and gas industry and a significant change in the macroeconomic scenarios used to calculate expected credit losses following the outbreak of the pandemic. The Group made sufficient impairment charges for pandemic-related tail risks, however it remains to be seen how both the rolling off of government support packages and tapering from the central banks, including the timing of these, might affect those businesses at which earnings are still catching up.

Accounting treatment of the impacts on expected credit losses from the corona crisis

2021 marked the second year of the corona virus pandemic and affected the expected credit loss differently than in 2020. 2020 was marked by large increases in the post-model adjustments, especially related to the corona virus, and an expectation of a speedy recovery after lockdowns ended.

2021 has seen overall good customer activity in core markets and reversals to modelled ratings. With the ongoing detection of new variants of the corona virus and lockdowns imposed and lifted repeatedly throughout 2021, the uncertainty remains high related to credit deterioration across most industries and specifically corona related industries.

The Group has retained most post-model adjustments not related to implemented model changes as the uncertainties relating to the corona crisis and the economy in general remains elevated. The corona crisis-related post-model adjustments relate to industries directly affected by the corona crisis and for which the macroeconomic scenarios themselves do not lead to a sufficient increase in expected credit losses. This includes expected, but not yet materialised, credit deterioration in relation to the Personal customers and Commercial property industries in Denmark as government support ends. This also includes retailing, hotels and restaurants (within the Hotels, restaurants and leisure industry) as well as oil and gas (within the Shipping, oil and gas industry). The targeted post-model adjustment related to such sectors amounts to DKK 1.8 billion (2020: DKK 2.0 billion).

The Group applies the European Banking Authority's (EBA's) definition of loans subject to forbearance measures, which states that a probation period of a minimum of two years must pass from the date when forborne exposures are considered to be performing again. Exposures with forbearance measures are divided into performing and non-performing loans. The increase in forborne exposures relates to proactive forbearance measures taken by the Group to improve the financial position of weak customers following the corona crisis.

Notes – Danske Bank Group

G1. Basis of preparation continued

(b) Significant accounting estimates and judgements

The applied macroeconomic scenarios in 2021 differ from those used at 31 December 2020. In Q1 2021 the downside scenario was changed to capture the severe recession scenario applied in the Group's Internal Capital Adequacy Assessment Process 8 (ICAAP) processes and is similar in nature to regulatory stress tests. The severe recession scenario reflects negative growth and falling property prices for a longer period. The change of the downside scenario has been made in order to capture the risk of prolonged lockdowns due to new coronavirus variants and in order for the ECL calculation to include potential downside risks due to the elevated asset prices across the Nordics.

With the changed downside scenario the scenario weighting was also changed and afterwards kept stable for the first nine months of 2021. In Q4 2021, the scenarios weights has been updated to the current weights of Base case 70%, downside 20% and 10% upside.

Except as described above, all other policies and principles remain in place. Staging criteria are unchanged, including the 30 days past due criteria and PD-based criteria for transfer to stage 2.

Fair value measurement of financial instruments

At the end of 2021, no unusual challenges in obtaining reliable pricing apart from insignificant parts of the portfolio remained. The majority of valuation techniques continues to employ only observable market data, and there has been no significant increase in financial instruments measured on the basis of valuation techniques that are based on one or more significant unobservable inputs. The latter continues to include only unlisted shares, certain bonds and some long-dated derivatives for which there is no active market. On the derivatives portfolio, the Group makes fair value adjustments to cover changes in counterparty risk (CVA and DVA) and to cover expected funding costs (FVA and ColVA) 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 31 December 2021, the adjustments totalled DKK 1.0 billion (2020: DKK 1.6 billion), including the adjustment for credit risk on derivatives that are credit impaired. Note G33(a) provides more details on the fair value measurement of financial instruments.

The Group uses derivatives to hedge the fixed interest rate on some financial assets and liabilities, thus converting the fixed interest rates on the financial instruments to variable interest rates by the use of swaps. The ongoing Interest Rate Benchmark Reform will replace existing benchmark interbank offered rates (IBORs) with alternative risk-free rates. As a result of these developments, accounting judgement is involved in determining whether certain hedge accounting relationships that hedge the interest rate risk due to changes in IBORs continue to qualify for hedge accounting. Following IASB's project 'Interest Rate Benchmark Reform' for the assessment of effectiveness of such hedges, it is assumed that the interest rate benchmark is not altered as a result of the reform. For further information, see note G12(d).

Measurement of goodwill and customer rights

Goodwill is tested for impairment once a year or more frequently if indications of impairment exist. Impairment testing requires management to estimate the present value of 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 31 December 2021, goodwill amounted to DKK 6.1 billion (2020: DKK 6.1 billion).

Despite the corona crisis, the impairment test conducted in 2021 did not reveal any impairment loss (2020: DKK 0 billion).

The goodwill in Danica Pension of DKK 1.6 billion (2020: DKK 1.6 billion) is sensitive to changes in solvency capital requirements, growth in the terminal period and the discount rate.

The remaining goodwill mainly consists of DKK 2.1 billion (2020: DKK 2.1 billion) in Markets, DKK 1.8 billion (2020: DKK 1.8 billion) in Asset Management and DKK 0.5 billion (2020: DKK 0.5 billion) in General Banking (all part of the business segment Large Corporates & Institutions) showing significant amounts of excess value in the impairment tests in 2021 and 2020.

Note G19 provides more information about the impairment test in 2021 and 2020 including sensitivity to changes in assumptions.

Measurement of liabilities under insurance contracts

Liabilities under insurance contracts are measured at the present value of expected benefits for each insurance contract. The measurement is based on actuarial computations that rely on estimates of a number of variables, including mortality and disability rates, and on the discount rate. The future mortality rates are based on the Danish FSA's benchmark, while other variables are estimated based on data from the Group's own portfolio of insurance contracts. Section (c) of this note and note G18 provide further information on the measurement of insurance liabilities. The risk management notes contain a sensitivity analysis for life insurance.

Notes – Danske Bank Group

G1. Basis of preparation continued

(c) Overview of classification and measurement basis for financial instruments and insurance contracts

Financial instruments account for around 98% of total assets and liabilities. A portion of financial assets relate to investments made under insurance contracts. The following sections provide a general description of the classification and measurement of financial instruments and obligations under insurance contracts.

Financial instruments – general

The Group recognises financial assets and liabilities when it becomes a party to the terms of the contract. A financial asset, or a portion of a financial asset, is derecognised if the contractual rights to cash flows from the asset have expired, or have been transferred, usually by sale, leading to substantially all the risks and rewards of the asset or significant risks and rewards being transferred. Financial liabilities are derecognised when the liability has been settled, has expired or has been extinguished.

Regular way purchases and sales of financial instruments are recognised and derecognised at the settlement date. Fair value adjustments of unsettled financial instruments are recognised from the trade date to the settlement date if the financial asset is classified at fair value through profit or loss or through other comprehensive income. The classification is shown in the table below.

Financial instruments and obligations under insurance contracts, classification and measurement end of 2021

	Amortised cost	Fair value OCI	Fair value through profit or loss					
(DKK billions)	Held to collect assets/Liabilities	Held to collect and sell financial assets*	Held for trading	Managed at fair value	FVPL due to SPPI test	Designated	Interest rate hedge**	Total
Assets								
Cash in hand and demand deposits with central banks	293	-	-	-	-	-	-	293
Due from credit institutions and central banks	32	-	-	39	-	-	-	71
Derivatives	-	-	253	-	-	-	8	260
Bonds	147	119	237	37	-	-	-	540
Shares	-	-	12	1	-	-	-	13
Loans	1,026	-	-	215	810	-	1	2,052
Assets under pooled schemes and unit-linked investment contracts	-	-	-	77	-	-	-	77
Assets under insurance contracts	-	-	-	522	-	-	-	522
Total financial assets, 31 December 2021	**1,498**	**119**	**502**	**891**	**810**	**-**	**9**	**3,829**
Total financial assets, 31 December 2020	**1,504**	**117**	**669**	**911**	**816**	**-**	**16**	**4,034**
Liabilities								
Due to credit institutions and central banks	88	-	-	-	-	85	0	173
Trading portfolio liabilities	-	-	371	-	-	-	4	375
Deposits	1,158	-	-	-	-	134	-	1,292
Issued bonds at fair value	-	-	-	-	-	795	-	795
Issued bonds at amortised cost	223	-	-	-	-	-	1	224
Deposits under pooled schemes and unit-linked investment contracts	-	-	-	-	-	77	-	77
Liabilities under insurance contracts ***	-	-	-	-	-	589	-	589
Non-preferred senior bonds	107	-	-	-	-	-	1	108
Subordinated debt	39	-	-	-	-	-	-	39
Loan commitments and guarantees	2	-	-	-	-	-	-	2
Total financial liabilities, 31 December 2021	**1,617**	**-**	**371**	**-**	**-**	**1,680**	**6**	**3,674**
Total financial liabilities, 31 December 2020	**1,680**	**-**	**496**	**-**	**-**	**1,703**	**12**	**3,890**

* Unrealised fair value gains and losses are presented in Other comprehensive income, and realised fair value gains and losses are recycled to the income statement.

**The interest rate risk on some fixed-rate financial assets and liabilities is hedged by derivatives (fair value hedging). The interest rate risk on some fixed-rate bonds 'hold to collect and sell' is also hedged by derivatives. The fair value represents changes in the fair value of the interest rate risk on the hedged items, i.e. not a full fair value of the hedged items.

*** Liabilities under insurance contracts are recognised at the present value of expected insurance benefits.

Notes – Danske Bank Group

G1. Basis of preparation continued

(c) Overview of classification and measurement basis for financial instruments and insurance contracts

Classification and measurement of financial assets and financial liabilities – general

Financial assets are classified on the basis of the business model adopted for managing the assets and on their contractual cash flow characteristics (including embedded derivatives, if any) are grouped into one of the following measurement categories:

- Amortised cost (AMC)
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVPL)

Financial assets are measured at AMC if they are held within a business model for the purpose of collecting contractual cash flows (hold to collect) and if cash flows are solely payments of principal and interest on the principal amount outstanding.

Financial assets are measured at FVOCI if they are held within a business model for the purpose of both collecting contractual cash flows and selling (hold to collect and sell) and if cash flows are solely payments of principal and interest on the principal amount outstanding. FVOCI results in the assets being recognised at fair value in the balance sheet and at AMC in the income statement. Gains and losses, except for expected credit losses and foreign exchanges gains and losses, are therefore recognised in other comprehensive income until the financial asset is derecognised. When the financial asset is derecognised the cumulative gains and losses previously recognised in other comprehensive income are reclassified to the income statement.

All other financial assets are mandatorily measured at FVPL including financial assets held within other business models, such as financial assets managed at fair value or held for trading and financial assets with contractual cash flows that are not solely payments of principal and interest on the principal amount outstanding.

Generally, financial liabilities are measured at amortised cost and when relevant with bifurcation of embedded derivatives not closely related to the host contract. Financial liabilities measured at fair value comprise the trading portfolio (derivatives and obligations to repurchase securities) and liabilities designated at fair value through profit or loss under the fair value option. Value adjustments relating to the inherent credit risk of financial liabilities designated at fair value are recognised in other comprehensive income unless this leads to an accounting mismatch.

The business model assessment

The business model assessment in Danske Bank Group has been applied separately for each business unit represented by the Group's reportable segments, and it is based on observable factors for the different portfolios, such as (1) how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Executive Board and the Board of Directors, (2) the risks that affect the performance of the business model and the way such risks are managed and (3) past and expected frequency, value and timing of sales from the portfolio. In general, the business model assessment of the Group can be summarised as follows:

- The Group's banking units, comprising, Personal Business & Customers, General Banking at Large Corporates &Institutes (LC&I) and Northern Ireland, have a "hold to collect" business model. The financial assets consist primarily of loans. The management and reporting of performance are based on collecting the contractual cash flows, and loans are only very infrequently sold.
- The trading units at LC&I (Markets and Investment Banking & Securities) and the financial assets related to the Group's insurance activities at Danica Pension have a business model that is neither "hold to collect" nor "hold to collect and sell" and the financial assets are mandatorily recognised at FVPL. The assets consist of bonds, shares, repo transactions and short-term loans. Some of the financial assets are included in portfolios with a trading pattern that falls under the definition of "held for trading" while other portfolios are managed and their performance reported on a fair value basis.
- Group Treasury has portfolios of bonds within the "hold to collect" business model, the "hold to collect and sell" business models and the "other" business model.
- The remaining portfolio of Non-core is "hold to collect". The financial assets consist primarily of loans.

Notes – Danske Bank Group

G1. Basis of preparation continued

(c) Overview of classification and measurement basis for financial instruments and insurance contracts

The SPPI test (solely payment of principal and interest on the principal amount outstanding)

The second step in the classification of the financial assets in portfolios being "hold to collect" and "hold to collect and sell" relates to the assessment of whether the contractual cash flows are consistent with the SPPI test. The principal amount reflects the fair value at initial recognition less any subsequent changes, e.g. due to repayment. The interest must represent only consideration for the time value of money, credit risk, other basic lending risks and a margin consistent with basic lending features. If the cash flows introduce more than de minimis exposure to risk or volatility that is not consistent with basic lending features, the financial asset is mandatorily recognised at FVPL.

In general, the Group's portfolios of financial assets that are "hold to collect" or "hold to collect and sell" (loans and bonds) have contractual cash flows that are consistent with the SPPI test, i.e. they have basic lending features.

However, loans granted under Danish mortgage finance law are funded by issuing listed mortgage bonds with matching terms. Such loans are granted by the Realkredit Danmark subsidiary only. Borrowers may repay such loans by delivering the underlying bonds. This represents an option to prepay at fair value that can be both above and below the principal amount plus accrued interest. Changes in the fair value of the underlying bonds include other elements than the effect of changes in the relevant benchmark interest rate and the prepayment option is therefore not consistent with the SPPI test in IFRS 9 and are mandatorily measured at FVPL.

All equity instruments have contractual cash flows that do not pass the SPPI test. All such holdings are recognised at FVPL since the Group has decided not to use the option to designate equity instruments at FVOCI.

Financial liabilities

Financial liabilities are generally measured at amortised cost and when relevant with bifurcation of embedded derivatives not closely related to the host contract. Financial liabilities measured at fair value comprise derivatives, the trading portfolio and liabilities designated at FVPL under the fair value option. Value adjustments relating to the inherent own credit risk of financial liabilities designated at fair value are, however, recognised in Other comprehensive income unless this leads to an accounting mismatch.

IFRS 9 allows the designation of financial liabilities at FVPL when doing so results in more relevant information, because either (1) it eliminates or significantly reduces an accounting mismatch that would otherwise arise, or (2) is part of a portfolio of financial instruments that are managed and their performance reported on a fair value basis to management.

The Group designates the following financial liabilities at FVPL:

- Mortgage bonds issued by Realkredit Danmark. The bonds fund the loans granted by Realkredit Danmark, i.e. loans that due to the SPPI test are mandatorily recognised at FVPL. The fair value of the loans is based on the fair value of the issued bonds (the loans and the issued bonds that are funding the loans have matching contractual terms) adjusted for changes in the fair value of the credit risk of borrowers. To eliminate the accounting mismatch that exists if the loans are measured at FVPL and the issued bonds at AMC, the issued bonds are designated at FVPL, and fair value changes of the issued bonds (including fair value changes related to own credit risk) are offset by the fair value changes of the loans. Hence, changes in the fair value attributable to the Group's own credit risk on the issued bonds are also recognised in the income statement since an accounting mismatch would otherwise arise.
- Financial liabilities in Markets and Investment Banking & Securities at LC&I. These financial liabilities are part of a portfolio of financial assets and liabilities that is managed and performance reported to the Management on a fair value basis. The financial liabilities consist of repo transactions, deposits and commercial papers. Changes, if any, in the fair value attributable to the Group's own credit risk is, however, recognised in other comprehensive income.

Hedge accounting

The Group uses derivatives to hedge the interest rate risk on some fixed-rate assets and fixed-rate liabilities measured at amortised cost and on some bonds measured at fair value through other comprehensive income. Hedged risks that meet the criteria for fair value hedge accounting are treated accordingly. The interest rate risk on the hedged assets and liabilities is measured at fair value through profit or loss. At end-2021, hedging derivatives measured at fair value accounted for about 0.2% of total assets and about 0.2% of total liabilities (31 December 2020: 0.3% and 0.1%, respectively). For further information on hedge accounting, see note G12(d).

Notes – Danske Bank Group

G1. Basis of preparation continued

(c) Overview of classification and measurement basis for financial instruments and insurance contracts

Insurance activities – general

The Group issues life insurance policies, which are divided into insurance and investment contracts. Insurance contracts are contracts that entail significant insurance risk or entitle policyholders to bonuses. Investment contracts are contracts that entail no significant insurance risk and comprise unit-linked contracts under which the investment risk lies with the policyholder.

Insurance contracts

Insurance contracts comprise both an investment element and an insurance element, which are recognised as aggregate figures.

IFRS 4, Insurance Contracts, includes an option to continue the accounting treatment of insurance contracts under local GAAP. The Group's life insurance provisions are therefore recognised at their present value in accordance with the Danish FSA's Executive Order on Financial Reports for Insurance Companies etc. The life insurance provisions are presented under Liabilities under insurance contracts.

Assets earmarked for insurance contracts are recognised under Assets under insurance contracts if most of the return on the assets accrues to the policyholders. Most of these assets are measured at fair value.

Investment contracts

Investment contracts are recognised as financial liabilities, and, consequently, contributions and benefits under such contracts are recognised directly in the balance sheet. Deposits are measured at the value of the savings under Deposits under pooled schemes and unit-linked investment contracts.

Savings under unit-linked investment contracts are measured at fair value under Assets under pooled schemes and unit-linked investment contracts. The return on the assets and the crediting of the amounts to policyholders' accounts are recognised under Net trading income or loss.

Assets funded by shareholders' equity

The separate pool of assets equal to shareholders' equity is recognised at fair value and consolidated with other similar assets.

Income from insurance business

Insurance activities are consolidated in the various income statement items. Insurance premiums are recognised under Net premiums. Net insurance benefits in the income statement consists of benefits disbursed under insurance contracts and the annual change in insurance obligations not deriving from additional provisions for benefit guarantees and changes to the collective bonus potential. The return on earmarked assets is allocated to the relevant items in the income statement. The return to policyholders is recognised under Net trading income or loss as are changes to additional provisions for benefit guarantees. Note G8 provides more information.

The sources of the Group's net income from insurance business comprise the return on assets funded by Danica Pension's shareholders' equity, income from unit-linked business and health and accident business, and income from conventional life insurance business, the so-called risk allowance.

The risk allowance is determined in accordance with the Danish FSA's executive order on the contribution principle. The contribution principle regulates how earnings are allocated between policyholders and the life insurance company's shareholders' equity and defines the maximum payment to shareholders' equity (the risk allowance).

Insurance contracts guarantee a certain long-term return on policyholders' funds. If the technical basis exceeds the interest accrual to policyholders and the risk allowance, the difference is allocated to the bonus potential. The bonus potential serves as a risk buffer. If the technical basis is insufficient to cover the risk allowance, the shortfall can be covered by the bonus potential. If the bonus potential is insufficient to cover the shortfall, the difference can be covered by the individual bonus potentials or the profit margin; otherwise, the risk allowance that cannot be recognised will be lost. If the technical basis is insufficient to cover the interest accrual to policyholders, the shortfall is covered by the bonus potentials or the profit margin. Any remaining shortfall is paid by the Group in the form of an outlay. If the Group has made such an outlay, the outlay may be recovered the following year.

Notes – Danske Bank Group

G1. Basis of preparation continued

(d) Financial highlights

The financial highlights and reporting for each segment shown in note G3 are used in the Management's report and represent the financial information regularly provided to management. The Reclassification column in note G3 shows the reconciliation between the presentation in the financial highlights and the presentation in the consolidated financial statements prepared under IFRS and includes the following:

Operating leases and impairment charges other intangible assets

In the IFRS income statement, gains or losses on the sale of operating lease assets, excluding properties, at the end of the lease agreement are presented on a gross basis (the Group acts as a lessor). This means that the proceeds from the sale of the assets are recognised under Other income, whereas the carrying amount of the lease assets is recognised under Operating expenses.

In the financial highlights, the gains or losses on the sale of the lease asset are presented on a net basis under Other income to better reflect the development in the cost base.

The Group's transformation project 'Better Ways of Working' entails an ongoing digital journey that led to the recognition of impairment charges on existing software in 2020. To better reflect the development in the underlying cost base, the impairment charges are presented separately in the Financial highlights, whereas they are recognised under Operating expenses in the IFRS income statement.

Markets and Investment Banking & Securities (both part of Large Corporates & Institutions) and Group Treasury (part of Group Functions)

In the IFRS income statement, income from Markets and Investment Banking & Securities and Group Treasury is presented as Net interest income, the net of Fee income and Fee expenses. Net trading income or loss and Other income, depending on the type of income. 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. To better reflect income in those areas, the following reclassifications are made in the financial highlights:

- All income contributed by Markets, excluding Market's share of margins on customer derivatives, is presented as Net trading income
- Trading-related income at Investment Banking & Securities is presented as Net trading income. However, income contributed by Equity Finance (also part of Large Corporates & Institutions, Investment Banking & Securities) is presented as Net fee income
- All income in Group Treasury, except income at Internal Bank, income on bonds held to collect and bonds held to collect and sell, are presented as Net trading income.

Danica Pension

In the IFRS income statement, income and expenses in Danica Pension is consolidated on a line-by-line basis. In the financial highlights, earnings in the business segment Danica Pension is presented as a single line Net income from insurance business due to Danica Pension being a separate business unit. This increases transparency and simplicity in the income statement part of the financial highlights, as Danica Pension's business model is very different from the business model of the other commercial activities within the Group. Net income insurance business is presented before elimination of intra-group transactions.

Non-core

In the IFRS income statement and balance sheet, income and expense items and asset and liability items from the Non-core segment are included in the various income statement and balance sheet line items, as the segment does not fulfil the requirements in IFRS 5, Non-current Assets Held for Sale and Discontinued Operations.

The Non-core segment includes certain customer segments that are no longer considered part of the Group's core business. To better reflect activities from the Group's core and non-core business, the profit or loss of the Non-core segment is presented as one amount in a separate line item 'Profit before tax, Non-core' in the financial highlights. Similarly, assets are presented together as Total assets in Non-core and liabilities together as Total liabilities in Non-core in the balance sheet in the financial highlights.

(e) Reporting on the ESEF Regulation

The Commission's Delegated Regulation (EU) 2019/815 on the European Single Electronic Format (ESEF Regulation) requires a special digital reporting format for annual report for publicly listed entities. The ESEF Regulation includes requirements related to the preparation of the annual report in XHTML format and iXBRL tagging of the consolidated financial statements key elements including Income statement, Statement of comprehensive income, Balance sheet, Statement of capital and Cash flow statement.

Danske Bank Group's iXBRL tagging is prepared in accordance the ESEF taxonomy which is included in the appendices of the ESEF Regulation and is developed based on the IFRS taxonomy that is published by IFRS Foundation. For the annual report for 2021, the ESEF Taxonomy for 2020 has been applied.

The account balances in the consolidated financial statement is XBRL tagged to the elements in the ESEF Regulation that is assessed to correspond to the content of the account balances. For account balances that are assessed not to be covered by the account balances defined in the ESEF taxonomy, the Group has incorporated entity specific extensions to the taxonomy. These extensions are – except subtotals – embedded in the elements in the ESEF Taxonomy.

The annual report comprises – in accordance with the requirements of the ESEF Regulation – of a zip-file [danskebank-2021-12-31.zip], that includes an XHTML-file, that can be opened with standard web browsers and a number of technical XBRL files that make automated extracts of the incorporated XBRL data possible.

Notes – Danske Bank Group

G2. Changes and forthcoming changes to accounting policies and presentation

(a) Changes to significant accounting policies and presentation during the year

On 1 January 2021, the Group implemented amendments to IFRS 9, IAS 39, IFRS 4 and IFRS 16 (Interest Rate Benchmark Reform, phase 2) and IFRS 16 (Covid-19 Related Rent Concessions). The implementation of the amendments to IFRSs had no impact on the financial statements.

In 2021 the Group has changed the presentation in the income statement of indirect fees earned when customers are granted, refinance or prepay Danish mortgage loans. Comparative information in the income statement has been restated to reflect the change in presentation.

In 2021, the Group has changed the presentation of the line items Gain and loss on sale of disposal groups and Income from holdings in associates from separately presentation on the face of the income statement to be presented under Other Income. Comparative information in the income statement has been restated to reflect the change in presentation. Further information is provided in note G7.

The Group has changed the presentation of Assets held for sale and Liabilities in disposal groups held for sale to be presented separately on the face of the balance sheet rather than within Other assets and Other liabilities respectively. Comparative information in the balance sheet has been restated to reflect the change in presentation. Further information is provided in note G23.

The sections below explain in more detail the changes to accounting policies and presentation implemented.

Interest Rate Benchmark Reform – phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

In August 2020, the IASB issued amendments to various standards to cover the effects on financial statements when old interest rate benchmarks are replaced by alternative benchmark rates as a result of the benchmark reform.

The amendments introduce a practical expedient to account for a change to the basis for determination of the contractual cash flows at the date on which interest rate benchmarks are altered or replaced. Under the practical expedient, a change to the determination of the contractual cash flows is applied prospectively by altering the effective interest rate, i.e. not leading to a modification gain or loss recognised in the income statement. To be applicable for the practical expedient, a change must meet two conditions: (a) the change is a direct consequence of the reform and (b) the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

The amendments further introduce reliefs from existing hedge accounting requirements. The reliefs include that hedge accounting would not discontinue solely due to the benchmark reform and that, for the retrospective effectiveness test for fair value hedges under IAS 39, the cumulative fair value changes of the hedged item and the hedging instrument may be reset to zero to minimise the risk that a hedge will fail the retrospective effectiveness test when the benchmark transitions to an alternate benchmark. The amendments further require that the hedging relationships and documentations are amended to reflect changes in the hedged item, the hedging instrument and the hedged risk (which do not represent a discontinuation of the existing hedge).

The implementation has been applied retrospectively without restatement of prior periods. The implementation of the amendments had no impact on shareholders' equity at 1 January 2021. See notes G12 and G33 for further detail.

Covid-19 Related Rent Concessions (amendments to IFRS 16)

The amendment introduces a practical expedient under which a lessee may elect not to assess whether a COVID-19 related rent concession meets the definition of a modification. Danske Bank Group has not been granted any concessions, and the amendment has no impact on the financial statements.

Change in the presentation of indirect fees earned on Danish mortgage loans

The Group's Danish mortgage loans are granted through Realkredit Danmark and funded by issued listed mortgage bonds with matching terms, both measured at fair value through profit and loss. When customers are granted, refinance or prepay such loans, the Group earns direct fees as well as indirect fees with the latter being changed as a discount or premium to the quoted price on the bonds funding the specific loan. In the income statement, the indirect fees are now included within Fee income to align with the presentation of the direct fees. Previously, the indirect fees were included within Net trading income or loss. Comparative information has been restated, leading to a reclassification to Fee income from Net trading income or loss of DKK 590 million in 2020.

(b) Standards and interpretations not yet in force

The International Accounting Standards Board (IASB) has issued one new accounting standard (IFRS 17) and amendments to existing international accounting standards (IFRS 1, IFRS 3, IFRS 9, IFRS 16, IAS 1, IAS 8, IAS 12,IAS 16 and IAS 37), that have not yet come into force. The Group has not early adopted any of the changes. The sections below explain the IFRS changes that are likely to affect the Group's future financial reporting. For the changes not described below, no significant impact is expected.

Notes – Danske Bank Group

G2. Changes and forthcoming changes to accounting policies and presentation continued

IFRS 17, Insurance Contracts

In May 2017, the IASB issued IFRS 17, Insurance Contracts. IFRS 17 replaces IFRS 4, Insurance Contracts, which was an interim standard that did not prescribe the measurement of insurance contracts but relied on existing accounting practices. IFRS 17 is a comprehensive standard with principles for, for example, the measurement of insurance contracts at a current (fulfilment) value in the balance sheet, the recognition of insurance contract revenue in the income statement and the presentation of information on the performance in relation to insurance contracts. In June 2020, the IASB issued some amendments to IFRS 17 which included a deferral of the effective date to 1 January 2023.

IFRS 17 was adopted by the EU in November 2021.

The standard may have a significant impact on the financial statements due to the new principles for calculating insurance provisions and for the presentation in the income statement and balance sheet. The Group has undertaken a pre-analysis to assess the impact on the Group's financial statements, including an assessment of the Group's insurance product in terms of classification and measurement and aggregati on into portfolios.

Estimates using the 3 measurement approaches (Building Bloch approach, Variable Fee approach and Premium Allocation approach), including a preliminary calculation of the Contractual Service Margin, have been made. This indicates that net profit before tax will not be significantly altered.

Notes – Danske Bank Group

G3. Business model and business segmentation

(a) Business model and business segmentation

Danske Bank is a Nordic bank with bridges to the rest of the world offering 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. On 25 August 2020, the Group announced changes to the organisation, with the aim to reduce complexity, increase efficiency and become even more competitive for customers. On 1 January 2021 the segment reporting has been changed to reflect the new organisation, consisting of four business units, a Non-core unit and a Group Functions unit (previously called 'Other activities'). These constitute the Group's reportable segments under IFRS 8.

Personal & Business Customers serves personal customers and small and medium-sized corporates across all Nordic markets.

Large Corporates & Institutions serves large corporates and institutional customers across all Nordic markets.

Danica Pension specialises in pension schemes, life insurance policies and health insurance policies in Denmark and Norway.

Northern Ireland serves retail and commercial customers through a network of branches and business centres in Northern Ireland alongside 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 of this part of the loan portfolio. The portfolio consists primarily of loans to customers in the Baltics and liquidity facilities for Special Purpose Vehicles (SPVs) and conduit structures. In addition to the exit from banking activities in Estonia and Russia at the end of 2019, the Group had also exited from all banking activities in Latvia by the end of the first quarter of 2020.

Group Functions encompasses Group Treasury, Group support functions and eliminations, including the elimination of returns on own shares and issues, as well as 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.

Accounting policy

Segment reporting complies with the significant accounting policies. The 'Reclassification' column shows adjustments made to the IFRS statements in the calculation of the financial highlights.

Internal income and expenses are allocated to the individual segments on an arm's-length basis. Expenses incurred centrally, including expenses incurred by support, administrative and back-office functions, are charged to the business units according to consumption and activity. Funding costs for lending and deposit activities (FTP) are allocated on the basis of a maturity analysis of loans and deposits, interbank rates and funding spreads, and depend on market trends.

Segment assets and liabilities are assets and liabilities that are used for maintaining the operating activities of a segment or have come into existence as a result of such activities and which are either directly attributable or may be reasonably allocated to a segment. A calculated share of shareholders' equity is allocated to each segment. Other assets and liabilities are recognised under Group Functions.

Capital (shareholders' equity) is allocated to the business units based on the Group's capital allocation framework, with goodwill allocated directly to the relevant business units. The framework is based on a regulatory approach and is calibrated to the Group's CET1 capital ratio target. Therefore, the capital consumption of the individual business units is closely aligned with the Group's total capital consumption. However, for the Northern Ireland business unit, the capital allocated equals the legal entity's capital.

A calculated interest income equal to the risk-free return on its allocated capital is apportioned to each business unit and offset by a corresponding interest expense at Group Functions. This income is calculated on the basis of the short-term money market rate. The interest expense on equity accounted additional tier 1 capital is charged to the business units on the basis of the capital allocated to each unit and offset at Group Functions.

Notes – Danske Bank Group

G3. Business model and business segmentation continued

Presentation in the financial highlights and in the segment reporting

Segment reporting and the financial highlights are based on the information provided to management.

An explanation of the items making up the Reclassification column, which reconciles the financial highlights and segment reporting presentation to the IFRS financial statements, is provided further on in this note.

Changes in financial highlights and segment reporting

From 1 January 2021, the presentation in the financial highlights and segment reporting has been changed to reflect the new organisation that was announced on 25 August 2020. The aim of the redesigned organisation is to reduce complexity, increase efficiency and become even more competitive for our customers. The Group's commercial activities are organised in four reporting business units:

- Personal & Business Customers, which serves personal customers and small and medium-sized business customers across all Nordic markets
- Large Corporates & Institutions, which serves large corporates and institutional customers across all Nordic markets
- Danica Pension
- Northern Ireland.

Besides the four commercial business units, the Group's reportable segments under IFRS 8 continue to include Non-core and Group functions (previously called "Other Activities").

In the financial highlights, earnings in the business unit Danica Pension from 1 January 2021 is presented as Net income from insurance business due to Danica Pension being a separate business unit. This increases transparency and simplicity in the income statement part of the financial highlights, as Danica Pension's business model is very different from the business model of the other commercial activities within the Group. The financial highlights 2020 are further restated to reflect the change in the presentation of indirect fees earned on Danish mortgage loans. For further information, see note G2(a).

The impact on the financial highlights for 2020 is shown in the table below.

Changes in financial highlights and segment reporting

(DKK millions)	Financial Highlights 2020	Changed presentation: Danica Pension	Changed presentation: Indirect fees, Danish mortgage loans	Adjusted Financial Highlights
Net interest income	21,875	276		22,151
Net fee income	15,137	-3,510	590	12,217
Net trading income or loss	4,856	32	-590	4,297
Net income from insurance business	-	1,669		1,669
Other income	514	80		594
Total income	42,383	-1,455		40,928
Operating expenses	28,103	-1,455		26,648
Goodwill impairment charges	-			-
Impairment charges other intangible assets	379			379
Profit before loan impairment charges	13,901	-		13,901
Loan impairment charges	7,001			7,001
Profit before tax, core	6,900	-		6,900
Profit before tax, non-core	-596			-596
Profit before tax	**6,304**	**-**		**6,304**

Notes – Danske Bank Group

G3. Business model and business segmentation continued

Business segments 2021

(DKK millions)	Personal & Business Customers	Large Corporates & Institutions	Danica	Northern Ireland	Non-core	Group Functions	Eliminations	Financial highlights	Reclassification	IFRS financial statements
Net interest income	15,664	4,732	-	1,341	-	317	-5	22,049	4,725	26,774
Net fee income	6,516	6,777	-	288	-	83	-140	13,525	-1,408	12,117
Net trading income	673	3,137	-	-66	-	508	-127	4,126	32,474	36,600
Net income from insurance business	-	-	2,088	-	-	-	-	2,088	-2,088	-
Other income	791	5	-	12	-	2,266	-2,277	797	4,936	5,733
Net premiums	-	-	-	-	-	-	-	-	37,518	37,518
Net insurance benefits	-	-	-	-	-	-	-	-	71,208	71,208
Total income	23,644	14,650	2,088	1,576	-	3,175	-2,548	42,584	4,950	47,534
Operating expenses	15,253	7,025	-	1,317	-	2,247	-215	25,627	5,195	30,822
Impairment charges, other intangible assets	-	-	-	-	-	36	-	36	-36	-
Profit before loan impairment charges	8,391	7,625	2,088	259	-	892	-2,333	16,921	-210	16,712
Loan impairment charges	486	-13	-	-127	-	2	-	348	-207	141
Profit before tax, core	7,906	7,638	2,088	386	-	890	-2,333	16,573	-2	16,571
Profit before tax, Non-core	-	-	-	-	-2	-	-	-2	2	-
Profit before tax	**7,906**	**7,638**	**2,088**	**386**	**-2**	**890**	**-2,333**	**16,571**	**-**	**16,571**
Loans, excluding reverse transactions	1,521,975	260,482	-	55,046	-	26,910	-30,041	1,834,372	1,312	1,835,684
Other assets	532,678	2,834,898	669,766	61,245	-	3,904,493	-5,903,645	2,099,436	715	2,100,150
Total assets in Non-core	-	-	-	-	2,027	-	-	2,027	-2,027	-
Total assets	**2,054,652**	**3,095,380**	**669,766**	**116,291**	**2,027**	**3,931,404**	**-5,933,686**	**3,935,834**	**-**	**3,935,834**
Deposits, excluding repo deposits	700,434	383,547	-	98,980	-	-3,362	-11,959	1,167,638	2,191	1,169,829
Other liabilities	1,281,236	2,671,294	657,586	11,531	-	3,894,541	-5,921,727	2,594,461	337	2,594,798
Allocated capital	72,983	40,540	12,180	5,781	-	39,723	-	171,207	-	171,207
Total liabilities in Non-core	-	-	-	-	2,529	-	-	2,529	-2,529	-
Total liabilities and equity	**2,054,652**	**3,095,380**	**669,766**	**116,291**	**2,529**	**3,930,902**	**-5,933,686**	**3,935,834**	**-**	**3,935,834**
Profit before tax as % p.a. of allocated capital (avg.)	10.7	17.5	16.2	5.8	-	2.6	-	10.0	-	10.0
Cost/income ratio (%)	64.5	48.0	-	83.6	-	71.9	-	60.3	-	64.8
Full-time-equivalent staff, end of period	6,565	2,684	960	1,268	25	10,252	-	21,754	-	21,754

The ‘Reclassification’ column shows the reconciliation between the presentation in the financial highlights and the presentation in the IFRS statements.

The reclassifications are explained in note G1(d).

The Group’s internal reporting on business segments does not include tax. Tax is therefore not allocated to the business units, but solely presented within the total amount.

Notes – Danske Bank Group

G3. Business model and business segmentation continued

Business segments 2020

(DKK millions)	Personal & Business Customers	Large Corporates & Institutions	Danica	Northern Ireland	Non-core	Group Functions	Eliminations	Financial highlights	Reclassification	IFRS financial statements
Net interest income*	16,018	5,034	-	1,359	-	-255	-5	22,151	5,967	28,118
Net fee income*	6,080	5,911	-	264	-	-37	-	12,217	-952	11,265
Net trading income*	575	3,485	-	98	-	112	27	4,297	17,665	21,962
Net income from insurance business	-	-	1,669	-	-	-	-	1,669	-1,669	-
Other income*	702	6	-	16	-	404	-535	594	3,765	4,360
Net premiums	-	-	-	-	-	-	-	-	28,795	28,795
Net insurance benefits	-	-	-	-	-	-	-	-	48,284	48,284
Total income	23,375	14,437	1,669	1,736	-	224	-513	40,928	5,286	46,215
Operating expenses*	15,716	7,672	-	1,212	-	2,214	-167	26,648	6,174	32,822
Goodwill impairment charges	-	-	-	-	-	-	-	-	-	-
Impairment charges, other intangible assets	-	-	-	-	-	379	-	379	-379	-
Profit before loan impairment charges	7,659	6,764	1,669	524	-	-2,369	-346	13,901	-508	13,393
Loan impairment charges	1,996	4,619	-	378	-	8	-	7,001	88	7,089
Profit before tax, core	5,663	2,146	1,669	146	-	-2,377	-346	6,900	-596	6,304
Profit before tax, Non-core	-	-	-	-	-596	-	-	-596	596	-
Profit before tax	**5,663**	**2,146**	**1,669**	**146**	**-596**	**-2,377**	**-346**	**6,304**	**-**	**6,304**
Loans, excluding reverse transactions	1,518,829	266,811	-	51,290	-	32,909	-31,712	1,838,126	1,896	1,840,022
Other assets	524,375	3,632,096	662,474	49,417	-	3,899,238	-6,499,293	2,268,308	901	2,269,209
Total assets in Non-core	-	-	-	-	2,797	-	-	2,797	-2,797	-
Total assets	**2,043,205**	**3,898,906**	**662,474**	**100,706**	**2,797**	**3,932,147**	**-6,531,005**	**4,109,231**	**-**	**4,109,231**
Deposits, excluding repo deposits	685,609	433,090	-	84,158	-	2,400	-12,084	1,193,173	2,146	1,195,319
Other liabilities	1,289,399	3,422,666	648,708	10,345	-	3,900,715	-6,518,921	2,752,912	829	2,753,741
Allocated capital	68,196	43,150	13,766	6,203	-	28,855	-	160,171	-	160,171
Total liabilities in Non-core	-	-	-	-	2,975	-	-	2,975	-2,975	-
Total liabilities and equity	**2,043,205**	**3,898,906**	**662,474**	**100,706**	**2,975**	**3,931,969**	**-6,531,005**	**4,109,231**	**-**	**4,109,231**
Profit before tax as % p.a. of allocated capital (avg.)	8.2	4.8	12.2	2.3	-	-8.1	-	4.0	-	4.0
Cost/income ratio (%)*	67.2	53.1	-	69.8	-	-	-	66.0	-	71.0
Full-time-equivalent staff, end of period	6,913	2,553	817	1,353	32	10,707	-	22,376	-	22,376

*Comparative figures have been restated, as described above.

Notes – Danske Bank Group

G3. Business model and business segmentation continued

(b) Reconciliation of the financial highlights and the segment reporting to the IFRS financial statements

The 'Reclassification' column in the tables above shows the reconciliation between the presentation in the financial highlights and the segment reporting and the presentation in the IFRS financial statements. The reclassifications are explained in note G1(d).

Reclassifications 2021

(DKK millions)	IFRS financial statements	Operating leases and impairment charges	Markets, Investment Banking & Securities and Group Treasury	Danica Pension	Non-core	Total reclassification	Financial highlights
Net interest income	26,774	-	-1,617	-3,093	-15	-4,725	22,049
Net fee income	12,117	-	145	1,264	-1	1,408	13,525
Net trading income	36,600	-	1,694	-34,154	-15	-32,474	4,126
Net income from insurance business*	-	-	-	2,088	-	2,088	2,088
Other income	5,733	-3,890	-223	-829	6	-4,936	797
Net premiums	37,518	-	-	-37,518	-	-37,518	-
Net insurance benefits	71,208	-	-	-71,208	-	-71,208	-
Total income	47,534	-3,890	-	-1,035	-25	-4,950	42,584
Operating expenses	30,822	-3,926	-	-1,035	-234	-5,195	25,627
Impairment charges other intangible assets	-	36	-	-	-	36	36
Profit before loan impairment charges	16,712	-	-	-	210	210	16,921
Loan impairment charges	141	-	-	-	207	207	348
Profit before tax, core	16,571	-	-	-	2	2	16,573
Profit before tax, Non-core	-	-	-	-	-2	-2	-2
Profit before tax	**16,571**	**-**	**-**	**-**	**-**	**-**	**16,571**

Reclassifications 2020

(DKK millions)	IFRS financial statements	Operating leases and impairment charges	Markets, Investment Banking & Securities and Group Treasury	Danica Pension**	Non-core	Total reclassification**	Financial highlights**
Net interest income	28,118	-	-2,633	-3,281	-53	-5,967	22,151
Net fee income*	11,265	-	76	881	-4	952	12,217
Net trading income*	21,962	-	2,571	-20,295	59	-17,665	4,297
Net income from insurance business	-	-	-	1,669	-	1,669	1,669
Other income*	4,360	-4,089	-14	125	213	-3,765	594
Net premiums	28,795	-	-	-28,795	-	-28,795	-
Net insurance benefits	48,284	-	-	-48,284	-	-48,284	-
Total income	46,215	-4,089	-	-1,412	215	-5,286	40,928
Operating expenses	32,822	-4,468	-	-1,412	-293	-6,174	26,648
Impairment charges other intangible assets	-	379	-	-	-	379	379
Profit before loan impairment charges	13,393	-	-	-	508	508	13,901
Loan impairment charges	7,089	-	-	-	-88	-88	7,001
Profit before tax, core	6,304	-	-	-	596	596	6,900
Profit before tax, Non-core	-	-	-	-	-596	-596	-596
Profit before tax	**6,304**	**-**	**-**	**-**	**-**	**-**	**6,304**

*Comparative figures have been restated as described in the section 'Changes in accounting policies and presentation during the year' of note G2.

**Comparative figures have been restated as described in the previous section of note G3 'Changes in financial highlights and segment reporting'.

Notes – Danske Bank Group

G3. Business model and business segmentation continued

(c) Total income broken down by type of product (DKK millions)	2021	2020
Corporate and commercial banking	13,788	12,538
Home finance and savings	10,578	10,506
Trading	6,398	7,355
Day-to-day banking	3,278	2,990
Asset management	4,973	4,804
Leasing	5,261	5,298
Insurance	3,123	2,739
Other	135	-15
Total	**47,534**	**46,215**

Corporate and commercial banking comprises interest and fee income from corporate and commercial banking products and services. Home finance and savings comprises interest and fee income from financing and savings products. Trading comprises income from fixed-income and foreign exchange products, including brokerage. Day-to-day banking comprises interest and fee income from retail banking products in the form of personal loans, cards and deposits. Asset management comprises income from the management of assets. Leasing encompasses income from both finance and operating leases sold by the Group's leasing operations in Denmark, Sweden, Norway and Finland. Insurance comprises income at Danica Pension from the contracts issued by Danica Pension.

Danske Bank Group does not have any single customer that generates 10% or more of the Group's total income.

(d) Geographical segmentation

The geographical segmentation of income from external customers is shown in compliance with IFRSs and does not reflect the Group's management structure. The geographical segmentation below reflects the customer's country of residence, except trading income, which is broken down by the country in which the activities are carried out. Management believes that the business segmentation provides a more informative description of the Group's activities.

Total income from external customers (DKK millions)	2021	2020
Denmark	26,302	26,070
Sweden	7,826	7,335
Norway	5,654	5,231
Finland	4,506	4,469
UK	1,941	2,094
Other	1,306	1,015
Total	**47,534**	**46,215**

Notes – Danske Bank Group

G4. Activities by country

Under CRD IV, a financial institution must disclose, by country in which it operates through a subsidiary or a branch, information about income, number of employees, profit before tax, tax and public subsidies received. This information is not comparable to the geographical segmentation presented in note G3(d), in which segmentation is based on the customer's country of residence. The Group has not received any public subsidies that relate to the Group's activities as a financial institution.

2021	Income* (DKK millions)	Full-time-equivalent staff	Profit before tax (DKK millions)	Tax on profit (DKK millions)
Denmark	52,298	10,540	7,336	1,811
Finland	4,198	1,618	1,685	300
Sweden	7,124	1,437	3,254	590
Norway	6,891	1,079	3,012	736
United Kingdom	2,043	1,362	473	137
Ireland	127	48	166	-26
Lithuania	1,692	4,029	150	22
Luxembourg	1,377	76	124	31
Germany	83	20	229	26
Poland	72	135	58	8
USA	99	16	35	6
India	407	1,392	56	10
China	-	2	-8	0
Total	**76,411**	**21,754**	**16,571**	**3,651**

*Income is defined as interest income (including negative interest income), fee and commission income and other operating income.

2020	Income* (DKK millions)	Full-time-equivalent staff	Profit before tax (DKK millions)	Tax on profit (DKK millions)
Denmark	58,090	11,059	3,896	1,192
Finland	4,750	1,723	822	115
Sweden	6,222	1,481	2,625	617
Norway	7,954	1,159	-1,119	-304
United Kingdom	2,268	1,438	121	23
Ireland	185	46	22	2
Estonia	-	-	13	-3
Latvia	8	-	-85	0
Lithuania	-157	3,870	-146	6
Luxembourg	1,112	86	129	37
Russia	-	-	-5	-1
Germany	109	25	-58	9
Poland	99	89	5	7
USA	86	16	29	4
India	378	1,379	61	11
China	-	4	-5	0
Total	**81,103**	**22,376**	**6,304**	**1,715**

*Income is defined as interest income (including negative interest income), fee and commission income and other operating income. Comparative figures have been restated as described in the section 'Changes in accounting policies and presentation during the year' of note G2.

Notes – Danske Bank Group

G4. Activities by country continued

Danske Bank carries out its activities in the countries listed below under a variety of names, of which the main ones are: Danske Bank (banking, trading and asset management activities), Realkredit Danmark (mortgage finance), Danske Mortgage Bank (mortgage finance), Danske Hypotek (mortgage finance), Northern Bank (banking), Danica Pension (life insurance) and Danske Leasing A/S (leasing). Note G38 discloses the company names of the Group's significant subsidiaries.

Activities in the individual countries

Activities in Denmark include: Banking, trading, asset management, leasing, life and nonlife insurance and other activities.
Activities in Finland include: Banking, trading, asset management, leasing and other activities.
Activities in Sweden include: Banking, trading, asset management, leasing and other activities.
Activities in Norway include: Banking, trading, asset management, leasing, life insurance and other activities.
Activities in the United Kingdom include: Banking, trading and leasing.
Activities in Ireland include: Banking.
Activities in Estonia include: Banking and leasing activities. As of Q4 2019, the Group has no activities in Estonia.
Activities in Latvia include: Banking and leasing activities. As of the end of the first quarter of 2020, the Group has no activities in Latvia.
Activities in Lithuania include: Banking, leasing and other activities.
Activities in Luxembourg include: Banking and asset management.
Activities in Russia include: Banking. As of Q4 2019, the Group has no activities in Russia.
Activities in Germany include: Banking. Activities in Germany will be transferred to other group entities in the first half of 2022.
Activities in Poland include: Banking.
Activities in the USA include: Trading.
Activities in India include: Other activities.
Activities in China include: Representation office. As of Q4 2021, the Group has no activities in China.

Other activities include: Group support functions, real-estate brokerage and activities taken over by the Group under non-performing-loan agreements.

Notes – Danske Bank Group

G5. Net interest and net trading income or loss

This note shows interest income, interest expense and net trading income or loss broken down by balance sheet item and by portfolios of financial instruments measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss.

Accounting policy

Interest income and expenses

Interest income and expenses arising from interest-bearing financial instruments measured at amortised cost or at fair value through Other comprehensive income are recognised according to the effective interest method on the basis of the cost of the individual financial instrument. Interest includes amortised amounts of fees that are an integral part of the effective yield on a financial instrument, such as origination fees, and amortised differences between the cost and the redemption price, if any. Interest on financial instruments included in stage 3 (for the calculation of expected credit losses) is recognised on the basis of the carrying amount (i.e. net of impairment charges). The interest rate risk on some financial portfolios recognised at amortised cost is hedged by derivatives using fair value hedge accounting. Note G12 provides more information on hedge accounting. Interest income calculated using the effective interest method and presented as a separate line item in the income statement excludes the impact from hedge accounting.

Further, interest income and expenses includes interest on financial instruments measured at fair value through profit or loss. Among others, this includes interest income on loans measured at fair value for which interest on loans included in stage 3 is recognised on the basis of the gross carrying amount. However, interest on assets and deposits under pooled schemes and unit-linked investment contracts is recognised under Net trading income or loss. In the income statement, interest income on financial assets measured at fair value through profit or loss is presented under the line item Other interest income, while the line item Interest expenses includes all interest expenses.

Net trading income or loss

Net trading income or loss includes realised and unrealised capital gains and losses on *financial assets and financial liabilities recognised at fair value through profit or loss* as well as exchange rate adjustments and dividends. However, the fair value adjustments of the credit risk on loans granted by Realkredit Danmark are presented under Loan impairment charges. Further, the fair value adjustment of own credit risk on financial liabilities in the Group's trading units Markets and Investment Banking & Securities part of LC&I designated at fair value through profit or loss is presented in Other comprehensive income. Net trading income or loss includes the fair value adjustments of own credit risk on bonds issued by Realkredit Danmark, as an accounting mismatch between the fair value adjustment of the loans and the bonds in Realkredit Danmark would otherwise exist (see further information in note G16).

Realised gains and losses on *financial assets at amortised cost*, e.g. loans, are recognised under Net trading income or loss when the financial asset is derecognised, unless the derecognition relates to a credit risk event/forbearance measure, in which case the gain or loss is presented under Loan impairment charges (see note G15). Otherwise, the derecognition gain or loss on the financial asset is calculated as the difference between the carrying amount (gross of expected credit losses) and the repayment amount. For *financial assets (bonds) at fair value through other comprehensive income*, gains or losses further include amounts previously recognised in other comprehensive income. For *financial liabilities at amortised cost*, the gain or loss is the difference between the carrying amount and the redemption price including cost related to the redemption, if any.

For financial assets and liabilities subject to *fair value hedge accounting*, the fair value adjustments of the hedged financial instrument and the hedging instruments are recognised in Net trading income or loss. Therefore, any hedge ineffectiveness is presented in Net trading income or loss.

Net trading income or loss also includes the change in insurance obligations during the year due to additional provisions for benefit guarantees and the tax on pension returns.

Returns (interest income and fair value changes) on assets under pooled schemes and unit-linked investment contracts and the crediting of these returns to customer accounts are recognised under Net trading income or loss.

Notes – Danske Bank Group

G5. Net interest and net trading income or loss continued

2021 (DKK millions)	Interest income	Interest expense	Net interest income	Net trading income*	Total
Financial portfolios at amortised cost					
Due from/to credit institutions and central banks	222	-1,306	1,528	-1	1,527
Loans and deposits	18,394	-466	18,860	-912	17,948
Bonds held to collect (investment securities)	705	-	705	-	705
Issued bonds, including non-preferred senior	-	5,189	-5,189	6,565	1,376
Subordinated debt	-	1,297	-1,297	408	-889
Other financial instruments	69	152	-83	-	-83
Total	**19,391**	**4,866**	**14,524**	**6,060**	**20,584**
Financial portfolios at fair value through OCI					
Bonds held to collect and sell (investment securities)	-	-	-	-16	-16
Total	**-**	**-**	**-**	**-16**	**-16**
Financial portfolios at fair value through profit or loss					
Due from/to credit institutions and central banks	-406	-389	-17	-	-17
Loans and deposits	12,603	-926	13,529	-	13,529
Trading portfolio assets and liabilities	3,994	-	3,994	-7,190	-3,196
Bonds (investment securities)	-916	-	-916	1,078	162
Issued bonds	-	7,314	-7,314	-	-7,314
Assets and deposits under pooled schemes and unit-linked investment contracts	-	-	-	-56	-56
Assets and liabilities under insurance contracts	17,517	14,544	2,973	36,724	39,697
Total	**32,792**	**20,543**	**12,250**	**30,556**	**42,806**
Total net interest and net trading income	**52,183**	**25,409**	**26,774**	**36,600**	**63,374**
Negative interest income	1,618	1,618	-	-	-
Negative interest expense	3,877	3,877	-	-	-
Income statement - Danske Bank Group	**57,678**	**30,904**	**26,774**	**36,600**	**63,374**
2020 (DKK millions)					
Financial portfolios at amortised cost					
Due from/to credit institutions and central banks	310	288	22	33	55
Loans and deposits	20,394	1,137	19,257	626	19,883
Bonds held to collect (investment securities)	709	-	709	-	709
Issued bonds, including non-preferred senior	-	5,715	-5,715	-1,819	-7,534
Subordinated debt	-	1,215	-1,215	-59	-1,274
Other financial instruments	151	128	23	-	23
Total	**21,563**	**8,482**	**13,081**	**-1,219**	**11,862**
Financial portfolios at fair value through OCI					
Bonds held to collect and sell (investment securities)	-52	-	-52	-13	-65
Total	**-52**	**-**	**-52**	**-13**	**-65**
Financial portfolios at fair value through profit or loss					
Due from/to credit institutions and central banks	-32	226	-258	-	-258
Loans and deposits	13,148	-754	13,902	-	13,902
Trading portfolio assets and liabilities	5,800	-	5,800	9,227	15,027
Bonds (investment securities)	435	-	435	149	584
Issued bonds	-	7,914	-7,914	-	-7,914
Assets and deposits under pooled schemes and unit-linked investment contracts	-	-	-	-31	-31
Assets and liabilities under insurance contracts	18,856	15,733	3,123	13,849	16,972
Total	**38,208**	**23,119**	**15,088**	**23,194**	**38,282**
Total net interest and net trading income	**59,719**	**31,602**	**28,118**	**21,962**	**50,079**
Negative interest income	1,893	1,893	-	-	-
Negative interest expense	2,740	2,740	-	-	-
Income statement - Danske Bank Group	**64,352**	**36,234**	**28,118**	**21,962**	**50,079**

* Comparative figures have been restated as described in the section 'Changes in accounting policies and presentation during the year' of note G2.

Notes – Danske Bank Group

G5. Net interest and net trading income or loss continued

Negative interest income relates primarily to repo transactions, while negative interest expenses relate primarily to deposits and repo transactions. For 2021, negative interest income recognised using the effective interest method amounts to DKK 53 million (2020: DKK 109 million) and negative interest expense recognised using the effective interest method amounts to DKK 2,633 million (2020: DKK 1,599 million). In the table above showing interest income and expenses by portfolios, these amounts are offset against interest income and interest expenses, respectively. In the income statement, negative interest income is recognised as interest expenses and negative interest expenses as interest income as shown in the line items 'Negative interest income' and 'Negative interest expense' in the table above.

Changes to the fair value of the hedged interest rate risk are recognised under net trading income or loss and shown under the hedged balance sheet items in the table above, whereas value adjustments of hedging derivatives are recognised under net trading income or loss under the trading portfolio. Net trading income or loss includes dividends from shares of DKK 3,512 million (2020: DKK 2,846 million) and foreign exchange adjustments of DKK 1,803 million (2020: DKK 2,798 million).

Net trading income or loss from insurance contracts includes the return on assets of DKK 34,265 million (2020: DKK 22,914 million), adjustment of additional provisions of DKK -9,713 million (2020: DKK -5,839 million), change in the collective bonus potential of DKK -4,855 million (2020: DKK 1,134 million) and tax on pension returns of DKK -5,242 million (2020: DKK -4,360 million).

Notes – Danske Bank Group

G6. Fee income and expenses

Fee income and expenses are presented on a net fee income basis as presented in the Management's report, representing the presentation provided to key management for decision making purposes. Net fee income is broken down by fee type on the basis of the underlying activity, and by business segment.

Accounting policy

Fee income

Fee income is recognised to reflect the transfer of services to customers at an amount that reflects the consideration that is expected to be received in exchange for such services. The Group identifies the performance obligation, i.e. the services agreed with the customer, and the consideration, and recognises income in line with the transfer of services, the performance obligation, agreed with the customer.

For each performance obligation identified, the Group determines at contract inception whether it satisfies the performance obligation over time or at a point in time, and whether the consideration is fixed or variable, including whether consideration is constrained by, for instance, external factors outside the Group's influence. The consideration is subsequently allocated to the identified performance obligation.

When income is highly susceptible to external factors, such as the development in the financial markets, the income is recognised once the consideration to be received is known and it is probable that a significant reversal of the consideration will not occur.

For income derived from the provision of agency services the consideration is presented on a net basis.

Other types of fee income relates to pension and insurance activities and are recognised in accordance with IFRS 4, Insurance contracts.

Fee expense

Fee expense for services provided over a period of time, such as guarantee commissions and investment management fees, are accrued over the period. Transaction fees, such as brokerage and custody fees, are recognised on settlement of the individual transaction. Fees that form an integral part of the effective rates of interest on financial liabilities measured at amortised cost, such as origination fees, are carried under interest expense. Similar fees related to financial liabilities at fair value through profit or loss are recognised when the financial liability is established and are carried under fee expense.

(a) Presentation by activity

Fee income is managed internally net of fee expenses, and on the basis of the underlying activity, i.e.

- Investment
- Money transfers, account fees, cash management and other fees
- Lending and guarantees
- Capital markets

See note G3 for net fee income per business segment. A description of each activity by business segment is provided below:

Banking units

Fee income in the banking units relates to Personal & Business Customers, General Banking in LC&I, and Northern Ireland, and it primarily relates to the provision of general banking services to customers, i.e.:

Fee income from investment activities, for example for executing customer security purchase orders, is recognised at the time of the transaction. When the service is provided over time, for example fee income for managed accounts, fee income is recognised over time.

Fee income from money transfers, account fees, cash management and other activities, is generally recognised when the service is provided. For transactions such as money transfers and card transactions, fee income is recognised at the time of the transaction. Fee income charged for services provided over time, for example subscription fees, account packages and cash deposit services, is recognised over time as the service is provided to the customer.

Fee income from lending and guarantee activities, such as services provided in relation to mortgage loans recognised at fair value, and the provision of trade finance guarantees, is recognised when the service has been provided to the customer at a point in time. For fee income for establishing loans recognised at amortised cost, although the performance obligation is satisfied when the loan is granted, the fee income is recognised over time (the expected maturity of the loan), in accordance with IFRS 9 and classified as interest income. The same applies to the Group's participation in syndicated loan transactions.

LC&I

Net fee income in LC&I relates to income derived from General Banking (see above description of Banking units) and from Markets and Investment Banking & Securities.

Fee income derived from Markets is reclassified to net trading income or loss in the segment reporting, however, Markets share of margins on customer derivatives is presented as part of fee income (note G3 provides further information). Except for margins on customer derivatives, fee income consists mainly of fees received for services provided at a point in time.

Notes – Danske Bank Group

G6. Fee income and expenses continued

Fee income in Investment Banking & Securities primarily consists of:

Fee income from investment activities, for example executing share trades on behalf of customers and securities lending, is recognised when the service is provided at a point in time.

Fee income from lending and guarantee activities is primarily derived from coordinating and arranging syndicated loan transactions, as well as issuing bonds on behalf of customers. Such income is recognised at a point in time, once the agreed performance obligation has been fulfilled.

Fee income from capital markets activities is primarily derived from arranging transactions on behalf of customers. Such income is recognised when the individual performance obligation has been fulfilled.

Asset Management (part of LC&I) and Danica Pension

Fee income for asset management services is recognised over time when the service is provided to the customer provided that it is probable that a significant reversal of the consideration will not occur. Such income relates to investment, pension and insurance activities.

Performance fee income is variable, and the consideration is based on the accumulated return on the underlying asset, determined at a specific date, such as the end of the year. The accumulated return is highly susceptible to external factors, such as the development in the financial markets. Fee income is recognised once the fee to be received is known. The fee income relates to investment activities.

Fee income 2021

(DKK millions)	Financial highlights - net fee income	Reclas-sifications	IFRS - net fee income	Fee expense	IFRS - gross fee income
Investment	5,782	-438	5,344	4,872	10,217
Money transfers, account fee, cash management and other fees	3,248	-138	3,110	1,392	4,502
Lending and Guarantees	2,541	670	3,211	113	3,324
Capital markets	1,954	-1,502	451	-	451
Total	**13,525**	**-1,408**	**12,117**	**6,378**	**18,495**

Fee income 2020

(DKK millions)	Financial highlights - net fee income[1]	Reclas-sifications[1]	IFRS - net fee income[2]	Fee expense	IFRS - gross fee income[2]
Investment	5,233	-316	4,917	3,951	8,868
Money transfers, account fee, cash management and other fees	2,872	24	2,896	1,545	4,441
Lending and Guarantees	2,672	383	3,055	263	3,318
Capital markets	1,440	-1,043	397	-	397
Total	**12,217**	**-952**	**11,265**	**5,760**	**17,025**

[1] Comparative information has been restated as described in the section 'Changes in financial highlights and segment reporting' of note G3(a).

[2] Comparative figures have been restated as described in the section 'Changes in accounting policies and presentation during the year' of note G2(a).

The reclassifications between Financial highlights and IFRS are explained in notes G1(d) and G3(b).

Fees for financial instruments not recognised at fair value relates primarily to fees on loans, guarantees and issued bonds. In the table above, such fees are included as fee income or expense from lending and guarantee activities. Fee income on loans and guarantees amounted to DKK 2,037 million (2020: DKK 1,890 million) of which DKK 840 million relates to financial instruments not recognised at fair value (2020: 689 million), whereas expenses amounted to DKK 88 million (2020: DKK 75 million).

Notes – Danske Bank Group

G7. Gain or loss on sale of disposal groups, Income from holdings in associates and Other income

The Group uses quantitative and qualitative materiality considerations when aggregating line items in the income statement that are not considered individually material. Such line items are presented under Other income. Similarly, the materiality assessments includes presenting additional line items in the income statement. It is not considered relevant for the understanding of the financial performance to present gain or loss on sale of disposal groups or income from holdings in associates as a separate line items on the face of the income statement. Instead, gain or loss on sale of disposal groups and income from holdings in associates are presented under Other income. Other income includes in addition rental income and lease payments under operating leases (when the Group is a lessor), fair value adjustments of investment property, amounts received on the sale of lease assets and income from real-estate brokerage.

Accounting policy

Income from lease assets and investment property

Income from lease assets and investment property includes income from assets let under operating leases. Lease payments are recognised on a straight line basis over the period of the lease term. The accounting policy for lease assets and investment property is further described in note G24.

Income from real-estate brokerage

Income from real-estate brokerage consists of real estate agent fees that are recognised as income when the real estate is sold, and franchise fees received from real-estate brokers that are recognised on a straight line basis over the term of the franchise agreement.

Income from holdings in associates

Associates are accounted for using the equity method. Further information is provided in note G39.

(a) Gain or loss on sale of disposal groups

In 2021, gain or loss on sale of disposal groups includes gains of DKK 180 million on the sale of Aiia. In 2020, gain or loss on sale of disposal groups includes losses of DKK 216 million on the sale of portfolios of loans to personal customers in Lithuania and Latvia and to corporate customers in Estonia, all managed by the Lithuanian branch and a gain of DKK 61 million on the sale of an associated undertaking.

(b) Other income (DKK millions)	2021	2020*
Income from lease assets and investment property	4,303	4,467
Income from real-estate brokerage	136	112
Gain or loss on sale of disposal groups	180	-155
Income from holdings in associates	-6	-93
Other income	1,119	29
Total	**5,733**	**4,360**

* Comparative figures have been restated as described in the section 'Changes in accounting policies and presentation during the year'" of note G2.

(c) Further explanation

Income from lease assets and investment property primarily includes the proceeds from the sale of operating lease assets. The proceeds from the sale is disclosed in the reclassification table in G3 in the column 'Operating leases and impairment charges'.

Notes – Danske Bank Group

G8. Insurance contracts

Insurance contracts are contracts entered into by Danica Pension that entail significant insurance risks or entitle policyholders to a bonus (discretionary participation feature). The deposit component of insurance contracts is not unbundled but recognised together with the insurance component. Consequently, premiums and insurance benefits related to the deposit component are recognised in the income statement rather than directly in the balance sheet.

Contracts that do not entail significant insurance risk are recognised as investment contracts with premiums recognised directly in the balance sheet. Note G17 provides more information on the accounting for investment contracts.

Accounting policy

Net premiums

Net premiums include regular and single premiums on insurance contracts, which are recognised in the income statement at their due dates. Reinsurance premiums paid are deducted from premiums received.

Net insurance benefits

Net insurance benefits include benefits disbursed to policyholders. The item also includes adjustments to outstanding claims provisions, life insurance provisions and the profit margin, including the allocation of regular and single premiums to the individual insurance contracts. Additional provisions for benefit guarantees are recognised under Net trading income or loss, however. The benefits are recognised net of reinsurance.

(a) Net premiums (DKK millions)	2021	2020
Regular premiums, life insurance	3,813	3,736
Single premiums, life insurance	130	458
Regular premiums, unit-linked products	14,067	13,014
Single premiums, unit-linked products	17,960	10,156
Premiums, health and accident insurance	1,647	1,594
Reinsurance premiums paid	-120	-105
Change in unearned premiums provisions	21	-58
Total	**37,518**	**28,795**

(b) Net insurance benefits (DKK millions)	2021	2020
Benefits paid	27,449	26,547
Reinsurers' share received	-116	-91
Claims and bonuses paid	2,128	2,063
Change in outstanding claims provisions	189	-109
Change in life insurance provisions	40,282	19,100
Change in profit margin	1,276	774
Total	**71,208**	**48,284**

(c) Further explanation

Insurance premiums received are carried under Net premiums, whereas benefits paid and changes to insurance obligations, including an increase in provisions due to premiums received during the year, are carried under Net insurance benefits. Net premiums and insurance benefits do not include the entire income stream related to insurance contracts. Changes to provisions caused by fair value adjustment of expected payments are carried under Net trading income or loss. The return on assets earmarked for insurance contracts is carried under Net interest income and Net trading income or loss. The net interest income and trading income disclosed in note G5 contain DKK 39,697 million relating to insurance contracts (2020: DKK 16,972 million) and DKK 2,517 million (2020: DKK 6,768 million) relating to net interest income on deposits and own issued bonds and fair value adjustments that are eliminated in the consolidated financial statements.

Notes – Danske Bank Group

G9. Operating expenses

Operating expenses include staff costs, administrative expenses and depreciation, amortisation and impairment charges. Note G19 provides more information on intangible assets.

Accounting policy

Staff costs

This item includes salaries, performance-based pay, expenses for share-based payments, holiday allowances, anniversary bonuses, pension costs and other remuneration. Salaries and other remuneration that the Group expects to pay are expensed when the employees render the services. Performance-based remuneration is expensed as it is earned.

Share-based payment

Part of the performance-based remuneration for the year is paid in the form of conditional shares. Rights to conditional shares vest up to four years after the grant date, provided that the employee, with the exception of retirement, has not resigned from the Group. In addition to this requirement, the vesting of rights is conditional on certain targets being met. The fair value of share-based payments at the grant date is expensed over the vesting period with the intrinsic value expensed in the year in which the share-based payments are earned, and the time value (if any) accrued over the remaining service period. Expenses are set off against shareholders' equity. Fair value adjustments after the grant date are not recognised in the income statement.

Pension obligations

The Group's contributions to defined contribution pension plans are recognised in the income statement as they are earned by the employees. For defined benefit pension plans, the Group expenses the standard cost. Actuarial gains or losses as a result of the difference between expected trends in pension assets and benefits and actual trends are recognised under Other comprehensive income.

Amortisation, depreciation and impairment charges

In addition to amortisation, depreciation and impairment charges for intangible, tangible and right-of-use assets, the Group expenses the carrying amount of lease assets sold at the expiry of a lease agreement.

(a) Staff costs, administrative expenses, depreciations and impairment charges (DKK millions)	2021	2020
Staff costs	16,113	16,205
Administrative expenses	8,704	9,803
Amortisation/depreciation and impairment charges of intangible, tangible and right-of-use assets excluding goodwill impairment charges	6,005	6,814
Total	**30,822**	**32,822**

An impairment loss of DKK 36 million was recognised in 2021 on software development costs (2020: DKK 379 million) and is included in the table above.

Staff costs	2021	2020
Salaries	12,503	11,969
Share-based payments	146	108
Pension, defined contribution plans	1,345	1,283
Pension, defined benefit plans	184	134
Severance payments	-37	847
Financial services employer tax and social security costs	1,972	1,864
Total	**16,113**	**16,205**

Total salary costs amounted to DKK 14.1 billion (2020: DKK 14.3 billion), with variable remuneration accounting for 7.1% of this amount (2020: 4.8%). Note G36 provides more information on share-based payments.

Notes – Danske Bank Group

G9. Operating expenses continued

(b) Pension plans

Most of the Group's pension plans are defined contribution plans under which the Group pays contributions to insurance companies, including Danica Pension. Such payments are expensed regularly. The Group has, to a minor extent, entered into defined benefit pension plans. Under defined benefit pension plans, the Group is under an obligation to pay defined future benefits from the time of retirement. Defined benefit pension plans are typically funded by ordinary contributions made by employers and employees to separate pension funds investing the contributions on behalf of the members to fund future pension obligations. Defined benefit pension plans in Northern Ireland and Ireland account for most of the Group's obligations under such plans, but the Group also has a small number of defined benefit pension plans in Denmark and Sweden. The plans in these countries do not accept new members and, for most of the plans, contributions payable by existing members have been discontinued.

At 31 December 2021, the net present value of pension obligations was DKK 17,442 million (2020: DKK 17,558 million), and the fair value of plan assets was DKK 19,452 million (2020: DKK 19,463 million). The present value of obligations under defined benefit pension plans less the fair value of pension assets is recognised for each plan under Other assets and Other liabilities. Pension plan net assets amounted to DKK 2,451 million (2020: DKK 2,547 million) and pension plan net liabilities amounted to DKK 441 million (2020: DKK 642 million).

During 2021, a bulk annuity buy-in policy covering pension liabilities of DKK 1.9 billion was purchased in relation to the defined benefit plan in Northern Ireland. This led to a loss on plan assets of DKK 0.3 billion, which is recognised in Other comprehensive income, as the liabilities under IFRS were lower than the premium paid. The Group recognises the service cost and interest on the net defined benefit pension asset/liability in the income statement, whereas actuarial gains or losses are recognised under Other comprehensive income.

The calculation of the net obligation is based on valuations made by external actuaries. These valuations rely on assumptions about a number of variables, including discount and mortality rates and salary increases. The measurement of the net obligation is particularly sensitive to changes in the discount rate. The discount rate is determined by reference to yields on high-quality corporate bonds with terms matching the terms of the pension obligations. If the discount rate was lowered half a percentage point, the gross pension obligation would increase DKK 1.6 billion (2020: DKK 1.7 billion). The amount would be recognised under Other comprehensive income.

G10. Audit fees

Audit fees (DKK millions)	2021	2020
Audit firms appointed by the general meeting		
Fees for statutory audit of the consolidated and parent company financial statements	24	22
Fees for other assurance engagements	8	8
Fees for tax advisory services	1	1
Fees for other services	2	4
Total	**35**	**35**

Fees for non-audit services provided by Deloitte Statsautoriseret Revisionspartnerselskab (Denmark) to the Group amounted to DKK 6 million (2020: DKK 10 million) and covered various assurance reports, assurance on CSR reporting, review procedures with respect to recognition of profit in core capital, and advisory engagements such as target operating models.

Notes – Danske Bank Group

G11. Loan impairment charges

Loan impairment charges include impairment charges for expected credit losses against loans, lease receivables, bonds at amortised cost and fair value through other comprehensive income, certain loan commitments and financial guarantee contracts as well as fair value adjustments of the credit risk on loans measured at fair value.

The item also includes expected losses and realised gains and losses on assets (such as tangible assets and group undertakings) taken over by the Group under non-performing loan agreements. Further, the item includes external costs directly attributable to the collection of amounts due under non-performing loans, such as legal costs.

Accounting policy

The accounting policy for when a loan impairment charge is recognised and how the charge is determined is described under the relevant balance sheet line items. Notes G15, G16 and G24 provide more information.

Loan impairment charges

(DKK millions)	2021	2020
ECL impairment on Due from credit institutions and central banks	29	-3
ECL impairment on Loans at amortised cost	353	5,863
ECL impairment on Loan commitments and guarantees etc.	-493	889
ECL impairment, total	**-111**	**6,748**
Fair value credit risk adjustment on Loans at fair value	252	341
Total	**141**	**7,089**

(DKK millions)	2021	2020
ECL on new assets	3,768	4,651
ECL on assets derecognised	-6,701	-5,260
Impact of net remeasurement of ECL (incl. changes in models)	1,287	4,366
Write-offs charged directly to income statement	2,407	3,986
Received on claims previously written off	-373	-376
Interest income, effective interest method	-248	-278
Total	**141**	**7,089**

Further information on changes in the allowance account can be found in note G15.

Notes – Danske Bank Group

G12. Trading portfolio assets and liabilities

Trading portfolio assets comprise the equities and bonds held by the Group's trading units at Large Corporates & Institutions and all derivatives with positive fair value. Trading portfolio liabilities consist of derivatives with negative fair value and obligations to deliver securities (obligations to repurchase securities).

Accounting policy

The trading portfolio is recognised at fair value through profit or loss. Realised and unrealised capital gains and losses and dividends are recognised in the income statement under Net trading income or loss. Fair value is the amount for which a financial asset can be sold or a financial liability be transferred to a knowledgeable, willing third party. Note G33 provides information about fair value measurement and fair value adjustments.

The Group uses the option in IFRS 9 to continue using the fair value hedge accounting model in IAS 39. The derivatives used as hedging instruments are presented in the balance sheet together with other derivatives.

(a) Trading portfolio assets (DKK millions)	2021	2020
Derivatives with positive fair value	260,224	379,566
Listed bonds	237,283	287,013
Listed shares	11,978	15,594
Unlisted shares	106	775
Total	**509,590**	**682,948**
(b) Trading portfolio liabilities (DKK millions)		
Derivatives with negative fair value	242,004	366,985
Obligations to repurchase securities	132,955	132,349
Total	**374,959**	**499,334**

Notes – Danske Bank Group

G12. Trading portfolio assets and liabilities continued

(c) Explanation of derivatives

The Group's activities in the financial markets include trading in derivatives. Derivatives are financial instruments whose value depends on the value of an underlying instrument or index etc. Derivatives can be used to manage market risk exposure, for example. The Group trades a considerable volume of the most commonly used interest rate, currency and equity derivatives, including

- swaps
- forwards and futures
- options

The Group trades a limited number of swaps whose value depends on developments in specific credit or commodity risks, or inflation indices.

The Group trades derivatives as part of servicing customers' needs as individual transactions or as integral parts of other services, such as the issuance of bonds with yields that depend on developments in equity or currency indices. The Group also uses derivatives to manage the Group's own exposure to foreign exchange, interest rate, equity market and credit risks. The risk management notes provide additional information about the Group's risk management policy. Large Corporates & Institutions is responsible for the day-to-day management and hedging of the Group's market risks.

Derivatives are recognised and measured at fair value. Some of the Group's loans, deposits, issued bonds, etc. in the Group's banking units and Group Treasury carry fixed rates. Generally, such fixed-rate items are recognised at amortised cost. Further, the Group classifies certain bonds as 'hold to collect and sell' financial assets. Unrealised value adjustments of such bonds are recognised under Other comprehensive income. The Group uses fair value hedge accounting if the interest rate risk on fixed-rate financial assets and liabilities or bonds measured at fair value through other comprehensive income is hedged by derivatives.

Derivatives	2021			2020		
(DKK millions)	Notional amount	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value
Currency contracts						
Forwards and swaps	6,917,267	71,685	74,700	6,966,893	118,517	134,309
Options	163,381	759	808	221,186	1,243	1,402
Interest rate contracts						
Forwards/swaps/FRAs	43,158,102	139,421	120,308	41,339,985	179,178	165,982
Options	3,677,425	33,345	33,365	4,053,292	61,041	56,348
Equity contracts						
Forwards	259,010	2,783	2,889	190,702	2,176	1,813
Options	168,175	4,222	5,615	116,239	2,748	3,327
Other contracts						
Commodity contracts	313	127	131	2,056	95	92
Credit derivatives bought	2,167	82	150	2,552	239	94
Credit derivatives sold	2,133	129	71	2,396	91	233
Total derivatives held for trading purposes		**252,553**	**238,037**		**365,327**	**363,601**
Hedging derivatives						
Currency contracts	3,492	26	23	36,403	175	58
Interest rate contracts	583,568	7,645	3,945	432,465	14,063	3,327
Total derivatives		**260,224**	**242,004**		**379,566**	**366,985**

Positive and negative fair values of derivatives are offset if certain criteria are fulfilled. Note G32 provides more information.

Notes – Danske Bank Group

G12. Trading portfolio assets and liabilities continued

(d) Explanation of hedge accounting

An overview over the risks the Group is exposed to and how they are defined is provided on the first page of the notes Risk management. For some of those risks hedge accounting is applied. The Group uses fair value hedge accounting for hedges of interest rate risk. Further, the Group hedges part of the foreign currency risk on net investment in foreign entities.

Hedge of interest rate risk

The Group manages the fixed interest rate risk on financial assets and liabilities measured at amortised cost as a combination of economic hedges (matching of interest rate risk from assets and liabilities at amortised cost across the Group's banking units) and hedges using interest rate swaps. Group Treasury is responsible for the risk management of the interest rate risk (the so-called interest rate risk in the banking book). In the risk management process, economic hedges are established and/or identified. This includes the acquisition of 'hold to collect' fixed interest rate bonds in Group Treasury and the identification of fixed-rate loans extended by the Group's banking units to hedge the fixed interest rate risk on liabilities (including core demand deposits). Interest rate risk on fixed-rate liabilities (such as long dated funding via bond issuance) is generally hedged by interest rate swaps and the interest rate risk on certain fixed-rate assets can be hedged using derivatives as well. For further information see Risk management section Market risk in relation to non-trading portfolios at Group Treasury and Interest rate risk in the banking book (IRRBB).

When the Group uses swaps to hedge the fixed interest rate risk on financial instruments, the Group applies fair value hedge accounting using the option in IFRS 9 to continue to apply the fair value hedge accounting provisions in IAS 39. Fair value hedge accounting can be applied if changes in the fair value of the hedging swaps are expected to be effective in offsetting changes in the fair value of the hedged fixed interest rate risk. This requires (1) a formal designation and documentation of the hedging relationship, including a risk management objective and strategy for the hedge, (2) that the hedge is expected to be highly effective in achieving offsetting changes in fair value of the hedged interest rate risk, (3) the effectiveness of the hedge can be reliably measured and (4) the hedge on an ongoing basis has proven to be effective in actually offsetting of changes in fair value. With effective hedging, the hedged interest rate risk on hedged assets and liabilities is measured at fair value and recognised as a value adjustment of the hedged items. Value adjustments on the hedged item and the hedging swaps are presented in the income statement under Net trading income or loss. Any ineffective portion of a hedge that lies within the range for effective hedging is therefore also included under Net trading income or loss.

The interest rate is considered fixed if the interest rate resets to a reference rate with a term longer than three months. Once a financial instrument has been designated as a hedged item it will remain as hedged item for the life of the instrument. For hedged assets and liabilities to which a fixed rate of interest applies for a specified period of time starting at the commencement date of the agreement, future interest payments are split into basis interest and a customer margin and into periods of time. By entering into swaps or forwards with matching payment profiles in the same currencies and for the same periods, the Group hedges the risk at portfolio level from the commencement date of the hedged items. The fair values of the hedged interest rate risk and the hedging derivatives to ensure that changes in the fair value of the hedged interest rate risk lie within a band of 80-125% of the changes in the fair value of the hedging derivatives. Portfolios of hedging derivatives are adjusted if necessary.

The primary reasons for changes in the fair value of fixed interest rate financial assets are changes in the interest rate risk and the credit risk.

Hedge ineffectiveness relates to the fact that fair value changes on the hedged items are measured based on the interest rate curve relevant for each hedged item while the fair value of the fixed legs of the hedging derivatives are measured based on a swap curve. Further, the adjustment of the portfolios of hedging derivatives to changes in hedged positions is not done instantly, and some hedge ineffectiveness can therefore exist.

The ongoing Interest Rate Benchmark Reform will replace existing benchmark inter-bank offered rates (IBORs) with alternative risk-free rates. At the beginning of 2019, the Group formally established an IBOR Transition Programme, the main objectives being to identify how the IBOR transition will affect the Group financially and operationally, and identify how cessation of IBOR publications would affect the Group's ability to service its customer base. The programme has looked at both the financial and operational impact of the transition towards risk free rates and how to engage with customers that have been affected. The programme will continue into 2022 as attention turns to the USD LIBOR contracts and the transition of these ahead of the 30 June 2023 deadline. In addition, the programme will also undertake a review on how the introduction of the DESTR and SWESTR indexes could affect its core Nordic base.

In 2019, IASB issued amendments IAS 39 (Interest Rate Benchmark Reform phase I) providing reliefs from some of the effectiveness requirements. For the purpose of the expected effectiveness, it is assumed that the benchmark reform will not alter the cash flows. Further, a hedge will not disqualify if the actual result of the hedge falls outside the band of 80-125%, if the other requirements for applying hedge accounting is fulfilled. The relief covers the period during which uncertainty on the timing and the amount of the amended or replaced reference rates exists. IASB issued further amendments to IAS 39 (Interest Rate Benchmark Reform phase 2) that complement the amendments issued in 2019, effective from 1 January 2021. The amendments further introduce reliefs from existing hedge accounting requirements, for example that hedge accounting would not discontinue solely due to the benchmark reform. The amendments further require that the hedging relationships and documentations are amended to reflect changes in the hedged item, the hedging instrument and the hedged risk (which do not represent a discontinuation of the exiting hedge). Based on this, the current uncertainty in relation to reference rates that have not yet been amended or replaced does not have an impact on the Group's ability to use fair value hedge accounting on existing hedging relationships.

Notes – Danske Bank Group

G12. Trading portfolio assets and liabilities continued

The tables below show the hedging derivatives and the hedged fixed interest rate financial instruments, including a breakdown of the hedging derivatives at the end of 2021 and 2020 by the major reference rates as considered above.

Hedging derivatives	Nominal amount	Carrying amount		Changes in fair value used for calculating hedge ineffectiveness
(DKK millions)		Assets	Liabilities	
Interest rate swaps, 2021				
CIBOR	13,735			
STIBOR	142,924			
NIBOR	20,175			
EURIBOR	267,143			
LIBOR	105,073			
Other	38,010			
Total	**587,060**	**7,671**	**3,968**	**-6,093**
Interest rate swaps, 2020				
CIBOR	7,479			
STIBOR	89,232			
NIBOR	13,705			
EURIBOR	240,788			
LIBOR	85,649			
Other	32,014			
Total	**468,868**	**14,238**	**3,384**	**1,219**

Profile of the timing of the nominal amount of the hedging derivatives

(DKK millions)	2021	2020
< 12 months	193,810	72,510
1-5 years	377,417	353,853
> 5 years	15,833	42,505
Total	**587,060**	**468,868**

The table below shows the nominal contract amount of all derivatives that are yet to transition to alternative rates at the end of 2021, by the major reference rates. Any derivatives that mature prior to transition of their reference rates are not included in the table.

Derivatives yet to transition to alternative benchmark rates as at 31 December 2021

(DKK millions)	2021
USD LIBOR	2,955,501
GBP LIBOR	397,642
Other	419,475
Total	**3,772,618**

Notes – Danske Bank Group

G12. Trading portfolio assets and liabilities continued

Hedged fixed interest rate risk (DKK millions)	Carrying amount of hedged items Assets	Liabilities	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item Assets	Liabilities	Change in fair value used for calculating hedge ineffectiveness
2021					
Amounts due from credit institutions	-		-		-6
Loans	22,114		1,412		-912
Bonds 'held to collect and sell'	1,010		100		-16
Amounts due to credit institutions		173		3	5
Deposits		653		-1	1
Issued bonds		184,364		1,243	4,450
Non-preferred senior debt		97,216		683	2,116
Subordinated debt		23,998		28	408
Total	**23,124**	**306,404**	**1,512**	**1,958**	**6,045**
2020					
Amounts due from credit institutions	308		6		6
Loans	29,949		2,199		626
Bonds 'held to collect and sell'	1251		116		-13
Amounts due to credit institutions		5,073		8	27
Deposits		1,994		-	-
Issued bonds		214,797		5,679	-356
Non-preferred senior debt		96,905		2,799	-1,463
Subordinated debt		22,556		436	-59
Total	**31,507**	**341,325**	**2,321**	**8,923**	**-1,232**

Hedge ineffectiveness recognised in the income statement, 2021	-48
Hedge ineffectiveness recognised in the income statement, 2020	-13

Notes – Danske Bank Group

G12. Trading portfolio assets and liabilities continued

Hedge of foreign exchange risk on net investments in foreign entities

The Group hedges its foreign exchange risk on net investments in foreign currency units. Foreign exchange risk is defined as risk of losses from translating the net investments in foreign entities that are denominated in a foreign currency other than DKK. The net investment in foreign currency units includes the net assets and goodwill of the units. The Group has granted loans in the currency of the foreign unit to its branches in Sweden, Norway and Finland for a total of DKK 35,698 million (2020: 34,612 million). The loans represent the capital allocated to these units. The settlement of the loans is neither planned nor likely to occur in the foreseeable future and they are a part of the net investment in those units. Further, Danske Bank A/S has granted the subsidiary Northern Bank an additional tier 1 capital instrument that together with shareholders' equity in Northern Bank is considered part of the net investment in Northern Bank. The exchange differences from translating net profit in the foreign units at the date of underlying transactions and assets and liabilities at the closing rate and from translating the opening net assets at a closing rate that differs from the previous closing rate are recognised in Other comprehensive income (translation differences).

The Group hedges the foreign exchange risk of net investments in branches and subsidiaries outside Denmark by designating funding arrangements in the matching currencies as a hedge of the foreign exchange risk on the net investments. The foreign exchange differences on the funding arrangements are recognised in Other comprehensive income to offset the exchange differences on the net investments. The funding arrangements consist primarily of issued bonds. Realised net profit is hedged in the beginning of the next month. The Group does not hedge the expected financial results of units outside Denmark or other future transactions. In terms of assessing hedge effectiveness, this is applied by comparing the nominal value of the funding arrangement to the nominal value of the net investments. Hedge ineffectiveness can arise to the extent the funding arrangements exceed the net investments. However, when the net investments are decreased, e.g. when the net investments are reduced by paying out dividend, the same amount of funding arrangements are de-designated as hedges and the funding arrangements designated as hedges will therefore, in general, not exceed the net investments.

Part of the funding of the loans granted to the branches in Sweden, Norway and Finland is in DKK in order to create a so-called structural FX hedge position in accordance with banking regulation, i.e. to reduce the impact on capital ratios resulting from changes in the risk exposure amount due to changes in currency rates. With effect from 1 January 2021, the Group's net investment in its subsidiaries Danske Hypotek AB (Sweden) and Danske Mortgage Bank Plc (Finland) has been included in the structural hedge position to extend the hedge to the risk exposure amount measured by currency for EUR, NOK and SEK across the entire Group balance sheet, although with constraints to the size of the loans to the foreign branches and the net investment in the foreign subsidiaries. This strategy of partly hedging the sensitivity to capital ratios from volatility in foreign currency rates, increases the volatility in Other comprehensive income and the Foreign currency translation reserve in equity under IFRS since it decrease the hedge of the currency risk on the net investments in those units. At the end of 2021, the structural FX hedge position totalled DKK 39,749 million (2020: DKK 31,625 million) and a gain of DKK 393 million (2020: loss of DKK 411 million) has been recognised in Other comprehensive income, primarily due to appreciation of NOK against DKK in 2021. For further information, see Risk management section on Market risk - Structural FX risk.

The cumulative exchange differences on the hedging instrument and the translation differences related to the net investment is reclassified from Other comprehensive income to the income statement on the disposal of the foreign entities.

The table below provides information on the hedge of net investments in foreign entities.

Hedging of foreign entities

(DKK millions)	2021	2020
Net investment in foreign units	48,674	47,646
Funding arrangements designated as a hedge of net investments in foreign units [1]	8,925	16,021
Portion of net investment in foreign units not hedged, structural FX position	**39,749**	**31,625**
Hedge ineffectiveness		
Exchange differences on the hedging instruments	-1,270	1,224
Exchange differences on the net investment used for recognising hedge ineffectiveness	1,270	-1,224
Hedge ineffectiveness recognised in the income statement (net trading income)	-	-
Hedging gains or losses recognised in OCI	-1,270	1,224
Reclassified to the income statement on disposal of foreign units [2]	-	-

[1] Primarily included on the line item 'Issued bonds at amortised cost'

[2] Included in the line item 'Gain or losses on sale of disposal groups held for sale'

Notes – Danske Bank Group

G13. Investment securities

Investment securities consists of bonds and shares held by non-trading units in the Group. It consists primarily of the liquidity portfolio managed by Group Treasury. The liquidity portfolio includes different portfolios with different business models. Some portfolios are managed on a fair value basis and mandatorily measured at fair value through profit or loss under IFRS 9, whereas other portfolios are either 'hold to collect and sell' and measured at fair value through other comprehensive income or 'hold to collect'.

Accounting policy

Financial assets measured at fair value through profit or loss (FVPL)

Financial assets measured at fair value include securities that are managed on a fair value basis with no short-term profit taking. Realised and unrealised capital gains and losses and dividends are carried in the income statement under Net trading income or loss. Further, all shares (including unlisted shares) and bonds held in Group Treasury that do not have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (i.e. that does not pass the SPPI test in IFRS 9) are mandatorily measured at FVPL and, consequently, included in this category.

Financial assets measured at fair value through other comprehensive income (FVOCI)

This category comprises bonds only, and primarily bonds listed in a liquid market, as the Group does not use the option to designate equity instruments at FVOCI. The bonds are held within a business model for the purpose of collecting contractual cash flows and selling (hold to collect and sell). The bonds have cash flows that are solely payments of principal and interest on the principal amount outstanding (i.e. that passes the SPPI test in IFRS 9). FVOCI results in the assets being recognised at fair value in the balance sheet and at amortised cost in the income statement, including the recognition of expected credit losses as described in note G15. Gains and losses, except for expected credit losses and foreign exchanges gains and losses, are therefore recognised in other comprehensive income until the bond is derecognised. When a fixed interest rate risk is hedged in a hedge that qualifies for fair value hedge accounting, the fair value changes of the hedged interest risk are presented in the income statement under Net trading income or loss. When bonds are sold unrealised value adjustments recognised under Other comprehensive income are reclassified to the income statement and presented under Net trading income or loss. The Group recognises interest income according to the effective interest method, including amortisation of the difference between cost and the redemption value over the term to maturity of the bonds.

Financial assets measured at amortised cost (AMC)

This category consists of bonds held within a business model for the purpose of collecting the contractual cash flows (hold to collect) and with cash flows that are solely payments of principal and interest on the principal amount outstanding (i.e. that pass the SPPI test in IFRS 9). The bonds are measured at amortised cost. Interest income is recognised according to the effective interest method, including amortisation of the difference between cost and the redemption value over the term to maturity of the bonds. A change in the contractual cash flows that is required by the Interest Rate Benchmark Reform is accounted for by updating the effective interest rate, without recognising a gain or loss. This can only be applied if the change is necessary as a direct consequence of the reform, and the new basis for determining the contractual cash flows is economically equivalent to the previous basis. The bonds are subject to the expected credit model in IFRS 9 as described in note G15. The interest rate risk on fixed-rate bonds are not hedged.

(a) Investment securities (DKK millions)	2021	2020
Financial assets at fair value through profit or loss		
Listed bonds	36,530	48,034
Unlisted shares	1,230	335
Total financial assets designated at fair value through profit or loss	**37,760**	**48,369**
Bonds hold to collect and sell (FVOCI)		
Listed bonds	119,296	116,772
Total bonds hold to collect and sell (FVOCI)	**119,296**	**116,772**
Total at fair value	**157,056**	**165,141**
Bonds hold to collect (AMC)		
Listed bonds	146,721	131,628
Total investment securities	**303,777**	**296,769**

Notes – Danske Bank Group

G13. Investment securities continued

(b) Further explanation

Investment securities consist of the liquidity portfolio held by Group Treasury. The liquidity portfolio is part of the balance sheet management to optimise the balance sheet composition, to hedge the interest rate risk in the banking book and to manage the Group's liquidity need. The management of the interest rate risk in the banking book is carried out through a combination of hedges with derivatives and partly through matching the duration on the fixed interest rate deposits (the interest risk on core deposits) with bond holdings with a matching duration. The latter is carried out through the acquisition of portfolios of bonds.

Financial assets measured at fair value through profit or loss (FVPL)

This portfolio includes the part of the liquidity bond portfolio that is actively traded although less frequently than what is required to be classified as a held-for-trading portfolio. These bonds are held in a business model being neither 'hold to collect' nor 'hold to collect and sell' and are therefore mandatorily recognised at fair value through profit or loss under IFRS 9.

The portfolio comprises primarily Danish mortgage bonds. Further, the portfolio includes listed and unlisted shares.

Financial assets measured at fair value through other comprehensive income (FVOCI)

This portfolio includes the part of the liquidity bond portfolio where both the collection of the contractual cash flows and sales are an integral part of achieving the objectives with the acquired bond portfolio. Further, the bonds included in the portfolio have contractual cash flows that pass the SPPI test.

The performance of the portfolio is measured on a combination of the collection of the contractual cash flows and sales proceeds. Sales typically occur when market opportunities arise, or when there is a need to adjust the portfolio to hedge part of the interest rate risk on the Group's core deposits. There is no objective of short-term profit taking and the performance reporting related to this portfolio reflects a combination of the collection of the contractual cash flows and realising fair value changes. The business model is therefore 'hold to collect and sell'.

The portfolio comprises primarily highly-rated covered, sovereign, supranational and agency bonds.

Financial assets measured at amortised cost (AMC)

This portfolio includes the part of the liquidity bond portfolio that is held in a business model being 'hold to collect', i.e. with the purpose of generating a return until maturity. Further, the bonds included in the portfolio have contractual cash flows that pass the SPPI test.

The performance is measured based on the collection of the contractual cash flows. The fair value of the portfolio is monitored for liquidity purposes as the bonds can be used in repo transactions. Sales from the portfolio are infrequent. When sales are made, they reflect:

- sales close to maturity (the proceeds from the sale approximate the collection of contractual cash flows)
- sales are made to manage risk concentration (e.g. the sale of bonds is made due to a concentration of currency risk)
- sales made due to increase in credit risk above a certain level (i.e. outside the investment policy)

The bonds are primarily Danish mortgage bonds, government bonds and government-guaranteed bonds. Some 99.7% of the portfolio is rated AA or higher (2020: 99%), while the remaining portfolio has investment grade ratings.

SPPI test applied for bonds at FVOCI or AMC

The SPPI test is applied for each bond to assess whether the contractual cash flows represent repayment of principal amount and interest on the principal amount outstanding. Bonds that are included in the portfolios at FVOCI or AMC are generally plain vanilla bonds that:

- have a fixed maturity, i.e. no perpetual bonds
- do not have terms that introduce exposure to risk or volatility, e.g. by a yield that refers to changes in equity or commodity prices
- are not subordinated or convertible bonds
- can be prepaid (e.g. at par plus accrued interest), with the fair value of the prepayment option being insignificant at initial recognition. In general, this will be the case if the premium/discount to the contractual par amount is insignificant at initial recognition

Bonds that are not compliant with the SPPI test are included in the portfolio of bonds at FVPL.

Notes – Danske Bank Group

G14. Due from credit institutions and central banks

The item due from credit institutions and central banks includes both balances that are measured at amortised cost and balances that are measured at fair value through profit or loss, depending on the business model for the management of the amounts due from credit institutions.

Accounting policy

For balances due from credit institutions in the Group's banking units (Personal & Business Customers, General Banking in Large Corporates & Institutions, Northern Ireland and Non-core), the business model is hold to collect. As the contractual cash flows represent basic lending feature, these balances are measured at amortised cost. For further information on the accounting policy etc., see note G15.

For balances due from credit institutions and central banks in the Group's trading units (Markets and Investment Banking & Securities in Large Corporates & Institutions) the business model is neither 'hold to collect' nor 'hold to collect and sell' and these balances are mandatorily recognised at fair value through profit or loss. For further information on the accounting policy, see note G16.

Cash in hand and demand deposits with central banks

Includes cash in hand of DKK 6,765 million and demand deposits of DKK 286,621 million (measured at amortised cost).

Due from credit institutions and central banks

(DKK millions)	2021	2020
Due from credit institutions and central banks measured at fair value through profit or loss:		
Reverse transactions	37,734	49,975
Other amounts due	1,728	2,427
Total at fair value through profit or loss	**39,462**	**52,402**
Due from credit institutions and central banks measured at amortised cost:		
Other amounts due	31,723	29,045
Allowance account	29	19
Total at amortised cost	**31,694**	**29,026**
Due from credit institutions and central banks, total	**71,156**	**81,428**

Due from credit institutions and central banks includes amounts due within three months and totalled DKK 69,611 million at the end of 2021 (2020: DKK 80,186 million). This amount is included under Cash and cash equivalents in the cash flow statement.

Notes – Danske Bank Group

G15. Loans at amortised cost

In general, the loans in the Group's banking units (Personal & Business Customers, General Banking in LC&I, Northern Ireland and Non-core) are held with the objective of collecting the contractual cash flows. Therefore, most of the Group's loans in the banking units are classified as 'hold to collect' under IFRS 9. Further, the loans have basic lending features with the contractual cash flows solely representing repayment of principal and interest on the principal amount outstanding (the SPPI test). Therefore, the loans in the Group's banking units are recognised at amortised cost. The only exception is loans granted by Realkredit Danmark (see note G16) that are recognised at fair value, as the contractual cash flows do not represent basic lending features only, i.e. they do not pass the SPPI test in IFRS 9.

Accounting policy

At initial recognition, loans are measured at fair value plus transaction costs less origination fees and other charges that are an integral part of the effective interest rate on loans. This usually corresponds to the amount disbursed to the customer. Subsequently, they are measured at amortised cost, using the effective interest method, less impairment charges for expected credit losses. The difference between the value at initial recognition and the redemption value is amortised over the term to maturity as part of the effective interest. If fixed-rate loans are hedged effectively by derivatives, the fair value of the hedged interest rate risk is added to the carrying amount of the hedged assets.

Impairment for expected credit losses

The impairment charge for expected credit losses depends on whether the credit risk has increased significantly since initial recognition and follows a three stage model:

- Stage 1: If the credit risk has not increased significantly, the impairment charge equals the expected credit losses resulting from default events that are possible within the next 12 months.
- Stage 2: If the credit risk has increased significantly, the loan is transferred to stage 2 and an impairment charge equal to the lifetime expected credit losses is recognised.
- Stage 3: If the loan is in default or otherwise credit impaired, it is transferred to stage 3, for which the impairment charge continues to equal the lifetime expected credit losses but with interest income being recognised on the net carrying amount.

The expected credit loss is calculated for all individual facilities as a function of the probability of default (PD), the exposure at default (EAD) and the loss given default (LGD) and incorporates forwards looking elements. For facilities in stages 2 and 3, the lifetime expected credit losses cover the expected remaining lifetime of a facility.

Expected credit loss impairment charges are booked in an allowance account and allocated to individual exposures.

(b) Loans at amortised cost (DKK millions)	2021	2020
Reverse transactions	1,630	1,214
Other loans	1,042,996	1,040,898
Allowance account	17,184	17,505
Total at amortised cost	**1,027,442**	**1,024,607**

Loans included payments due under finance leases of DKK 30,810 million at the end of 2021 (2020: DKK 30,675 million).

(b) Further explanation

Classification and measurement – business model assessment

The business model assessment in Danske Bank Group is applied separately for each business unit represented by the Group's reportable segments. The assessment is based on observable factors for the different portfolios, such as (1) how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Executive Board and the Board of Directors, (2) the risks that affect the performance of the business model and the way such risks are managed and (3) past and expected frequency, value and timing of sales for the portfolio.

In the Group's banking units (Personal & Business Customer, General Banking in LC&I, Northern Ireland and Non-core), the management and reporting of performance are based on collecting the contractual cash flows, and loans are only very infrequently sold. Therefore, the business model has been assessed as being 'hold to collect'.

Notes – Danske Bank Group

G15. Loans at amortised cost continued

Once a year, the Group assesses if past sales are consistent with the business model for loans in the Group's banking unit being 'hold to collect'. In general, if sales are below 5% of the size of a portfolio the sales are considered to be insignificant. Larger sales are considered individually in relation to consistency with the business model. The following sales are consistent with the business model being 'hold to collect':

- Loans are sold after having previously been transferred to one of the Group's debt collection units
- Loans are sold to manage credit concentration risk (specific countries or industries)
- Loans to customers that have refocused their activities out of the Nordic region, i.e. the customers are no longer Nordic customers
- The sale of loans that are no longer profitable, e.g. due to changes in the regulatory environment or the like

Classification and measurement – The SPPI test (solely payment of principal and interest on the principal amount outstanding)

For each loan in the Group's banking units, it is assessed if the contractual cash flows are consistent with the SPPI test. The principal amount reflects the fair value at initial recognition less any subsequent changes, e.g. due to repayment. The interest represents consideration for the time value of money, credit risk, other basic lending risks and a margin consistent with basic lending features, only. If the cash flows introduce more than de minimis exposure to risk or volatility that is not consistent with basic lending features, the loan is mandatorily recognised at fair value through profit or loss. Features that are not genuine do not affect the classification. A feature is not genuine if it affects the contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur.

In general, the SPPI test of the Group's portfolios of loans covers, for instance, the following elements:

- Compensation for the time value of money. For some of the Group's variable-rate loans, the market standard for these loans is that the reset frequency and the tenor of the reference rate do not match. It has been assessed that the mismatch does not significantly modify the compensation for the time value of money. No loans have interest rates that are leveraged or linked to, for instance, the development in share prices etc.
- Prepayment options are consistent with the SPPI test, if the prepayment amount represents the principal amount outstanding and accrued interest and may include a reasonable compensation for early repayment. This is generally the case with the Group's loans, except loans granted by Realkredit Danmark (see further below).
- Extension options are consistent with the SPPI test if the cash flows during the extension period represent cash flows that are solely payments of principal and interest on the principal amount outstanding. Only very few loans include a contractual right for the customer to extend the loan, and for such loans, the interest rate will be updated to the current market rate for such loans.
- Compensation for credit risk and other basic lending risks. The interest rate includes a credit margin to compensate the Group for the credit risk, and it may be fixed initially. The Group does not incorporate profit sharing agreements, for example by contractual terms that increase the credit margin if the customer's earnings increase.
- Non-recourse features. In general, the Group does not grant loans that legally are non-recourse. However, in some cases a financial asset represents an investment in particular assets or cash flows in which case the contractual cash flows are not solely payments of principal and interest on the principal amount outstanding. This could be the case when the Group's claim is limited to specified assets of a debtor or the cash flows from specified assets, e.g. related to loans granted to a company/a special purpose entity with limited assets and with no guarantee from the owner/parent company. The Group only grants such loans if the cash flows from the underlying asset(s) are large compared to the contractual cash flows from the loans. Therefore, non-recourse-like features are limited and excluded from the assessment.
- Non-payment is not considered a breach of contract. The Group does not grant loans where non-payment would not constitute a breach of contract.

Loans granted under Danish mortgage finance law are funded by issuing listed mortgage bonds with matching terms. Such loans are granted by the Realkredit Danmark subsidiary only. Borrowers may repay such loans by delivering the underlying bonds. This represents an option to prepay at fair value that can be both above and below the principal amount plus accrued interest and include other elements than the effect of changes in the relevant benchmark interest rate. The loans do not pass the SPPI test and are mandatorily recognised at fair value through profit or loss, see further in note G16.

Financial instruments in scope of the expected credit loss impairment model in IFRS 9

Impairment charges for expected credit losses apply to all financial assets recognised at amortised cost or at fair value through other comprehensive income, lease receivables and certain loan commitments and financial guarantee contracts. Therefore, the Group's expected credit loss model also applies to bond portfolios included in the line item Investment securities, except for the bonds that are recognised at fair value through profit or loss.

Further, the adjustment for fair value of credit risk on loans granted by Realkredit Danmark is based on the expected credit loss impairment model in IFRS 9. Further information can be found in note G16 in the box on Accounting policy.

Notes – Danske Bank Group

G15. Loans at amortised cost continued

Significant increase in credit risk (transfer from stage 1 to stage 2)

The classification of facilities between stages 1 and 2 for the purpose of calculating expected credit losses depends on whether the credit risk has increased significantly since initial recognition. The assessment of whether credit risk has increased significantly since initial recognition is performed by considering the change in the risk of default occurring over the remaining life of the facility and incorporating forward-looking information. A facility is transferred from stage 1 to stage 2 based on observed increases in the probability of default:

- For facilities originated below 1% in PD: An increase in the facility's 12-month PD of at least 0.5 percentage points and a doubling of the facility's lifetime PD since origination.
- For facilities originated above 1% in PD: An increase in the facility's 12 month PD of 2 percentage points or a doubling of the facility's lifetime PD since origination.

In addition, facilities that are more than 30 days past due are moved to stage 2. 30 days past due is considered a backstop. Finally, customers subject to forbearance measures are placed in stage 2, if the Group, in the most likely outcome, expects no loss, or if the customers are subject to the two-year probation period for performing forborne exposures.

Stage 3 (credit-impaired facilities)

A facility is transferred from stage 2 to stage 3 when it becomes credit-impaired. A facility becomes credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows have occurred. This includes observable data about (a) significant financial difficulty of the issuer or the borrower; (b) a breach of contract, such as a default or past due event; (c) the borrower, for financial or contractual reasons relating to the borrower's financial difficulty, having been granted a concession that would not otherwise have been considered; (d) it is becoming probable that the borrower will enter into bankruptcy or other financial restructuring; and (e) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit loss. It may not be possible to identify a single individual event – instead, the combined effect of several events may cause financial asset to become credit-impaired. Credit-impaired facilities are placed in rating category 10 or 11. For customers in rating category 10, the stage 3 classification applies only to customers where a loss is expected in the most likely scenario. For rating category 11 (default), all facilities are classified as stage 3 exposures.

Definition of default

The definition of default is used in the measurement of expected credit losses and the assessment to determine movements between stages. The definition of default is also used for internal credit risk management and capital adequacy purposes.

To support a more harmonised approach regarding the application of the definition of default, the European Banking Authority (EBA) has issued the following products that guides the application of the definition of default: the Guidelines on the application of the definition of default, EBA/GL/2016/07 and the Regulatory Technical Standards (RTS) on the materiality threshold for credit obligations past due, EBA/RTS/2016/06.

The Group has implemented the new requirements related to the definition of default in January 2022 in order to align the existing definition of default to the new requirements outlined in the Guidelines and the RTS.

According to the revised definition of default, exposures that are considered default are also considered Stage 3 exposures. This is applicable for exposures that are default due to either the 90 days past due default trigger or the unlikeliness to pay default triggers.

The newly implemented definition of default has been incorporated in post-model adjustments for 2021, with DKK 0.9 billion of the total DKK 6.3 billion of post-model adjustments relating to the new definition of default.

Purchased or originated credit-impaired facilities (POCI)

A facility that is credit-impaired at initial recognition is classified as a POCI financial asset. This is the case if the financial asset is purchased or originated at a deep discount that reflects the incurred credit losses. For such assets, life-time expected credit losses are recognised for the remaining lifetime of the asset. In general, the Group does not purchase credit-impaired financial assets and the category therefore relates to originated credit-impaired facilities, typically originated in relation to forbearance measures.

Calculation of expected credit losses

The expected credit loss is calculated for all individual facilities as a function of the probability of default (PD), the exposure at default (EAD) and the loss given default (LGD). In general, the Group's IFRS 9 impairment models and parameters draw on the bank's internal models in order to ensure alignment of models across the Group. New models and calculations have been developed especially for IFRS 9 purposes, including models for lifetime PD, prepayment and forward-looking LGD. All expected credit loss impairment charges are allocated to individual exposures. For significant loans in stage 3, the Group determines the expected credit losses individually.

Regarding climate risks, a climate risk heat map has been designed which gives an indication of the size of the Group's credit exposure to climate risk, and not the expected stress impacts such as impact on expected credit losses. Such quantitative measures are to be assessed through scenario analysis and future stress testing. Climate scenario analysis is being performed for key sectors, however the methodology is still in its infancy and the Group's climate stress testing capabilities will continuously be enhanced to better assess potential future loss levels. Conclusions have not led to adjustments to staging or expected credit losses, as the impacts either manifest over a longer time period than loan maturities, or as transition risks are concentrated on sectors with downside risks recognised in the bank's expected credit losses. Further information can be found in the section 'Credit risk' in the risk management notes.

Notes – Danske Bank Group

G15. Loans at amortised cost continued

Expected remaining lifetime

For most facilities, the expected lifetime is limited to the remaining contractual maturity and is adjusted for expected prepayment. For exposures with weak credit quality, the likelihood of prepayment is not included. For exposures that include both a loan and an undrawn commitment and where a contractual ability to demand prepayment and cancellation of the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period, the expected lifetime is the period during which the Group expects to be exposed to credit losses. This period is estimated on the basis of the normal credit risk management actions. Products identified as in scope of an expected lifetime longer than the remaining contractual maturity include credit cards, overdraft balances and certain revolving credit facilities.

Incorporation of forward-looking information

The forward-looking elements of the calculation reflect the current unbiased expectations of the bank's senior management. The process consists of the creation of macroeconomic scenarios (base case, upside and downside), including an assessment of the probability of each scenario, by the Group's independent macroeconomic research unit in Markets, the review and sign-off of the scenarios (through the organisation) and a process for adjusting scenarios given new information during the quarter. The purpose of using multiple scenarios is to model the non-linear impact of assumptions about macroeconomic factors on the expected credit losses. Management's approval of scenarios can include adjustments to the scenarios, probability weighting and management overlays to cover the outlook for particular high-risk portfolios which are not provided by the Group's macroeconomists. The approved scenarios are used to calculate the impairment levels. Technically, the forward-looking information is used directly in the PDs through an estimate of general changes to the PDs and the LGDs in the expected credit loss calculation. However, for significant exposures in stage 3, an individual assessment of the scenarios, changes to expected credit losses and the related probabilities are performed by senior credit officers.

The forward-looking information is based on a three year forecast period converging to steady state in year seven. The base case is based on the macroeconomic outlook as disclosed in the Group's Nordic Outlook reports. Further information on the macroeconomic scenarios used can be found in the risk management notes.

Forecasts are produced for the coming three years. After this period, the outlook returns to a steady-state level after a further four years.

Write-off policy

Loans considered uncollectible are written off. Write-offs are debited to the allowance account. Loans are written off once the usual collection procedure has been completed and the loss on the individual loan can be calculated. If the full loss is not expected to be realised until after a number of years, for example in the event of administration of complex estates, a partial write-off is recognised, reflecting the Group's claim less collateral, estimated dividend and other cash flows.

Modification

When a loan is modified the Group assesses whether the modification results in derecognition. This depends on whether the changes to the contractual cash flows or other contractual terms are significant or not, or whether they are as a result of the Interest Rate Benchmark Reform.

A change in the contractual cash flows that is required by the reform is accounted for by updating the effective interest rate, without recognising a gain or loss. This can only be applied if the change is necessary as a direct consequence of the reform, and the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

Otherwise, if the changes are not related to the reform and are significant, the modification is accounted for as derecognition of the original loan and recognition of a new loan. If the changes are not significant, the modification is accounted for as a modification of the original loan. The assessment is based on the following considerations:

- The Group differentiates between changes in the cash flows or other terms within the original contract and modifications of the contract, i.e. a new contract.
- In general, a significant modification is defined as a full credit process, a pricing decision and the signing of a new contract
- An assessment of whether the modification is caused as a forbearance measure or made on commercial terms.

If the financial asset is not derecognised, the original effective interest rate remains unchanged, and the net present value of the changed contractual cash flows represents the gross carrying amount of the financial asset after the modification. The difference between the net present value of the original contractual cash flows and the modified contractual cash flows is recognised in the income statement as a modification gain or loss.

If the original financial asset is derecognised, a derecognition gain or loss is recognised in the income statement. The derecognition gain or loss represents the difference between the carrying amount of the original financial asset (updated to reflect current expected credit losses) and the initial carrying amount of the new financial asset plus/minus any cash payments between the parties in relation to the modification.

Modifications in the form of forbearance measures include interest reduction schedules, interest only schedules, temporary payment holidays, term extensions, cancellation of outstanding fees, waiver of covenant enforcement and debt forgiveness. For modifications that are not significant, the modification loss is recognised in the income statement within Loan impairment charges.

Notes – Danske Bank Group

G15. Loans at amortised cost continued

In terms of stage allocation, a modification that leads to derecognition of the initial loan and recognition of a new loan, the loan will (unless the new loan is credit-impaired at initial recognition) be recognised in stage 1 at initial recognition, i.e. the initial credit risk is reset. If the replacing loan is considered an amendment to the original loan, the initial credit risk is not reset. Loans modified as part of the Group's forbearance policy, where the modification does not result in derecognition, the loss allowance on the forborne loans will generally only be measured based on 12-months expected credit losses when there is evidence of the borrower's improved repayment behaviour. When a loan in stage 3 is modified, and the modification results in derecognition, the Group assesses if the new loan is originated credit impaired. The assessment includes factors such as whether the customer's repayment behaviour has improved significantly prior to the modification or not and whether the pricing on the new loan reflects the actual credit risk etc. New loans that are originated credit impaired remains under a lifetime ECL calculation for the remaining term of the exposure.

(c) Reconciliation of total allowance account and gross credit exposure

Below the allowance account and the gross credit exposure is reconciled by measurement category. 'Loans at amortised cost' includes besides the balance sheet line item Loans at amortised cost, also exposures under Due from credit institutions that are carried at amortised cost and demand deposits with central banks, see note G14. 'Loans at fair value' consists of loans granted by Realkredit Danmark, for which the allowance account represents the fair value adjustment of the credit risk (for further information see note G16). 'Loan commitments and guarantees' consists of guarantees, loan commitments shorter than 1 year and loan commitments longer than 1 year, see note G27. The allowance account for loans at amortised cost and at fair value is credited against the related loans, whereas the allowance account related to loan commitments and guarantees is recognised as a liability and presented under Other liabilities.

Reconciliation of total allowance account

(DKK millions)	Loans at amortised cost Stage 1	Stage 2	Stage 3	Loans at fair value Stage 1	Stage 2	Stage 3	Loan commitments and guarantees Stage 1	Stage 2	Stage 3	Total
ECL allowance account as at 1 January 2020)	469	4,140	11,483	302	943	1,937	544	881	614	21,313
Transferred to stage 1	586	-561	-25	334	-304	-30	144	-143	-2	-
Transferred to stage 2	-98	434	-337	-11	86	-75	-10	237	-227	-
Transferred to stage 3	-11	-841	852	-10	-111	121	-1	-49	50	-
ECL on new assets	273	1,290	2,037	135	174	64	135	398	145	4,651
ECL on assets derecognised	-158	-961	-2,964	-72	-209	-373	-61	-157	-304	-5,260
Impact of net remeasurement of ECL (incl. changes in models)	-129	1,522	2,016	125	315	-59	-190	445	320	4,366
Write offs debited to the allowance account	-	11	-1,038	1	-5	-46	-	-	-	-1,077
Foreign exchange adjustments	-17	-5	-452	-	-	-	-5	-2	-15	-496
Other	-7	-33	47	-	-	-139	-2	-36	16	-154
As at 31 December 2020	**908**	**4,996**	**11,620**	**805**	**888**	**1,400**	**554**	**1,574**	**597**	**23,342**
Transferred to stage 1	1,181	-996	-185	337	-301	-37	326	-308	-18	-
Transferred to stage 2	-82	396	-314	-81	192	-111	-17	61	-45	-
Transferred to stage 3	-6	-575	581	-114	-162	276	-	-136	136	-
ECL on new assets	422	953	1,727	119	145	33	105	184	79	3,768
ECL on assets derecognised	-362	-1,103	-4,176	-133	-128	-164	-137	-260	-238	-6,701
Impact of net remeasurement of ECL (incl. changes in models)	-438	760	976	-286	595	55	-219	-183	26	1,287
Write offs debited to the allowance account	-	-	-	-5	-	-	-	-	-	-5
Foreign exchange adjustments	18	30	296	-	-	-	3	24	32	402
Other	-161	168	577	-	-9	-119	-21	-	216	653
As at 31 December 2021	**1,481**	**4,629**	**11,103**	**642**	**1,221**	**1,334**	**594**	**957**	**786**	**22,746**

The movements on the allowance account are determined by comparing the classification and amount in the balance sheet at the beginning and the end of the year. The table above excludes the allowance account of DKK 4 million (2020: DKK 4 million) relating to bonds at amortised cost or fair value through other comprehensive income (all in stage 1). It also excludes the adjustment for credit risk on Loans held for sale (loan portfolios within the non-core segment where the Group has entered into sales agreements). For further information on the decomposition of the allowance account on facilities in stages 1-3, see the notes on credit risk.

Notes – Danske Bank Group

G15. Loans at amortised cost continued

Reconciliation of gross credit exposure

(DKK millions)	Loans at amortised cost Stage 1	Stage 2	Stage 3	Loans at fair value Stage 1	Stage 2	Stage 3	Loan commitments and guarantees Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 1 January 2020	1,099,994	90,909	27,319	748,983	45,715	11,063	425,096	17,769	5,303	2,472,151
Transferred to stage 1	21,983	-21,856	-128	19,285	-18,574	-711	2,980	-2,956	-24	-
Transferred to stage 2	-35,519	36,794	-1,274	-8,374	9,415	-1,041	-7,107	9,154	-2,047	-
Transferred to stage 3	-4,463	-6,966	11,429	-2,077	-2,785	4,862	-709	-628	1,337	-
New assets	304,968	20,253	7,355	150,235	5,359	1,105	282,281	10,116	1,672	783,343
Assets derecognised	-291,346	-24,471	-8,484	-115,122	-8,683	-2,839	-181,914	-8,973	-1,859	-643,691
Changes due to modifications that did not result in derecognition	-	-	-69	-5	-8	-10	-	-	-	-92
Other changes	169,383	-7,359	-2,723	-15,291	-793	-331	-1,944	16	-330	140,628
As at 31 December 2020	**1,265,000**	**87,304**	**33,425**	**777,633**	**29,646**	**12,098**	**518,682**	**24,498**	**4,053**	**2,752,339**
Transferred to stage 1	22,414	-21,367	-1,047	11,530	-10,310	-1,220	3,906	-3,704	-202	-
Transferred to stage 2	-22,874	26,798	-3,923	-17,532	19,081	-1,550	-5,182	5,478	-296	-
Transferred to stage 3	-862	-4,185	5,047	-8,415	-1,921	10,336	-59	-765	824	-
New assets	321,334	18,889	5,878	136,259	5,144	978	301,288	6,490	1,593	797,853
Assets derecognised	-271,932	-26,620	-11,424	-101,820	-5,968	-3,144	-279,922	-11,260	-2,049	-714,139
Changes due to modifications that did not result in derecognition	-	-	-58	-9	-4	-1	-	-	-	-72
Other changes	-48,072	-4,400	-1,861	-36,330	-1,177	-462	-1,202	-1,060	-138	-94,702
As at 31 December 2021	**1,265,007**	**76,419**	**26,036**	**761,316**	**34,492**	**17,035**	**537,512**	**19,678**	**3,784**	**2,741,278**

(d) Significant accounting estimates related to expected credit losses

For information on significant accounting estimates related to expected credit losses, see note G1(b). Note G1(b) also includes information on the Group's approach to estimate expected losses following the corona crisis in the section 'Accounting treatment of the impacts on expected credit losses from the corona crisis'.

Notes – Danske Bank Group

G16. Loans and issued bonds at fair value

The Group has two types of portfolios of loans and issued bonds that are measured at fair value through profit or loss. The first portfolio consists of loans granted and bonds issued by the subsidiary Realkredit Danmark, a Danish mortgage institution covered by Danish mortgage finance law. The other portfolio consists of loans and bonds issued by the Group's trading units (Markets and Investment Banking & Securities in LC&I).

Accounting policy

Loans granted and bonds issued by Realkredit Danmark

Loans granted by Realkredit Danmark have contractual cash flows that are not solely payment of principal and interest on the principal amount outstanding. Therefore, the loans are mandatorily recognised at fair value through profit or loss. The issued bonds that are funding the loans are designated at fair value through profit or loss in order not to create an accounting mismatch. For the issued bonds, changes in fair value attributable to the Group's own credit risk is presented in the income statement, as an accounting mismatch would otherwise be introduced.

The fair value of the bonds issued by Realkredit Danmark is normally defined as their quoted market price. A small number of the issued bonds are illiquid, however, and the fair value of these bonds is calculated on the basis of a discounted cash flow valuation technique. The fair value of the loans is based on the fair value of the underlying bonds which ensures that changes in the fair value of the interest rate risk on the loans are measured based on market implied input. This fair value is adjusted for changes in the fair value of cash flows from the loans that differ from the cash flows from the issued bonds. The most important component is the credit risk on the borrowers (covered by the Group and not by the bond holders and therefore not priced into the price of the issued bonds).

Changes in fair value of credit risk etc on the loans

The IFRS 13 estimate of the fair value of the credit risk on the loans is based on the expected credit losses estimated in the models developed in connection with the Group's implementation of the expected credit loss impairment model in IFRS 9, including the allocation of loans between stage 1, stage 2 and stage 3. The expected credit losses are calculated for all loans as a function of PD, EAD and LGD and incorporates forward looking information, see further in note G15. The latter reflects management's expectations of expected credit losses and involves multiple scenarios (base case, upside and downside), including an assessment of the probability for each scenario.

On top of the expected credit losses, a collective assessment determines the need for further adjustments to reflect other components in the fair value measurement, such as an assessment of lifetime expected credit losses for loans in stage 1, an investors risk premium, compensation for administrative costs related to the loans and the possibility to increase the margin on the loans if the credit risk etc increases. It is acknowledged that the possibility to increase the margin depends on the economic resources of the customers. The possibility to increase the margin is therefore only considered in the measurement if it is very likely that the margin can be increased without the customer defaulting. Further, the possibility to increase the margin is only relevant if it does not give the customer an incentive to "move" to another mortgage institution. Therefore, the possibility to increase the margin is only relevant for the measurement of loans to customers with neither a relatively high credit risk nor a relatively low credit risk.

The discount rate used to discount the cash flows represents the interest rate on the funding bonds. This is considered to be close to a risk-free interest rate. The risk premium is incorporated into the cash flows. The risk premium is assumed to be higher for customers with high credit risk than for customers with low credit risk. Further, the adjustments for changes in the fair value of the credit risk and other components cannot increase the value of a loan (the adjustment cannot be positive).

Other loans and issued bonds measured at fair value through profit or loss

The loans in the Group's trading units (Markets and Investment Banking & Securities in LC&I) are managed and their performance reported on a fair value basis and the loans are under IFRS 9 mandatorily measured at fair value through profit or loss. In order not to introduce an accounting mismatch by measuring the financial assets in the trading units at fair value through profit or loss and the financial liabilities at amortised cost, the financial liabilities in the trading units are designated at fair value through profit or loss with fair value changes attributable to the Group's own credit risk presented in other comprehensive income.

Notes – Danske Bank Group

G16. Loans and issued bonds at fair value continued

(a) Loans at fair value

(DKK millions)	2021	2020
Loans granted by Realkredit Danmark:		
Nominal value	807,621	792,701
Fair value adjustment of underlying bonds	5,447	26,677
Adjustment for credit risk	3,197	3,094
Fair value of loans granted by Realkredit Danmark	**809,872**	**816,284**
Loans in the Group's trading units:		
Reverse transactions	214,590	206,694
Other loans	-	345
Total	**1,024,461**	**1,023,323**

(b) Issued bonds at fair value

(DKK millions)	2021	2020
Bonds issued by Realkredit Danmark:		
Nominal value	854,988	853,855
Fair value adjustment of funding of current loans	6,197	28,373
Holding of own mortgage bonds	90,523	106,384
Fair value of bonds issued by Realkredit Danmark	**770,661**	**775,844**
Bonds issued by the Group's trading units:		
Commercial papers and certificates of deposit	24,248	8,183
Total	**794,909**	**784,027**

(c) Further explanation on loans granted and bonds issued by Realkredit Danmark

Each loan granted by Realkredit Danmark is funded by issuing listed mortgage bonds with matching characteristics (e.g. amount outstanding, reference interest rate, term and currency). The borrower may repay the loan by delivering the underlying bonds to Realkredit Danmark.

The loans are held in a business model being similar to other loans in the Group's banking units, ie. the business model under IFRS 9 is 'held to collect'. The customers' right to prepay a loan by delivering the underlying bonds represents an option to prepay at fair value. Under this prepayment option, the prepayment amount can be both above and below the principal amount plus accrued interest. Changes in the fair value of the underlying bonds include other elements than the effect of changes in the relevant benchmark interest rate and the prepayment option is therefore not consistent with the SPPI test in IFRS 9 and are mandatorily measured at FVPL.

To eliminate the accounting mismatch that would exist if the loans are measured at fair value through profit or loss and the issued bonds at amortised cost, the issued bonds are designated at fair value through profit or loss using the fair value option for financial liabilities in IFRS 9. As the fair value of the loans is based on the fair value of the issued bonds, fair value changes of the issued bonds are offset by fair value changes of the loans, including the changes related to the fair value of the own credit risk of the issued bonds. For example, if the credit quality of the bonds worsens the fair value of the liability decreases and the fair value of the loans also decreases. Therefore, fair value changes of own credit risk on the issued bonds are recognised in the income statement, as an accounting mismatch would otherwise be created if changes in own credit risk were recognised in other comprehensive income.

The value of the loans is affected by changes in the credit risk on the loans. In 2021, the Group recognised DKK 252 million regarding changes in the credit risk on loans at fair value (2020: DKK 340 million) see note G11. At the end of 2021, the accumulated changes in the credit risk amounted to DKK 3,197 million (2020: DKK 3,094 million). The amounts are determined as the amount of the change in fair value that is not attributable to changes in market conditions that give rise to market risk, with the latter being represented by the fair value of the funding issued bonds. The Group does not use credit derivatives or similar instruments to mitigate the exposure to credit risk.

The holding of own mortgage bonds includes pre-issued bonds of DKK 21 billion (2020: DKK 25 billion) used for FlexLån® refinancing in January 2022 and bonds of DKK 39 billion (2020: DKK 39 billion) that relate to investments under insurance contracts, pooled schemes and unit-linked investment contracts where most of the risk is assumed by customers and most of the return on the assets accrues to customers.

The nominal value of bonds issued by Realkredit Danmark equals the amount to be redeemed on maturity.

Notes – Danske Bank Group

G16. Loans and issued bonds at fair value continued

Fair value adjustment for the credit risk on issued mortgage bonds, i.e. own credit risk, is calculated on the basis of the option-adjusted spread (OAS) to government bond yields or, for variable-rate loans, the swap rate. The calculation incorporates maturity, nominal holdings and OAS sensitivity. As a number of estimates are made, the calculation is subject to uncertainty.

In 2021, the Danish mortgage bond yield spread increased, and the fair value of issued mortgage bonds thus decreased by approximately DKK 7 billion. In 2020, the Danish mortgage bond yield spread narrowed, causing an increase in the fair value of issued mortgage bonds of about DKK 1 billion. Based on the outstanding portfolio at the end of 2021, it is estimated that there has been a net widening of the spread since the issuance of the bonds, which produces a positive fair value of approximately DKK 0.5 billion (2020: negative fair value of approximately DKK 5.0 billion). Net profit and shareholders' equity remain unaffected by the change in fair value because the spread widening increased the value of mortgage loans correspondingly.

Fair value adjustment for the credit risk on issued mortgage bonds may also be calculated on the basis of changes in similar AAA-rated mortgage bonds offered by other Danish issuers. The market for such bonds is characterised by an absence of measurable price differences between bonds with similar characteristics from different issuers. Using this method, no fair value adjustment for credit risk in 2021 or the period since issuance has been required.

(d) Further explanation on loans, deposits and issued bonds by the Group's trading units

The loans in the Group's trading units (Markets and Investment Banking & Securities in LC&I) are managed and their performance reported on a fair value basis. The loans are mandatorily recognised at fair value through profit or loss as the business model is neither 'held to collect' nor 'held to collect and sell'. The loans consist primarily of reverse transactions and short-term loans. In order not to introduce an accounting mismatch, the financial liabilities in the trading units are designated at fair value through profit or loss, using the fair value option in IFRS 9.

The financial liabilities consist of issued bonds (certificates of deposits and commercial papers) and deposits (including repo transactions) with a maturity no longer than six months in general. Fair value changes attributable to the Group's own credit risk are presented in other comprehensive income. During 2021, changes in fair value attributable to the Group's own credit risk recognised in Other Comprehensive Income amounted to DKK 0 million (2020: DKK 0 million). In the balance sheet, deposits in the trading units are presented together with other deposits. The amount that the Group would be contractually required to pay at maturity amounts to DKK 24,093 million (2020: DKK 8,107 million) for bonds issued by the Group's trading units.

Notes – Danske Bank Group

G17. Assets and deposits under pooled schemes and unit-linked investment contracts

Assets and deposits under pooled schemes and unit-linked investment contracts comprises contributions to pooled schemes and unit-linked contracts defined as investment contracts. Assets include shares and bonds issued by the Group. Holdings of those assets are deducted from equity or eliminated. Consequently, the value of the line item Deposits under pooled schemes and unit-linked investment contracts exceeds that of Assets under pooled schemes and unit-linked investment contracts.

Accounting policy

Assets earmarked for customer savings are measured at fair value and recognised under Assets under pooled schemes and unit-linked investment contracts. Deposits made by customers are recognised under Deposits under pooled schemes and unit-linked investment contracts. These deposits are measured at the value of savings, corresponding to the fair value of the assets.

	Pooled schemes		Unit-linked contracts		Total	
(DKK millions)	2021	2020	2021	2020	2021	2020
(a) Assets						
Bonds	21,693	18,363	5,145	4,205	26,838	22,568
Shares	17,557	17,977	2,620	2,039	20,177	20,016
Unit trust certificates	16,810	17,278	12,100	17,163	28,910	34,441
Other	75	-239	982	6,118	1,057	5,879
Total	56,135	53,380	20,847	29,525	76,982	82,905
including						
own shares	138	165	13	12	151	177
other intra-group balances	52	-122	124	56	176	-66
Total assets recognised in balance sheet	**55,945**	**53,337**	**20,710**	**29,458**	**76,654**	**82,795**
(b) Deposits	**56,135**	**53,380**	**20,847**	**29,525**	**76,982**	**82,905**

Notes – Danske Bank Group

G18. Assets and liabilities under insurance contracts

Assets under insurance contracts comprise assets earmarked for policyholders because most of the return accrues to policyholders. As the assets can be used only for payment of insurance liabilities, they are presented as a single line in the balance sheet. Liabilities under insurance contracts comprise primarily life insurance provisions regarding average rate insurance contracts and obligations for guaranteed benefits under unit-linked insurance contracts. Assets include shares and bonds issued by the Group. The holdings of those assets are deducted from equity or eliminated. Consequently, the value of Liabilities under insurance contracts exceeds the value of Assets under insurance contracts.

Accounting policy

Assets include financial assets, investment property, tangible assets and associates. The financial assets are managed on a fair value basis with no short-term profit taking. The business model for managing the assets is therefore neither 'held to collect' nor 'held to collect and sell' and the financial assets are therefore mandatorily recognised at fair value through profit or loss. The valuation technique used matches the Group's accounting policy for similar assets.

Recognition of life insurance provisions is based on actuarial computations of the present value of expected benefits for each insurance contract. The accounting for insurance liabilities follows the requirements in the Danish FSA's executive order on financial reports for insurance companies etc.

Life insurance provisions include guaranteed benefits, a risk margin and individual bonus potentials.

Guaranteed benefits comprise obligations to pay guaranteed benefits to policyholders. These obligations are calculated as the present value of current guaranteed benefits plus the present value of expected future administrative expenses less the present value of future premiums. The actuarial computations rely on assumptions about a number of variables, including mortality and disability rates, and the expected frequency of surrenders and conversions into paid-up policies. The risk margin is the expected market payment to an acquirer of a policy in return for assuming the risk that the payment obligations under the policy deviate from the present value of the best estimate of the cash flows. The risk margin is determined using a margin on mortality intensity and intensity relating to conversions into paid-up policies and surrenders.

Policyholders' share of the technical basis for insurance policies with a bonus entitlement not yet allocated to the individual policyholder is recognised in the collective bonus potential. Individual bonus potentials are calculated for the portfolio of insurance policies with bonus entitlement as the difference between the value of a policyholder's savings and the present value of guaranteed benefits under the policy.

Liabilities also depend on the discount yield curve, which is fixed on the basis of a European Insurance and Occupational Pension Authority (EIOPA) yield curve and a volatility adjustment, also set by EIOPA.

Provisions for unit-linked insurance contracts are measured at fair value on the basis of each contract's share of the earmarked assets and of the benefits guaranteed in the contract.

Notes – Danske Bank Group

G18. Assets and liabilities under insurance contracts continued

(a) Assets under insurance contracts (DKK millions)	2021	2020
Due from credit institutions	10,502	8,908
Investment securities	562,541	570,638
Holdings in associates	9,612	10,257
Investment property	14,425	15,720
Tangible assets	41	37
Reinsurers' share of provisions	106	287
Other assets	7,749	4,398
Total	604,976	610,245
including		
own bonds	39,414	39,332
own shares	507	441
other intra-group balances	17,249	24,764
Total assets	547,806	545,708

Investment securities under insurance contracts (DKK millions)	2021	2020
Listed bonds	179,887	208,758
Unlisted bonds	5,300	4,698
Listed shares	27,090	25,308
Unlisted shares	45,353	35,047
Unit trust certificates	178,363	139,002
Other securities	126,548	157,825
Total	562,541	570,638

(b) Liabilities under insurance contracts (DKK millions)	2021	2020
Life insurance provisions without collective bonus potential	154,065	171,442
Collective bonus potential	17,657	12,801
Provisions for unit-linked insurance contracts	252,121	219,509
Profit margin	7,903	6,854
Other technical provisions	17,598	18,130
Total provisions for insurance contracts	449,344	428,736
Other liabilities	156,453	181,768
Intra-group balances	-17,061	-18,574
Total	588,736	591,930

Provisions for insurance contracts (DKK millions)	2021	2020
Balance as at 1 January	428,736	411,632
Transferred to liabilities in disposal groups held for sale	-4,482	-
Premiums paid	35,970	27,364
Benefits paid	-27,449	-26,547
Interest added to policyholders' savings	24,180	13,757
Fair value adjustment	-10,250	6,525
Foreign currency translation	-	-367
Change in collective bonus potential	4,855	-1,134
Other changes	-2,216	-2,494
Balance as at 31 December	449,344	428,736

Notes – Danske Bank Group

G18. Assets and liabilities under insurance contracts continued

(c) Further explanation

In December 2021, Danske Bank entered into an agreement to sell Danica Pensjonforsikring AS (Danica Pension business segment in Norway). The sale is conditional on approval by the relevant authorities, with final approval expected in the first half of 2022. The assets and liabilities in Danica Pensjonforsikring AS are therefore presented under Assets held for sale and Liabilities in disposal groups; see note G23. This has reduced assets under unit-linked investment contracts by DKK 23,979 million and deposits under unit-linked investment contracts by DKK 23,124 million, see note G17.

The measurement of insurance liabilities is based on the requirements in the Danish FSA's executive order on financial reports for insurance companies etc. and is harmonised to the measurement under the Solvency II framework.

Below the different components of liabilities related to insurance contracts are explained.

Life insurance provisions

Life insurance provisions comprise obligations towards policyholders to

- pay guaranteed benefits
- pay bonuses over time on agreed premiums not yet due
- pay bonuses on premiums and other payments due
- include a risk margin

Recognition of life insurance provisions is based on actuarial computations of the present value of expected future benefits for each insurance contract using the discount rate at the balance sheet date. These computations rely on assumptions about a number of variables, including mortality and disability rates, and the expected frequency of surrenders and conversions into paid-up policies. Estimates of future mortality rates are based on Danish FSA benchmarks, while other estimates are based on empirical data from Danica Pension's own portfolio of insurance contracts. Estimates are updated regularly. The life insurance provisions also include a risk margin. Obligations for guaranteed benefits are calculated as the present value of current guaranteed benefits plus the present value of expected future administrative expenses less the present value of future premiums.

Insurance obligations are calculated by discounting the expected cash flows using a discount yield curve and a volatility adjustment, both defined by EIOPA as part of the Solvency II rules.

Collective bonus potential

Provisions for the collective bonus potential are the policyholders' part of the value of the bonus entitlement not yet allocated to the individual policyholders.

Provisions for unit-linked insurance contracts

Provisions are measured at fair value on the basis of each contract's share of the earmarked assets and of the benefits guaranteed in the contract.

Profit margin

The profit margin is the present value of the future profit on contracts expected to be recognised in the income statement concurrently with the provision of insurance cover and any other benefits under the contract. For products where life insurance and health and accident insurance are written together, these are measured collectively. Accordingly, the profit margin on the customers' savings component is reduced by an amount similar to the provision for losses on health and accident insurance that can be included in the profit margin before the reduction.

Other technical provisions

Other technical provisions includes outstanding claims provisions for non-life insurance contracts, unearned premiums provisions, a risk margin for non-life insurance contracts and provisions for bonuses and premium discounts. The item includes the provision for health and accident insurance contracts.

Other liabilities

Other liabilities includes the portion of Danica Pension's other liabilities assumed by customers. Other types of liabilities are measured in accordance with the Group's accounting policies for such liability types.

Notes – Danske Bank Group

G19. Intangible assets

Intangible assets consist of goodwill and customer relations taken over on the acquisition of undertakings. Further, acquired and internally developed software is recognised as an asset if certain criteria are fulfilled.

The Group did not make any acquisitions of undertakings in 2021 and in 2020. No impairment loss on goodwill was recognised in 2021 or 2020.

Accounting policy

Goodwill

Goodwill arises on the acquisition of an undertaking and is calculated as the difference between the cost (until 1 January 2010 including direct transaction costs) of the undertaking and the fair value of its net assets, including contingent liabilities, at the time of acquisition. Goodwill is allocated to cash-generating units at the level at which management monitors the investment.

Goodwill is not amortised; instead, each cash-generating unit is tested for impairment once a year, or more frequently if indications of impairment exist. Goodwill is written down to its recoverable amount through profit and loss if the carrying amount of the net assets of the cash-generating unit exceeds the higher of the assets' fair value less costs to sell and their value in use, which equals the present value of the future cash flows expected from the unit.

Goodwill on associates is recognised under Holdings in associates.

Other intangible assets

Identifiable intangible assets taken over on the acquisition of undertakings, such as customer relations, are measured at their fair value at the time of acquisition and amortised over their expected useful live, usually five to ten years, according to the straight-line method and tested for impairment if indications of impairment exist.

Software acquired is measured at cost, including expenses incurred to make a software application ready for use. Software acquired is amortised over its expected useful life, usually three years, according to the straight-line method.

Software developed by the Group is recognised as an asset if the cost of development is reliably measurable and analyses show that future earnings from using the individual software applications exceed the cost. Cost includes expenses incurred to make a software application ready for use. Once a software application has been developed, the cost is amortised over its expected useful life, usually three years, according to the straight-line method. The cost of development consists primarily of direct remuneration and other directly attributable development costs. Costs incurred in the planning phase are not included but are expensed when incurred.

Software is tested for impairment if indications of impairment exist and is written down to its value in use.

(a) Intangible assets (DKK millions)	2021	2020
Goodwill	6,131	6,128
Customer relations	855	988
Software, acquired or internally developed	1,833	1,669
Total	**8,819**	**8,785**

In 2021, the Group recognised software development costs of DKK 1,804 million as an asset (2020: DKK 1,616 million) and expensed DKK 2,862 million (2020: DKK 2,230 million). An impairment loss of DKK 36 million was recognised in 2021 on software development costs (2020: DKK 379 million).

(b) Further explanation of impairment testing of goodwill

The Group's goodwill is tested for impairment at least once a year by testing at the level of identifiable cash-generating units to which goodwill has been allocated. Further, if goodwill in a cash-generating unit is fully impaired, a further impairment loss is recognised as an impairment loss on intangible or tangible assets, if any.

The impairment test in 2021 and 2020 did not reveal any impairment loss.

Notes – Danske Bank Group

G19. Intangible assets continued

(DKK millions)	1.January 2020 Goodwill	Foreign currency translation	31 December 2020 Goodwill	Foreign currency translation	31 December 2021 Goodwill
LC&I, General Banking	509	-2	507	-	507
LC&I, Markets and Investment Banking & Securities	2,104	-9	2,095	-1	2,094
LC&I, Asset Management	1,816	-8	1,808	-1	1,807
Danica Pension	1,627	-	1,627	-	1,627
Others	99	-8	91	5	96
Total	**6,155**	**-27**	**6,128**	**3**	**6,131**

Model applied in the goodwill impairment tests for 2021 and 2020

The impairment test compares the recoverable amount and the carrying amount for each cash-generating unit. The recoverable amount is represented by the present value of expected future cash flows (value in use). The special debt structure of financial institutions requires the use of a discounted dividend (equity) model to calculate the present value of expected future cash flows, as the interest on lending and borrowings is included as part of the cash flows.

The carrying amount for each cash-generating unit is the aggregate of the cash-generating unit's goodwill and allocated capital. The cash-generating unit's allocated capital is derived using the Group's capital allocation framework. The capital framework is based on a regulatory approach to identify the individual business unit's capital consumption and is in accordance with the Group's capital targets. The capital framework includes the expected impact from implementation of Basel IV. In the impairment test for 2021, the capital target for 2022 has been increased from 15.0% to 15.5% compared to prior year's test.

For each cash generating unit, the expected future cash flow is based on approved strategies and earnings estimates for the budget period representing the first five years. Future cash flows are budgeted based on actual performance in 2021 to take into account the impact of the corona crisis. Earnings are expected to normalise from 2022. For the terminal period, the steady state normalised level of earnings (expected dividend) is expected to grow at a constant growth rate equal to expected real GDP growth. Cash flow estimates are post-tax, and the risks of the individual cash-generating units are reflected in the estimated earnings. Accordingly, the risk-adjusted cash flows carry a similar risk profile. The estimated cash flows are discounted at the Group's risk-adjusted required rates of return post-tax.

Cash generating units with goodwill

Large Corporates & Institutions, General Banking

In 2007, Danske Bank acquired the shares of the Sampo Bank group and incorporated its banking activities into the business structure of Danske Bank's banking activities. In the beginning of 2011, General Banking was separated from banking activities into an independent unit, resulting in reallocation of goodwill to the unit. As a result of organisational changes in 2012, General Banking became part of Corporates & Institutions as a separate cash generating unit. At the organisational changes in 2021, Corporates & Institutions was renamed to Large Corporates & Institutions.

Large Corporates & Institutions, Markets and Investment Banking & Securities

The trading activities of Sampo Bank were incorporated into the business structure of Danske Markets in 2007. As a result of organisational changes in 2012, Danske Markets became part of Corporates & Institutions as a separate cash generating unit. In 2015, the unit was renamed to FI&C and Capital Markets. At the organisation changes in 2021, Corporates & Institutions was renamed to Large Corporates & Institutions and FI&C and Capital Markets to Markets and Investment Banking & Securities.

Large Corporates & Institutions, Asset Management

The asset management activities of Sampo Bank were incorporated into the business structure of Danske Capital in 2007. In addition to the acquisition of Sampo Bank, goodwill recognised by Danske Capital is attributable to a number of smaller acquisitions. As a result of organisational changes in 2016, Danske Capital became part of Wealth Management as a separate cash generating unit. At the organisational changes in 2021, the Wealth Management segment was dissolved and the asset management activities were transferred to Large Corporates & Institutions as a separate subsegment.

Danica Pension

This includes the acquisition of Danica Pensionsforsikring (formerly SEB Pension Danmark) in 2018 by the subsidiary Danica Pension. In 2019, Danica Pensionsforsikring was merged with Danica Pension. After the merger and integration of Danica Pensionsforsikring into Danica Pension, this goodwill is tested on the cash generating unit consisting of Danica Pension's Danish activities. Danica Pension used to be part of the Wealth Management segment. At the organisational changes in 2021, the Wealth Management segment was dissolved and Danica Pension became a separate segment.

Key assumptions for goodwill impairment tests

Discount rate

The discount rate used to calculate the present value of expected future cash flows is unchanged from the test in 2020 and is 7% after tax. The discount rate has been determined on the basis of the Capital Asset Pricing Model and comprises a risk-free interest rate, the market risk premium and a factor covering the systematic market risk (beta factor). The values for the risk-free interest rate, the market risk premium and the beta factor are determined and updated yearly using external sources of information. The Group applies the same discount rate to all cash-generating units, as the risks of the individual cash-generating units are reflected in their estimated cash flows.

Notes – Danske Bank Group

G19. Intangible assets continued

Cash flows in the terminal period

Cash flows in the terminal period reflect net earnings (dividend) in the preceding year growing at a constant rate. The growth estimates are determined on the basis of Danske Research's forecasts of real GDP growth for the relevant markets. For Asset Management, the assumed growth rate in the terminal period is 1.5% (2020: 1.4%), for Danica Pension the rate is 0% (2020: 0%), and for General Banking as well as for Markets and Investment Banking & Securities, the rate is 1.5% (2020: 1.5%). Around 82% of the net present value of future cash flows is expected to be generated in the terminal period (2020: 84%).

Large Corporates & Institutions, General Banking

Earnings are primarily affected by expectations for the interest level and its resulting effect on net interest income, as well as expectations for net fee income, on operating expenses and on credit losses.

The *interest rate levels* used in the impairment test are based on Danske Research's expectations for developments in overnight money market interest rates. The interest rates are expected to stay negative throughout the budget period (2020: positive from 2025). When interest rate levels increase, the return on allocated capital will increase. Earnings on lending and deposits depend on the growth in lending and deposits volumes and on changes in lending and deposit margins. Expectations for growth in lending and deposits reflect Danske Bank's budgets for the first years and subsequently Danske Research's forecasts for real GDP growth. As lending and deposit margins are assumed to be constant regardless of the interest rate level, earnings from lending and deposits are not particularly sensitive to changes in the interest rate level.

Fee income is expected to decrease in 2022 from the level in 2021 due to large single transactions in 2021 and loss of customers. Fee income is expected to normalise in 2023 and continue to increase with the growth in GDP over the following years, however from a lower level.

For 2022 *operating expenses* is expected to increase based on projections. 2023 to 2026 is based on expected wage inflation and other costs with general inflation.

The expectations for *credit losses* are for the budget period based on Danske Bank's estimates for the through-the-cycle level throughout the budget period, reflecting historical data adjusted to reflect the current situation, including the impact from the corona crisis. Credit losses are expected to increase and stablise at a higher level than compared to 2021.

Large Corporates & Institutions, Markets and Investment Banking & Securities

Earnings are primarily affected by expectations for net fee income, net trading income and costs.

Fee and trading income have been forecasted with the growth in GDP. Projections are based on expected fee and trading income for 2021 to reflect the impact of the corona crisis. Income is impacted by interest on calculated equity and Capital cost. Interest on calculated equity is calculated based on the overnight money market interest rate and the allocated capital. The interest rates are expected to stay negative throughout the budget period (2020: positive from 2025). Capital costs are expected to increase driven by higher capital consumption.

For 2022 *operating expenses* is expected to increase per year based on projections. 2023 to 2026 is based on expected wage inflation and other costs with general inflation.

Large Corporates & Institutions, Asset Management

Earnings at Asset Management depend primarily on the management fee on assets under management. Expected cash flows therefore depend on expectations for changes in assets under management and the average margin on those assets. For the period until the terminal period, changes in assets under management depend on net sales and on the accumulation of market returns on the assets. Assets under management increased in 2021 compared to 2020. Asset under management is expected to continue to grow with the growth in GDP. The average margin on assets under management is expected to be 0.35% (2020: 0.32%). The budgeted average margin on assets under management is in line with the realised margin for 2021. All assumptions reflect management's expectations.

Danica Pension

Earnings are budgeted based on specific management forecast and projections, which includes expected reserves and provisions, fees and margins, operating cost base and effects from planned management actions. Future cash flows are budgeted based of estimates for 2021 taking into account the impact of the corona crisis on income and solvency capital requirements. Management actions mainly includes capital optimisation initiatives based on capital planning projections. For financial years after the forecast period, cash flows are projected based on the last year in the forecast period adjusted for an expected growth of 0% (2020: 0%), The growth rate reflects the expected long-term growth rate for life insurance.

Notes – Danske Bank Group

G19. Intangible assets continued

Sensitivity analysis

For *General Banking*, the excess value (the amount by which the recoverable amount exceeds the carrying amount of goodwill) amounts to DKK 7,880 million (2020: DKK 12,812 million). The reduction in excess value is mainly due to higher capital consumption driven by a number of regulatory implementations. If the growth in the terminal period is reduced from 1.5% to -0.8% (2020: from 1.5% to -3.0%) or the discount rate is increased from 7.0% to 8.7% (2020: increased from 7.0% to 10.2%) the excess value would be zero.

For *Markets and Investment Banking & Securities*, the excess value amounts to DKK 5,239 million, which is on same level as last year (2020: DKK 5,282 million). If the growth in the terminal period is reduced from1.5% to -0.6% (2020: from 1.5% to -0.3%) or the discount rate is increased from 7.0% to 9.6% (2020: increase from 7.0% to 8.4%), the excess value would be zero.

For *Asset Management*, the excess value amounts to DKK 1,759 million (2020: DKK 1,087 million). The increase in excess value is driven by an increase in assets under management and the increase in the average margin on assets under management from 0.32% in the 2020 test to 0.35% in the 2021 test. If the growth in the terminal period is reduced from 1.5% to -6.5% (2020: from 1.4% to -2.5%) or the discount rate is increased from 7.0% to 12.1% (2020: from 7.0% to 9.7%), the excess value would be zero.

For *Danica Pension*, the excess value amounts to DKK 2,300 million (2020: DKK 1,500 million). The excess value increased mainly because of additional dividend potential compared to the solvency rate target. The excess value is particularly sensitive to regulatory driven increase in the solvency capital requirements. Sensitivity calculations show that an increase of the solvency capital requirement of DKK 1 billion (2020: DKK 1 billion) at the end of 2021 would reduce the excess value by DKK 1.0 billion (2020: DKK 0.9 billion). If the growth in the terminal period is reduced from 0% to -1.0% (2020: from 0% to -1.0%), the excess value would decreased by DKK 1.8 billion (2020: an impairment loss of DKK 0.3 billion would have been recognised). If the discount rate is increased from 7.0% to 8.0% (2020: increase from 7.0% to 8.0%), the excess value would decrease by DKK 1.7 billion (2020: an impairment loss of DKK 0.3 billion would have been recognised).

Notes – Danske Bank Group

G20. Due to credit institutions and central banks and Deposits

Amounts due to credit institutions and central banks and Deposits also include amounts received under repo transactions (sales of securities which the Group agrees to repurchase at a later date). Such transactions are presented as collateralised borrowings.

Accounting policy

Amounts due to credit institutions and central banks and Deposits in the Group's trading units (Markets and Investment Banking & Securities in LC&I) are designated at fair value through profit or loss. However, the amount of the change in fair value attributable to the Group's own credit risk is recognised in other comprehensive income.

All other balances are measured at amortised cost. If fixed-rate deposits are hedged effectively by derivatives, the fair value of the hedged interest rate risk is added to the amortised cost of the liabilities.

(a) Due to credit institutions and central banks (DKK millions)	2021	2020
Designated at fair value:		
Repo transactions	71,190	76,805
Other amounts due	13,573	16,068
Total designated at fair value	**84,763**	**92,873**
Amortised cost:		
Repo transactions	-	8,707
Other amounts due	88,213	109,602
Total amortised cost	88,213	**118,309**
Total	**172,976**	**211,182**

(b) Deposits (DKK millions)	2021	2020
Designated at fair value:		
Repo transactions	122,201	138,462
Time deposits	12,131	12,382
Total designated at fair value	**134,332**	**150,844**
Amortised cost:		
Transaction accounts	1,042,751	1,090,686
Time deposits	98,499	75,388
Pension savings etc.	16,448	16,863
Total amortised cost	**1,157,698**	**1,182,937**
Total	**1,292,030**	**1,333,781**

(c) Further explanation on balances designated at fair value through profit or loss

Any changes in the fair value that is attributable to changes in the Group's own credit risk of the liabilities are recognised in other comprehensive income. As the deposits are collateralised and/or with a short maturity, no change in the fair value is attributable to changes in the Group's own credit risk. The amount that the Group would be contractually required to pay at maturity amounts to DKK 84.8 billion (2020: DKK 93.4 billion) for Due to credit institutions and central banks and DKK 134.3 billion (2020: DKK 150.8 billion) for Deposits.

Notes – Danske Bank Group

G21. Tax

Tax assets and liabilities are divided into current and deferred tax in this note. Current tax relates to expected tax to be paid on the profit for the year, whereas deferred tax relates to temporary differences between the tax base of assets and liabilities and their carrying amount in the balance sheet. Further, this note gives an overview of the Group's tax expense for the year and the effective tax rate broken down by country.

Accounting policy

Current tax

Current tax assets and liabilities are recognised in the balance sheet as the estimated tax payable on the profit for the year adjusted for prepaid tax and prior-year tax payables and receivables. Tax assets and liabilities are offset if the Group has a legally enforceable right to set off such assets and liabilities and intends either to settle the assets and liabilities on a net basis or to realise the assets and settle the liabilities simultaneously.

Deferred tax

Deferred tax on all temporary differences between the tax base of assets and liabilities and their carrying amounts is accounted for in accordance with the balance sheet liability method. Deferred tax is measured on the basis of enacted or substantially enacted tax regulations and rates that are applicable in the relevant countries at the time the deferred tax is expected to crystallise as current tax. Changes in deferred tax as a result of changes in tax rates are recognised in the income statement on the basis of expected cash flows. The Group does not recognise deferred tax on temporary differences between the tax base and the carrying amounts of goodwill not subject to amortisation for tax purposes and other items if the temporary differences arose at the time of acquisition without effect on net profit or taxable income. If the tax base may be calculated according to several sets of tax regulations, deferred tax is measured in accordance with the regulations that apply to the use of the asset or settlement of the liability as planned by management. Tax assets arising from unused tax losses are only recognised if it is expected that such tax losses can be offset against tax on future profit in the next five years. Deferred tax assets and liabilities are offset when they relate to the same tax jurisdiction, a legally enforceable right to offset exists and the Group intends to settle on a net basis.

Current and deferred tax is calculated on the profit for the year, and adjustments of prior-year tax charges are recognised in the income statement. Tax on items recognised under Other comprehensive income is recognised under Other comprehensive income. Similarly, tax on items recognised in equity is recognised in equity. When uncertainty over tax treatment exists, the uncertainty is reflected by using either the most likely outcome (if the possible outcomes are binary or are concentrated on one value) or the expected value, probability weighted amounts in a range of possible outcomes (if there is a range of possible outcomes that are neither binary nor concentrated on one value).

Notes – Danske Bank Group

G21. Tax continued

(a) Tax assets and liabilities (DKK millions)

	Tax assets		Tax liabilities	
	2021	2020	2021	2020
Current tax charge	3,998	4,448	70	16
Deferred tax	512	754	1,794	1,805
Total tax	**4,510**	**5,202**	**1,864**	**1,821**

(b) Change in deferred tax (DKK millions)

2021	1 January	Foreign currency translation	Included in profit for the year	Included in shareholders' equity	31 December
Intangible assets	173	-7	-21	-	145
Tangible assets	1,559	12	-130	5	1,446
Securities	12	-	-2	-	10
Provisions for obligations	587	35	-6	-40	576
Tax loss carry forwards	-450	-29	228	-	-251
Other	-829	-6	226	-34	-643
Total	**1,051**	**5**	**295**	**-69**	**1,282**
2020					
Intangible assets	263	4	-94	-	173
Tangible assets	1,941	-12	-371	1	1,559
Securities	8	1	3	-	12
Provisions for obligations	312	-18	332	-39	587
Tax loss carry forwards	-170	9	-289	-	-450
Other	-728	7	-37	-71	-829
Total	**1,625**	**-9**	**-456**	**-109**	**1,051**

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 future profit in the next five years. The tax base of unrecognised tax loss carry-forwards, relating primarily to the Group's banking operations in Ireland, amounted to DKK 2.9 billion (2020: DKK 2.9 billion).

Notes – Danske Bank Group

G21. Tax continued

(c) Tax expense

Tax 2021 (DKK millions)	Denmark	Finland	Sweden	Norway	UK	Ireland	Other	Total
Tax on profit for the year	1,811	300	590	736	137	-26	103	3,651
Tax on other comprehensive income	-110	-	50	-	-238	-	-	-298
Tax on profit for the year								
Current tax charge	2,010	295	686	349	336	-	115	3,791
Transferred to other comprehensive income	-110	-	50	-	-238	-	-	-298
Change in deferred tax	84	10	-68	381	22	26	-6	449
Adjustment recognised tax loss					-22	-26		-48
Adjustment of prior-year tax charges	-173	-5	-78	6	-10	-26	-6	-292
Change in deferred tax charge as a result of increased tax rate	-	-	-	-	49	-	-	49
Total	**1,811**	**300**	**590**	**736**	**137**	**-26**	**103**	**3,651**
Effective tax rate %								
Tax rate	22.0	20.0	20.6	25.0	22.8	12.5		
Non-recognised tax loss						-12.5		
Non-taxable income	-0.5	-3.3	-0.4	-0.8	-0.5	-		
Non-deductible expenses	5.6	1.4	0.3	-	3.0	-		
Tax on profit for the year	**27.1**	**18.1**	**20.5**	**24.2**	**25.3**	-		
Adjustment of prior-year tax charges	-2.4	-0.3	-2.4	0.2	-2.0	-15.7		
Adjustment recognised tax loss	-	-	-	-	-4.7	-		
Change in deferred tax charge as a result of increased tax rate	-	-	-	-	10.3	-		
Effective tax rate	**24.7**	**17.8**	**18.1**	**24.4**	**28.9**	**-15.7**	-	
Tax on other comprehensive income								
Remeasurement of defined benefit plans	8	-	50	-	-204	-	-	-146
Hedging of units outside Denmark	-73	-	-	-	-	-	-	-73
Bonds at fair value (OCI)	-45	-	-	-	-34	-	-	-79
Total	**-110**	-	**50**	-	**-238**	-	-	**-298**

Notes – Danske Bank Group

G21. Tax continued

Tax 2020 (DKK millions)	Denmark	Finland	Sweden	Norway	UK	Ireland	Other	Total
Tax on profit for the year	1,192	115	617	-304	23	2	70	1,715
Tax on other comprehensive income	48	-	-10	-	71	-	-	109
Tax on profit for the year								
Current tax charge	1,028	174	577	76	-79	-	122	1,898
Transferred to other comprehensive income	48	-	-10	-	71	-	-	109
Change in deferred tax	216	-64	-	-377	42	3	-65	-245
Adjustment recognised tax loss					-7	-3		-10
Adjustment of prior-year tax charges	-100	5	49	-3	-14	2	13	-48
Change in deferred tax charge as a result of increased tax rate	-	-	1	-	10	-	-	11
Total	**1,192**	**115**	**617**	**-304**	**23**	**2**	**70**	**1,715**
Effective tax rate %								
Tax rate	22.0	20.0	21.4	25.0	24.0	12.5		
Non-recognised tax loss						-12.5		
Non-taxable income	-0.8	-11.0	-0.1	3.1	-5.5	-		
Non-deductible expenses	12.0	4.3	0.3	-1.3	9.4	-		
Tax on profit for the year	**33.2**	**13.3**	**21.6**	**26.8**	**27.9**	**-**		
Adjustment of prior-year tax charges	-2.6	0.7	1.9	0.3	-11.9	10.9		
Adjustment recognised tax loss	-	-	-	-	-5.5	-		
Change in deferred tax charge as a result of increased tax rate	-	-	-	-	8.4	-		
Effective tax rate	**30.6**	**14.0**	**23.5**	**27.1**	**18.9**	**10.9**	**-**	**27.2**
Tax on other comprehensive income								
Remeasurement of defined benefit plans	2	-	-10	-	46	-	-	38
Hedging of units outside Denmark	11	-	-	-	-	-		11
Bonds at fair value (OCI)	35	-	-	-	25	-	-	60
Total	**48**	**-**	**-10**	**-**	**71**	**-**	**-**	**109**

Notes – Danske Bank Group

G22. Issued bonds

The issued bonds presented in this note consist of preferred senior, non-preferred senior and subordinated bonds issued by the Group, with the exception of additional tier 1 capital accounted for as equity. Note G16 provides more information about issued bonds measured at fair value through profit or loss and note G25 provides more information about additional tier 1 capital accounted for as equity.

Preferred senior bonds are presented under the balance sheet item Issued bonds at amortised cost, while non-preferred senior and subordinated bonds are presented as separate line items in the balance sheet. Non-preferred senior bonds rank senior to subordindated debt and junior to other debt. Subordinated bonds are liabilities in the form of subordinated loan capital and other capital instruments which, in case of the Group's voluntary or compulsory winding-up, will not be repaid until the claims of its ordinary and non-preferred senior creditors have been met. Subordinated bonds include additional tier 1 capital that converts into a variable number of ordinary shares if the common equity tier 1 capital ratio falls below 7% for Danske Bank A/S or Danske Bank Group (the trigger event). The number of shares the additional tier 1 capital could potentially convert into is a function of the share price at the time of conversion, however, minimised to USD 23.97 per share (a maximum of 62.6 million shares for the outstanding amount of the capital of USD 1.5 billion). This capital utilises 70% of the Board of Directors' authorisation to issue shares without pre-emption rights. For further information on the Group's additional tier 1 capital, see note G25.

Accounting policy

Issued bonds, both senior, non-preferred senior and subordinated bonds, are at initial recognition measured at fair value less transaction costs and subsequently measured at amortised cost plus the fair value of the hedged interest rate risk. Interest expense is recognised according to the effective interest rate method, including amortisation of any difference between the amount received on issue and the redemption amount.

The Group issues perpetual bonds with discretionary interest payments that fulfil the requirements for additional tier 1 capital under the Capital Requirements Regulation (CRR). If a trigger event occurs, those bonds must be either written down temporarily or converted into a variable number of ordinary shares, depending on the terms of the individual bond issue. Bonds that convert into a variable number of ordinary shares are accounted for as liabilities, while bonds that are temporarily written down are accounted for as equity. For liability accounted bonds, the interest expense is recognised in the income statement, i.e. the bonds are accounted for as liabilities in their entirety.

The yield on some issued bonds depends on an index that is not closely linked to the bonds' financial characteristics, for example an equity or commodity index. Such embedded derivatives are bifurcated and measured at fair value in the trading portfolio.

(a) Other issued bonds

Issued bonds at fair value

(DKK millions)	2021	2020
Bonds issued by Realkredit Danmark (covered bonds)	770,661	775,844
Commercial papers and certificates of deposits	24,248	8,183
Issued bonds at fair value, total	**794,909**	**784,027**

Bonds issued by Realkredit Danmark under the Group's green bond framework amounted to a nominal value of DKK 17,008 million outstanding at the end of 2021 (2020: DKK 9,809 million).

Issued bonds at amortised cost

(DKK millions)	2021	2020
Commercial papers and certificates of deposits	1,488	14,184
Preferred senior bonds	65,221	61,344
Covered bonds	157,145	170,044
Issued bonds at amortised cost, total	**223,854**	**245,573**
Non-preferred senior bonds	107,654	106,371

Further information on issued bonds at fair value through profit or loss can be found in note G16. The issuance and redemption of bonds (including commercial papers and certificates of deposits at fair value) during the year and the maturity of the outstanding bonds are presented in the tables below.

Notes – Danske Bank Group

G22. Issued bonds continued

Nominal value (DKK millions)	1 January 2021	Issued	Redeemed	Foreign currency translation	31 December 2021
Commercial papers and certificate of deposits	22,515	53,067	52,783	913	23,712
Preferred senior bonds	63,352	27,282	27,717	4,805	67,724
Covered bonds	168,445	33,344	34,037	-2,685	165,067
Non-preferred senior bonds	105,028	4,371	6,422	5,126	108,104
Other issued bonds	**359,340**	**118,066**	**120,959**	**8,159**	**364,607**

Nominal value (DKK millions)	1 January 2020	Issued	Redeemed	Foreign currency translation	31 December 2020
Commercial papers and certificate of deposits	10,821	42,906	30,474	-738	22,515
Preferred senior bonds	75,280	19,920	28,411	-3,437	63,352
Covered bonds	176,489	31,420	38,780	-684	168,445
Non-preferred senior bonds	86,891	23,706	-	-5,569	105,028
Other issued bonds	**349,481**	**117,952**	**97,665**	**-10,428**	**359,340**

The Group has issued non-preferred senior bonds in accordance with the Group's green bond framework. At the end of 2021, the nominal value of green non-preferred senior bonds amounted to DKK 7,437 million (2020: DKK 3,720 million) and is included under non-preferred senior bonds in the tables above.

Broken down by maturity

(DKK millions)	2021	2020
Redeemed bonds 2021		77,001
2022	108,626	64,527
2023	83,355	61,787
2024 or later	172,626	156,026
Nominal value of other issued bonds	364,607	359,340
Fair value hedging of interest rate risk	1,814	8,385
Premium/discount	1,494	1,072
Own holding of bonds issued	12,158	8,671
Total other issued bonds	**355,756**	**360,126**

Notes – Danske Bank Group

G22. Issued bonds continued

(b) Subordinated debt

Subordinated debt consists of liabilities in the form of issued subordinated bonds. Some of these bonds (presented as liability accounted additional tier 1 capital below) rank below other subordinated bonds. Early redemption of subordinated debt must be approved by the Danish FSA. Subordinated debt is included in total capital in accordance with the CRR.

The issuance and redemption of subordinated debt during the year and the maturity of the outstanding debt are presented in the tables below.

Nominal value (DKK millions)	1 January 2021	Issued	Redeemed	Foreign currency translation	31 December 2021
Subordinated debt, excluding liability accounted additional tier 1 capital	23,058	5,577	3,718	-22	24,895
Liability accounted additional tier 1 capital	9,079	4,565	-	1,110	14,754
Total subordinated debt	**32,137**	**10,142**	**3,718**	**1,088**	**39,649**

Nominal value (DKK millions)	1 January 2020	Issued	Redeemed	Foreign currency translation	31 December 2020
Subordinated debt, excluding liability accounted additional tier 1 capital	21,571	3,721	2,180	-54	23,058
Liability accounted additional tier 1 capital	10,014	-	-	-935	9,079
Total subordinated debt	**31,585**	**3,721**	**2,180**	**-989**	**32,137**

Currency	Borrower	Note	Nominal (millions)	Interest rate	Year of issue	Maturity	Redemption price	2021 (DKK m)	2020 (DKK m)
Subordinated debt, excluding liability accounted additional tier 1 capital									
Redeemed loans 2021									3,720
EUR	Danica	a	500	4.375	2015	29.09.2045	100	3,718	3,720
EUR	Danske Bank A/S	b	750	2.50	2019	21.06.2029	100	5,577	5,579
SEK	Danske Bank A/S	c	1,000	var	2019	14.11.2029	100	727	740
EUR	Danske Bank A/S	d	750	1.375	2019	12.02.2030	100	5,577	5,579
EUR	Danske Bank A/S	e	500	1.50	2020	02.09.2030	100	3,718	3,720
EUR	Danske Bank A/S	f	750	1.00	2021	15.05.2031	100	5,577	-
Subordinated debt, excluding liability accounted additional tier 1 capital								**24,895**	**23,058**
Liability accounted additional tier 1 capital									
USD	Danske Bank A/S	g	750	6.125	2017	Perpetual	100	4,918	4,539
USD	Danske Bank A/S	h	750	7.00	2018	Perpetual	100	4,918	4,539
USD	Danske Bank A/S	i	750	4.375	2021	Perpetual	100	4,918	-
Liability accounted additional tier 1 capital								**14,754**	**9,079**
Nominal subordinated debt								39,649	32,137
Discount								-184	-169
Fair value hedging of interest rate risk								29	435
Own holding of subordinated debt								-172	-66
Total subordinated debt								**39,321**	**32,337**
Portion included in total capital as additional tier 1 or tier 2 capital instruments								**35,931**	**28,417**

Total capital further includes DKK 5,577 billion (2020: DKK 8,579 billion) from the additional tier 1 bond issues accounted for as equity (see note G25).

Notes – Danske Bank Group

G22. Issued bonds continued

a Optional redemption from September 2025. If the debt is not redeemed, the annual interest rate will be reset at 4.38 percentage points above the 10-year EUR swap rate every tenth year until maturity. Solvency II compliant tier 2 capital and included in Danica's capital bas e.

b Optional redemption in June 2024. If the debt is not redeemed, the annual interest rate will be reset at 2.50 percentage points above the 5 year EUR swap rate for the remaining five years until maturity. CRR compliant tier 2 capital.

c Optional redemption in November 2024. If the debt is not redeemed, the quarterly interest rate will be reset at 1.90 percentage points above the 3-month STIBOR rate for the remaining five years until maturity. CRR compliant tier 2 capital.

d Optional redemption in February 2025. If the debt is not redeemed, the annual interest rate will be reset at 1.70 percentage points above the 5-year EUR swap rate for the remaining five years until maturity. CRR compliant tier 2 capital.

e Optional redemption in September 2025. If the debt is not redeemed, the annual interest rate will be reset at 1.90 percentage points above the 5-year EUR swap rate for the remaining five years until maturity. CRR compliant tier 2 capital.

f Optional redemption in May 2026. If the debt is not redeemed, the annual interest rate will be res et at 1.40 percentage points above the 5-year EUR swap rate for the remaining five years until maturity. CRR compliant tier 2 capital.

g Optional redemption from March 2024. If the debt is not redeemed, the annual interest rate will be reset at 3.896 perce ntage points above 7-year USD swap rate. CRR compliant tier 1 capital. The capital converts into a variable number of shares if Danske Bank Group's or Danske Bank A/S' common equity tier 1 capital ratio falls below 7%. The instrument is included as a CRR c ompliant additional tier 1 capital instrument in the statemen t of capital.

h Optional redemption from June 2025. If the debt is not redeemed, the annual interest rate will be reset at 4.130 percentage p oints above 5-year CMT rate. CRR compliant tier 1 capital. The capital converts into a variable number of shares if Danske Bank Group's or Danske Bank A/S' comm on equity tier 1 capital ratio falls below 7%. The instrument is included as a CRR compliant additional tier 1 capital instrumen t in the statement of capital.

i Optional redemption from May 2026. If the debt is not redeemed, the annual interest rest will be reset at 3.387 percentage po ints above the 5 year CMT rate. The capital coverts into a variable number of shares if Danske Bank Group's or Dansk e Bank A/S's common equity tier 1 capital ratio falls below 7%. The instrument is included as a CRR compliant additional tier 1 capital instrument in the statement of capital.

Notes – Danske Bank Group

G23. Assets held for sale and Liabilities in disposal groups

Assets held for sale and Liabilities in disposal groups held for sale includes assets and liabilities that fall under IFRS 5.

Accounting policy

Assets held for sale and Liabilities in disposal groups

Assets held for sale are tangible assets and disposal groups of assets actively marketed for sale and for which a sale is expected to occur within 12 months. A disposal group is a group of assets that will be disposed of in a single transaction and includes any directly associated liabilities. A disposal group includes for example companies (subsidiaries) taken over under non-performing loan agreements. Further, loans that are marketed for sale are transferred to Assets held for sale. The loans are written down to their expected selling price.

When significant, assets held for sale and liabilities in disposable groups held for sale are presented separately in the balance sheet.

Tangible assets held for sale are measured at the lower of their carrying amount at the time of reclassification and their fair value less expected costs to sell and are no longer depreciated. For disposal groups, the net assets in the disposal group are remeasured at the lower of the carrying amount of the net assets in the disposal group at the time of reclassification and fair value less expected cost to sell.

If a disposal group of assets and liabilities represents a separate major line of business (typically a reportable segment) or a geographical area of operation or is a subsidiary acquired exclusively with a view of resale, it is presented as a discontinued operation. For a discontinued operation, net profit is presented as a single item 'Net profit from discontinued operations' in the income statement, i.e. no longer included as income and expenses from the Group's continuing operations.

(DKK millions)	2021	2020
Assets held for sale		
Loans held for sale	4,539	416
Assets under insurance contracts	23,979	-
Other	282	293
Total	**28,800**	**709**
Liabilities in disposal groups		
Deposits held for sale	6,453	47
Insurance liabilities	23,124	-
Total	**29,577**	**47**

In December 2021, Danske Bank entered into an agreement for the sale of Danica Pensjonforsikring AS (Danica Pension business segment in Norway) to Storebrand. Assets and liabilities in Danica Pensjonforsikring AS primarily include assets and liabilities under insurance contracts of DKK 23,979 million and DKK 23,124 million respectively, which have been classified as assets held for sale and liabilities in disposal groups.

Loans held for sale and associated deposits consists of loan portfolios where the Group has entered into sales agreements. In July 2021, Danske Bank entered into a binding contract for the sale of the business activities of Danske Bank International in Luxembourg (part of the business segment Personal & Business Customers) to Union Bancaire Privée SA. The sale will be settled in the first quarter of 2022. The sale includes loans, assets under management and deposits with a book value of DKK 4,539 million, DKK 0 million and DKK 6,453 million respectively, that have been classified as assets held for sale and liabilities in disposal groups. At the end of 2020, loans held for sale included a portfolio of loans to commercial customers in Latvia of DKK 416 million. The sale was settled in the first quarter of 2021.

Assets held for sale also includes lease assets (where the Group acts as lessor) put up for sale at the end of the lease and properties taken over by the Group under non-performing loan agreements. The Group expects to sell the properties through a real estate agent within 12 months from the date of acquisition. The properties comprise properties in Denmark and in other countries.

Notes – Danske Bank Group

G24. Other assets and Other liabilities

The Group uses quantitative and qualitative materiality considerations when aggregating line items in the balance sheet that are not considered individually material. Such line items are presented under Other assets or Other liabilities and consist of net assets or net liabilities in defined benefit pension plans, investment property, tangible assets, right-of-use lease assets and lease liabilities and holdings in associates.

The Group uses clean pricing of financial instruments, and accrued interest is therefore included in Other assets and Other liabilities. In addition, prepayments and accrued income and expenses are included under Other assets and Other liabilities. Other staff commitments includes provisions for holiday payments, variable remuneration, severance pay etc. The provisions recognised represent the compensation that the employee has earned and that is expected to be paid to the employee.

Accounting policy

Defined benefit pension plans

When the Group has entered into defined benefit pension plans, the amounts payable are recognised on the basis of an actuarial computation of the present value of expected benefits. The present value is calculated on the basis of expected future trends in salaries and interest rates, the time of retirement, mortality rates and other factors. The present value of pension benefits less the fair value of pension assets is recognised as a pension obligation for each plan under Other liabilities. If the net amount of a defined benefit pension plan is positive and may be repaid to the Group or reduce its future contributions to the plan, the net amount is recognised under Other assets. The discount rate is determined by reference to yields on high-quality corporate bonds with terms matching the terms of the pension obligations.

Right of use lease assets and lease liabilities

The Group recognise a right-of-use asset and a lease liability at the commencement date, for all lease agreements, that the Group has entered into as lessee, except short-term leases and leases of low value asset. The lease liability is initially measured at the present value of the future payments from lease components, discounted using the incremental borrowing rate for the individual lease. The lease liability is subsequently measured by increasing the carrying amount, to reflect interest and by reducing the carrying amount to reflect the lease payments made. Further lease liabilities are changed when remeasurements are needed, corresponding adjustment is the related right-of-use asset. Gain or loss from a lease modification, (excluding modifications that change the basis for determining future lease payments as a result of the Interest Rate Benchmark Reform) that are not accounted for as a separate lease, is recognised in profit and loss. If a lease modification is necessary as a direct consequence of the interest rate benchmark reform, and the new basis for determining the lease payments is economically equivalent to the previous basis immediately preceding the modification, then the lease liability shall be remeasured by discounting the revised lease payments. The initial right-of-use asset comprise the amount of the initial measurement of the lease liability, lease payments made at or before the commencement day, initial direct costs and costs to restore the underlying asset. The right-of-use asset are subsequently measured at cost less accumulated depreciation and impairment losses. The right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset. When the Group is an intermediate lessor, the Group accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Investment property

Investment property is real property, including real property let under operating leases, which the Group owns for the purpose of receiving rent and/or obtaining capital gains. Real property with both domicile (occupied by the Group's support, administrative and back-office functions) and investment property elements is allocated proportionately to the two categories if the elements are separately sellable. If that is not the case, such real property is classified as investment property if the Group occupies less than 10% of the total floorage. Investment property is recognised at fair value. Fair value adjustments and rental income are recognised under Other income. Real property taken over by the Group under non-performing loan agreements that is expected to be sold within 12 months of classification is valued in accordance with the principles used for investment property but presented as Assets held for sale.

Tangible assets

Tangible assets include domicile property and plant and equipment. Plant and equipment cover equipment, vehicles, furniture, fixtures and leasehold improvements. Tangible assets also include lease assets, i.e. assets let under operating leases, except real property. Lease assets includes cars, lorries and equipement. Tangible assets are measured at cost and depreciated over the estimated useful life. The estimated useful life is 20-50 years for domicile property, 3-10 years for plant and equipment and three years for lease assets. Depreciation charges are recognised under Operating expenses.

Tangible assets are tested for impairment if indications of impairment exist. An impaired asset is written down to its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

Loan commitments and guarantees

The Group issues a number of loan commitments and guarantees. Such exposures are subject to impairment for excepted credit losses. Further information can be found in note G15.

Other provisions, including litigations

Provisions for other obligations, such as lawsuits, are recognised if the obligation is likely to result in a payment obligation and the amount can be measured reliably. Liabilities are recognised at the present value of expected payments.

Notes – Danske Bank Group

G24. Other assets and Other liabilities continued

(a) Other assets and other liabilities (DKK millions)	2021	2020
Other assets*		
Accrued interest and commissions due	3,450	3,607
Prepayments, accruals and other amounts due	18,558	14,271
Defined benefit pension plan, net assets	2,451	2,547
Investment property	2,263	2,256
Tangible assets	8,583	8,547
Right of use lease assets	3,922	4,819
Holdings in associates	206	209
Total	**39,433**	**36,255**
Other liabilities		
Sundry creditors	41,191	32,852
Accrued interest and commissions due	5,845	6,676
Defined benefit pension plans, net liabilities	441	642
Other staff commitments	1,986	3,022
Lease liabilities	3,909	4,761
Loan commitments and guarantees etc.	2,335	2,724
Reserves subject to a reimbursement obligation	5	9
Other provisions, including litigations	557	558
Total	**56,268**	**51,244**

*Using the Group's quantitative and qualitative materiality considerations, Assets held for sale and Liabilities in disposal groups are presented as separate line items in the balance sheet as at 31 December 2021 and, therefore, the comparative figures for Other assets and Other liabilities have been restated.

Information on defined benefit plans and holdings in associates is provided in notes G9 and G39, respectively.

(a) Further explanation other assets

Investment property is recognised at fair value, and any change in fair value is recognised through profit or loss under Other income. Information on the method used to determine the fair value of investment properties is provided in note G34.

Right-of-use lease assets includes domicile property of DKK 3,149 million (2020: DKK 3,938 million) and other tangible assets of DKK 773 million (2020: DKK 881 million). The depreciation charge is respectively DKK 733 million (2020: DKK 731 million) and DKK 111 million (2020: DKK 111 million). The interest expense on the corresponding lease liability is DKK 63 million (2020: DKK 76 million). There has been no significant impairment losses of the right-of-use lease assets in 2021 and 2020.

Tangible assets consist primarily of lease assets (where the Group acts as lessor). Further, it includes domicile property (not held for sale) amounting to DKK 151 million (2020: DKK 140 million). If indications of impairment exist, the properties are written down to the lower of the carrying amount and its value in use determined on the basis of the rate of return used for investment property. Note G34 provides more information. There was no write-down in 2021, nor in 2020. The fair value of the properties was DKK 297 million (2020: DKK 286 million). The required rate of return of 7.8% (2020: 3.4%) was determined in accordance with Danish FSA rules.

Notes – Danske Bank Group

G24. Other assets and Other liabilities continued

(b) Further explanation other liabilities

The table below shows an analysis of provisions by class of provision

Provisions	Customer remediations	Regulatory and legal proceedings	Restructuring cost	Other provisions
Balance as at 1 January 2020	628	10	260	1,870
Additional provisions made	377	1	785	23
Amounts used	50	1	188	43
Reversals	151	1	24	3
Foreign exchange adjustments	-	-	-3	-5
Balance as at 31 December 2020	**804**	**8**	**830**	**1,842**
Additional provisions made	154	-	66	73
Amounts used	174	2	492	67
Reversals	181	5	78	8
Foreign exchange adjustments	-	-	1	6
Balance as at 31 December 2021	**603**	**2**	**327**	**1,846**

Customer remediation refers to activities to compensate customers for losses or damages associated with a failure to comply with regulations or to treat customers fairly. Customer remediation is often initiated by the Group in response to customer complaints and/or industry developments in sales practices and is not necessarily initiated by regulatory action. Customer remediation includes the provision for customer compensation in the debt collection case, issues with the Group's tax services and other investor protection cases. The analysis of customer remediation will continue into 2022, therefore the timing of these provisions remains uncertain.

Regulatory and legal proceedings include civil court, arbitration or tribunal proceedings brought against companies within the Danske Bank Group (whether by way of claim or counterclaim) or civil disputes that may, if not settled, result in court, arbitration or tribunal proceedings. Regulatory matters refer to investigations, reviews and other actions carried out by, or in response to the actions of, regulators or law enforcement agencies in connection with alleged wrongdoing by companies within the Danske Bank Group. For further information on regulatory and legal proceedings, including the Estonia matter, see note G27(c).

Restructuring costs include provisions for severance pay in connection with termination of employees and provisions for branch mergers and closure of office sites. Other provisions includes the provision of DKK 1.5 billion (2020: DKK 1.5 billion) for the donation of the estimated gross income from the non-resident portfolio at the Estonian branch. The foundation will be set up to support initiatives aimed at combating international financial crime. Any confiscated or disgorged gross income will be deducted from the donation to the foundation. Further, Other provisions includes a provision of DKK 0.3 billion (2020: DK 0.3 billion) for restoration of lease assets.

In the table above showing the decomposition of Other liabilities, Customer remediation are included in the line item Sundry creditors, Regulatory and legal proceedings are included in the line item Other provisions, including litigations, Restructuring cost are included in the line item Sundry creditors and Other provisions, are included in the line items Sundry creditors and Other provisions, including litigations.

Further analysis of the movement in the expected credit loss provision is disclosed within the 'Reconciliation of total allowance account' in note G15.

Notes – Danske Bank Group

G25. Equity

Equity is the residual interest in the assets after deducting all liabilities recognised in the balance sheet. Equity is divided between capital and reserves that are attributable to holders of shares issued by the Group (owners of Danske Bank A/S) and other parties holding an interest in the net assets of the Group.

At the end of 2021, the nominal value of issued additional tier 1 capital in Danske Bank Group amounted to DKK 20,331 million (2020: DKK 17,658 million) of which DKK 5,577 million (2020: DKK 8,579 million) is accounted for as equity instruments and DKK 14,754 million (2020: 9,079 million) as liability instruments, see note G22. Danske Bank A/S may, at its sole discretion, omit interest and principal payments to bondholders. Additional tier 1 capital that are accounted for as equity instruments are included in equity as a non-controlling interest. This means that equity was increased at the time of issue by the net proceeds received. When interest is paid, the amount paid to investors reduces equity at the time of payment and does not affect net profit. If the Group decides to repay the capital, equity will be reduced by the redemption amount at the time of redemption. The capital issued is included in tier 1 capital instruments in the statement of capital as it meets the criteria of the CRR for such instruments.

Accounting policy

Equity is the residual interest in recognised assets after deduction of recognised liabilities. In this context, the following items are of particular interest:

Own shares

Amounts received or paid for the Group's sale or purchase of Danske Bank shares are recognised directly in equity under transactions with owners. The same applies to premiums received or paid for derivatives entailing settlement in own shares. A capital reduction by cancellation of own shares will lower the share capital by an amount equal to the nominal value of the shares at the time of registration of the capital reduction.

Additional tier 1 capital

The capital instruments accounted for as equity instruments include no contractual obligation to deliver cash or another financial asset to the holders, as Danske Bank A/S may, at its sole discretion, omit payment of interest and principal payments to the bondholders. Therefore, the issue does not fall under the definition of financial liabilities under IAS 32. The net amount received at the time of issue is recognised as an increase in equity. Interest payments are accounted for as dividends, which are recognised directly in equity at the time the payment obligation arises. If Danske Bank A/S chooses to redeem the bonds, equity will be reduced by the redemption amount at the time of redemption. Amounts received or paid for the sale or acquisition of own holdings of additional tier 1 capital instruments are recognised directly in equity, similarly to holdings of own shares.

(a) Further explanation

Equity consists of various components, including the accumulated balance of each class of other comprehensive income, retained earnings and issued additional tier 1 capital. The various components of equity are described below. Tax on items recognised directly in equity is recognised under Retained earnings.

Foreign currency translation reserve

Assets and liabilities of units outside Denmark are translated into DKK at the applicable exchange rates at the balance sheet date. Income and expenses are translated at the applicable exchange rates at the transaction date. Gains and losses arising at the translation of net investments in units outside Denmark are recognised under Other comprehensive income and recognised in the foreign currency translation reserve in equity. Net investments include the net assets and goodwill of the units as well as holdings in the form of subordinated loan capital and other loans to the units for which settlement is neither planned nor likely to occur in the foreseeable future. Exchange rate adjustments of financial liabilities used for hedging the Group's net investments are also recognised under Other comprehensive income and in the foreign currency translation reserve. Further information can be found in Note G12(d).

If the net investment in a unit outside Denmark is sold, translation differences, including the impact from hedge, are reclassified from Other comprehensive income to the income statement.

Reserve for bonds at fair value through other comprehensive income

The reserve covers unrealised fair value adjustments, other than expected credit losses and foreign exchanges gains and losses, of bonds measured at fair value through other comprehensive income. Unrealised fair value adjustments of hedged interest rate risks that qualify for fair value hedge accounting are recognised in the income statement and are not included in the reserve. When bonds are sold, the Group reclassifies unrealised value adjustments from the reserve to the income statement.

Proposed dividends

The Board of Directors' proposal for dividends for the year submitted to the general meeting is included as a separate reserve in equity. The dividends are recognised as a liability when the general meeting has adopted the proposal.

Notes – Danske Bank Group

G25. Equity continued

Share-based payments

Share-based payments by the Group are settled in Danske Bank shares. The fair value at the grant date is expensed over the vesting period and set off against equity. At the time of exercise, payments by employees are recognised as an increase in equity. As with other purchases of Danske Bank shares, shares acquired for hedging purposes reduce equity by the amount paid.

Non-controlling interests

Non-controlling interests' share of equity equals the carrying amounts of the net assets in group undertakings not owned directly or indirectly by Danske Bank A/S. Non-controlling interests amounted to DKK 0 million (2020: DKK 0 million) and are presented under 'Additional tier 1 capital' as other holders of equity than shareholders of the parent company.

Additional tier 1 capital holders

This reserve includes the net proceed received at the time of issuance and accrued interest not yet paid to the holders of the capital.

As described above, Danske Bank A/S may, at its sole discretion, cancel interest payments to additional tier 1 bond holders (equity accounted as well as liability accounted bonds). Any interest payments must be paid out of distributable items, which primarily consist of retained earnings at Danske Bank A/S and Danske Bank Group (see section 6.4.3 of Risk Management 2021 for further information). The additional tier 1 capital will be either written down temporarily or converted into a variable number of shares (depending on if the common equity tier 1 ratio falls below 7% for Danske Bank A/S or Danske Bank Group). The ratio at year-end is disclosed in the statement of capital for Danske Bank A/S and Danske Bank Group. Bonds that are temporarily written down are accounted for as equity, while bonds that convert into a variable number of ordinary shares are accounted for as liabilities (included in note G22).

Outstanding equity accounted additional tier 1 capital

Currency	Borrower	Note	Nominal (DKK m)	Interest rate	Year of issue	Maturity	2021 (DKK m)	2020 (DKK m)
Equity accounted additional tier 1 capital								
Redeemed capital instruments 2021								3,000
EUR	Danske Bank A/S	a	750	5.880	2015	Perpetual	5,577	5,579
Equity accounted additional tier 1 capital							**5,577**	**8,579**

The amounts shown in the two last columns represent the nominal value translated into Danish kroner at the applicable exchange rates at 31 December, and equal the amounts included as tier 1 capital in the statement of capital. In the financial statements, the instruments have increased Equity by the proceeds received at the time of issue and is not subsequently changed due to changes in e.g. exchange rates. At the end of 2021, the fair value of the outstanding equity accounted additional tier 1 capital amounted to DKK 5,655 million (2020: DKK 8,867 million).

In November 2021, the Group redeemed DKK 3,000 million of additional tier 1 capital. The redemption led to a reduction in shareholders' equity of DKK 3,000 million. In April 2020, the Group redeemed EUR 750 million of additional tier 1 capital at the first call date. The redemption led to a reduction in shareholders' equity of DKK 5,600 million.

a. Interest is paid semi-annually at an annual rate of 5.875. If certain criteria are fulfilled, including approval by the Danish FSA, the bonds may be redeemed at par from April 2022. If the bonds are not redeemed, the annual interest rate will be reset at 5.471 percentage points above the 7-year EUR swap rate every seventh year. The capital is temporarily written down if Danske Bank Group's or Danske Bank A/S' common equity tier 1 capital ratio falls below 7%. The instrument is included as a CRR compliant additional tier 1 capital instrument in the statement of capital.

Notes – Danske Bank Group

G26. Note to the cash flow statement

This note provides further information on the cash flow statement, including a reconciliation of the cash flows arising from financing activities.

Accounting policy

The cash flow statement is prepared according to the indirect method. The statement is based on pre-tax profit for the year and shows the cash flows from operating, investing and financing activities as well as the increase or decrease in cash and cash equivalents during the year. Cash and cash equivalents consists of cash in hand and demand deposits with central banks as well as amounts due from credit institutions and central banks with an original maturity shorter than three months.

In the cash flow statement, cash flows are divided into cash flows from operations, investing activities and financing activities. Investing activities include cash flows from the sale or acquisition of tangible and intangible assets as well as businesses. Financing activities include cash flows from the Group's issued non-preferred senior bonds, subordinated debt, additional tier 1 capital (both liability- and equity-accounted bonds) and share capital.

All credit institutions and insurance companies supervised by national FSAs are subject to local statutory capital requirements. These requirements restrict intra-group facilities. Note G31 provides information on amounts due from credit institutions that are provided as collateral for liabilities or contingent liabilities.

Adjustment for non-cash operating items (DKK millions)	2021	2020
Income from holdings in associates	-175	193
Amortisation/depreciation of intangible, tangible and right-of-use assets	4,876	6,304
Loan impairment charges	141	7,089
Other	74	-594
Total	**4,916**	**12,993**

Reconciliation of liabilities from financing activities		Cash flows		Non-cash changes		
(DKK millions)	1 January 2021	Issued	Redeemed	Foreign exchange movement	Fair value changes	31 December 2021
Subordinated debt	**32,337**	**10,102**	**3,718**	**1,088**	**-488**	**39,321**
Non-preferred senior bonds	**106,371**	**4,352**	**6,309**	**5,126**	**-1,886**	**107,654**

		Cash Flows		Non-Cash Changes		
(DKK millions)	1 January 2020	Issued	Redeemed	Foreign exchange movement	Fair Value changes	31 December 2020
Subordinated debt	**31,733**	**3,721**	**2,180**	**-989**	**52**	**32,337**
Non-preferred senior bonds	**87,054**	**23,610**	**-**	**-5,569**	**1,276**	**106,371**

Fair value changes include the impact from fair value hedge accounting, amortisation of transaction costs and changes in own holdings. The cash flows from debt issued and redeemed are based on the applicable foreign exchange rate at the transaction date and net of any transaction costs etc. In note G22, which shows changes in the nominal value of subordinated debt, issue and redemption amounts excludes transaction costs etc.

Liabilities from financing activities includes lease liabilities that are recognised on the balance sheet under IFRS 16. At the end of 2021, lease liabilities amounted to DKK 3,909 million (2020: DKK 4,761 million). The cash flows included in the cash flow statement as cash flows from financing activities relates to the principal portion of the lease payments. Other changes are non-cash changes, which primarily consists of interest expenses, new leases, terminated leases and modifications of existing leases.

Notes – Danske Bank Group

G27. Guarantees, commitments and contingent liabilities

The Group uses a variety of loan-related financial instruments to meet customers' financial requirements. Such instruments include loan commitments, loan offers, other credit facilities and guarantees. This note provides information on such instruments and on other contingent liabilities.

Accounting policy

Guarantees and loan commitments are subject to the expected credit loss impairment model in IFRS 9. For further information, see note G15.

Contingent liabilities consist of possible obligations arising from past events. The existence of such obligations will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Group's control. Further, contingent liabilities consists of present obligations arising from past events, for which it is either not probable that the obligation will result in an outflow of financial resources, or it is not possible to reliably estimate the amount of the obligation.

A contingent liability is not recognised in the financial statement but disclosed, unless the possibility of an outflow of financial resources is remote.

(a) Guarantees

(DKK millions)	2021	2020
Financial guarantees	6,267	6,708
Other guarantees	74,733	65,108
Total	**81,000**	**71,816**

(b) Commitments

(DKK millions)	2021	2020
Loan commitments shorter than 1 year	271,862	276,413
Loan commitments longer than 1 year	205,503	198,830
Other unutilised commitments	16,183	18,995
Total	**493,549**	**494,239**

In addition to credit exposure from lending activities, loan offers made and uncommitted lines of credit granted by the Group amounted to DKK 194 billion (2020: DKK 242 billion). These items are included in the calculation of the total risk exposure amount in accordance with the CRR.

(c) Regulatory and legal proceedings

Estonia matter

Danske Bank remains in dialogue with various authorities regarding the terminated non-resident portfolio at the Bank's Estonian branch. This includes criminal and regulatory investigations by authorities in Estonia, Denmark, France and the United States. The Bank continues to cooperate with all authorities.

In 2018, the Estonian Office of the Prosecutor General opened a criminal investigation into former employees of the Estonian branch.

In November 2018, Danske Bank was preliminary charged by the Danish Special Crime Unit ("SCU") (previously part of the Danish State Prosecutor for Serious Economic and International Crime with violating the Danish AML Act on four counts all relating to the Estonian branch in the period from 1 February 2007 to the end of January 2016. In October 2020, SCU added violation of Section 71 of the Danish Financial Business Act for governance and control failures in the period from 1 February 2006 to the end of 2017 to the preliminary charges.

In February 2019, Danske Bank was placed under formal investigation by an investigating judge of the Tribunal de Grande Instance de Paris in the context of an on-going French criminal investigation and on the grounds of money laundering suspicions relating to certain transactions in the terminated portfolio of non-resident customers of the Bank's Estonian branch, amounting to around DKK 160 million and performed between 2007 and 2014. The Bank has posted bail in the amount of DKK 80 million.

In December 2020, Danske Bank was informed by the U.S. Department of Treasury's Office of Foreign Assets Control ("OFAC") that it had decided to close its investigation of Danske Bank in relation to the Estonia case with no action. OFAC is the U.S. authority responsible for civil enforcement of U.S. sanctions. The decision does not preclude OFAC from taking future enforcement action should new or additional information warrant renewed attention.

Notes – Danske Bank Group

G27. Guarantees, commitments and contingent liabilities continued

The Bank is reporting to, responding to and cooperating with various authorities, including SCU, the U.S. Department of Justice (DOJ) and the U.S. Securities and Exchange Commission (SEC), relating to the Bank's Estonian branch. The internal investigation work that the Bank had planned to complete during 2020 has been finalised and the Bank has reported the findings to relevant authorities. The Bank continues to fully cooperate and will provide the authorities with further information if and when requested. The overall timing of the authorities' investigations remains unknown and is not within the Bank's control. It is not yet possible to reliably estimate the timing, form of resolution, or amount of potential settlement or fines, which could be material.

Based on orders from the Danish FSA, Danske Bank's solvency need has been increased in 2018 by a Pillar II add-on of in total DKK 10 billion to ensure adequate capital coverage of the increased compliance and reputational risks in relation to the Estonian AML matter.

On 9 January 2019, an action was filed in the United States District Court for the Southern District of New York by an alleged holder of Danske Bank's American Depositary Receipts, representing its ordinary shares, against the Bank and certain of its officers and former officers and/or directors. That case is now terminated, having been dismissed with prejudice by the district court and affirmed by the US Court of Appeals for the Second Circuit in August 2021

On 3 March 2019, a court case was initiated against Danske Bank for approval of a class action lead by a newly formed association with the aim to represent former and current shareholders in a liability action relating to the Estonian AML matter. On 21 January 2021, the court dismissed the case because it did not fulfil the criteria for being approved as a class action. The association has appealed this decision. The appeal will not be decided until Q1 2022 at the earliest. In March 2019, October 2019, January 2020, March 2020, September 2020 and February 2021 a total of 320 separate cases were initiated and are still ongoing against the Bank with a total claim amount of approximately DKK 7.9 billion. On 27 December 2019 and on 4 September 2020, two separate claims were filed by 93 investors against Danske Bank with a total claim amount of approximately DKK 1.6 billion. On 2 September 2020, 20 separate claims were filed by 20 investors against Danske Bank with a total claim amount of approximately DKK 1.1 billion. On 18 September 2020, one case was filed by 201 investors with a total claim value of approximately DKK 2.1 billion. On 18 September 2020, one case was filed against the Bank and Thomas F. Borgen by two investors with a total claim amount of DKK 10 million, which was increased to approximately DKK 147 million on 3 January 2022. These court actions relate to alleged violations in the Bank's branch in Estonia of the rules on prevention of money laundering and/or alleged failure to timely inform the market of such violations (and in one claim, also market manipulation). A total of 200 cases have been referred to the Eastern High Court, while the remaining cases are stayed or pending before the Copenhagen City Court. The Bank intends to defend itself against these claims. The timing of completion of any such lawsuits (pending or threatening) and their outcome are uncertain.

On 20 February 2020, and 12 March 2021, two cases were initiated against Thomas F. Borgen by 76 institutional investors, and funded by the litigation funder Deminor Recovery Services. The total claim amount is approximately DKK 3.2 billion. The main hearing was scheduled to be held in September 2021, but this hearing was cancelled after a default judgement was issued on 14 September 2021. The case was subsequently resumed on 15 September 2021, and the main hearing provisionally scheduled for Q3 2022. Danske Bank has received procedural notifications in respect of both cases. Under Danish law, the purpose of a procedural notification is to make a formal reservation of rights to bring a potential claim against the notified party. On 12 November 2021, the Bank received a joinder statement of claim from the claimants requesting that Danske Bank be joined to the case initiated on 20 February 2020 against Thomas F. Borgen. The claim amount is currently limited to DKK 10 million with a reservation to increase this to the full amount of the claim initiated against Thomas F. Borgen on 20 February 2020. The court has not yet rendedered its decision as to whether Danske Bank should be joined to the case.

On 5 August 2021, an action was filed in the United States District Court for the Eastern District of New York by approximately 500 plaintiffs, comprising U.S. military members and U.S. civilians who allegedly were killed or wounded while serving in Afghanistan between 2011 and 2016 and their families, against the Bank and Danske Markets, Inc., as well as various branches of Deutsche Bank and Standard Chartered Bank and two money remitters Placid Express and Wall Street Exchange. Plaintiffs claim that the defendant banks and money remitters allegedly aided and abetted a terrorist syndicate that sponsored violence in Afghanistan, in violation of the Anti-Terrorism Act, through the facilitation of certain transactions that allegedly allowed funds to ultimately be transferred to the terrorist organisations. The complaint seeks unspecified punitive and compensatory damages. The Bank is defending against these claims. The timing of the completion of the lawsuit and the outcome are uncertain.

Other

Owing to its business volume, Danske Bank is continually a party to various other lawsuits and disputes and has an ongoing dialogue with public authorities, such as the Danish FSA on other matters. In general, Danske Bank does not expect the outcomes of any of these other pending lawsuits and disputes or its dialogue with public authorities to have any material effect on its financial position assessed on the basis of the expected costs of settling the obligation. Provisions for litigations are included in Other liabilities, see note G24.

Notes – Danske Bank Group

G27. Guarantees, commitments and contingent liabilities continued

(d) Further explanation

A limited number of employees are employed under terms which, if they are dismissed before reaching their normal retirement age, grant them 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 Danish 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. The first contribution to the Danish Resolution Fund was made in December 2015. 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 contribution to the Danish Resolution Fund is recognised 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. In addition, 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 Danish 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 Danish Restructuring Fund may not exceed 0.2% of its covered deposits.

The Group is a member of deposit guarantee schemes and other compensation schemes in Norway, the UK and Luxembourg. As in Denmark, the contributions to the schemes in these countries are annual contributions combined with extraordinary contributions if the means of the schemes are not sufficient to cover the required payments.

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

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

Notes – Danske Bank Group

G28. Balance sheet items broken down by expected due date

The Group presents the balance sheet items in order of liquidity instead of distinguishing between current and non-current items. The table below shows the balance sheet items expected to mature within one year (current) and after more than one year (non-current).

	2021		2020	
(DKK millions)	Within 1 year	After 1 year	Within 1 year	After 1 year
Assets				
Cash in hand and demand deposits with central banks	293,386	-	320,702	-
Due from credit institutions and central banks	70,326	830	80,831	597
Trading portfolio assets	293,561	216,029	376,776	306,173
Investment securities	99,391	204,386	73,019	223,750
Loans at amortised cost	214,459	812,983	281,021	743,586
Loans at fair value	240,764	783,697	225,662	797,661
Assets under pooled schemes and unit-linked investments contracts	-	76,654	-	82,795
Assets under insurance contracts	24,783	523,023	38,600	507,108
Assets held for sale*	28,800	-	709	-
Intangible assets	-	8,819	-	8,785
Tax assets	3,998	512	4,448	754
Other assets*	22,008	17,425	17,876	18,378
Total	**1,291,476**	**2,644,358**	**1,419,645**	**2,689,586**
Liabilities				
Due to credit institutions and central banks	136,209	36,767	172,452	38,730
Trading portfolio liabilities	72,461	302,498	103,383	395,952
Deposits	229,808	1,062,222	268,588	1,065,193
Issued bonds at fair value	148,934	645,975	146,847	637,180
Issued bonds at amortised cost, including Non-preferred senior bonds**	79,399	252,109	87,804	264,140
Deposits under pooled schemes and unit-linked investment contracts**	10,864	66,118	10,149	72,756
Liabilities under insurance contracts**	35,054	553,682	12,420	579,510
Liabilities in disposal groups held for sale*	29,577	-	47	-
Tax liabilities	70	1,794	16	1,805
Other liabilities*	51,914	4,354	45,833	5,411
Subordinated debt	-	39,321	3,743	28,594
Total	**794,289**	**2,964,841**	**851,282**	**3,089,271**

* Comparative information has been restated as described in note G2(a)

**Comparative information has been restated because text and amount were exchanged for these three balance sheet items in Annual report 2020.

Deposits include fixed-term deposits and demand deposits. Fixed-term deposits are recognised according to maturity. Demand deposits have short contractual maturities but are considered a stable funding source withåø an expected maturity of more than one year

Notes – Danske Bank Group

G29. Contractual due dates of financial liabilities

The table below shows the contractual due dates of non-derivative financial liabilities broken down by maturity time bands. The maturity analysis is based on the earliest date on which the Group can be required to pay and does not reflect the expected due date. The section on liquidity risk in the risk management notes provides information about the Group's liquidity risk and liquidity risk management.

2021 (DKK millions)	0-1 month	1-3 months	3-12 months	1-5 years	> 5 years
Due to credit institutions and central banks	120,172	11,651	1,188	37,085	1,673
Deposits	1,213,387	42,827	16,009	10,101	9,142
Repurchase obligation under reverse transactions	132,955		-	-	-
Issued bonds at fair value	36,184	16,127	104,747	487,164	231,951
Issued bonds at amortised cost	962	27,779	50,323	262,273	8,537
Subordinated debt	121	243	1,093	82,096	-
Other financial liabilities	2,825	1,162	6,878	24,438	41,680
Financial and loss guarantees	81,000	-	-	-	-
Loan commitments shorter than 1 year	204,610	-	-	-	-
Loan commitments longer than 1 year	198,830	-	-	-	-
Other unutilised loan commitments	135	-	-	-	-
Total	**1,991,182**	**99,789**	**180,236**	**903,157**	**292,982**
2020 (DKK millions)					
Due to credit institutions and central banks	139,166	22,317	10,738	38,508	1
Deposits	1,233,418	60,777	20,049	9,669	9,576
Repurchase obligation under reverse transactions	132,349		-	-	-
Issued bonds at fair value	52,969	5,045	97,131	487,550	218,185
Issued bonds at amortised cost	12,066	17,030	59,742	245,695	37,657
Subordinated debt	93	187	4,597	33,089	-
Other financial liabilities	2,774	1,005	6,371	27,242	45,514
Financial and loss guarantees	71,816	-	-	-	-
Loan commitments shorter than 1 year	204,610	-	-	-	-
Loan commitments longer than 1 year	198,830	-	-	-	-
Other unutilised loan commitments	173	-	-	-	-
Total	**2,048,265**	**106,362**	**198,626**	**841,753**	**310,932**

(a) Further explanation

Disclosures comprise agreed payments, including principal and interest. For liabilities with variable cash flows, for example variable-rate financial liabilities, disclosure is based on the contractual conditions at the balance sheet date.

Usually, deposits are contractually very short-term funding, but in practice, they are considered a stable funding source, as amounts disbursed largely equal deposits received. A number of loan commitments and guarantees expire without being utilised. Loan commitments and guarantees are included at the earliest date on which the Group can be required to pay. To take into account potential drawings under loan commitments, the Group factors in the effect of the unutilised portion of the facilities in the calculation of liquidity risk.

For guarantees to result in a payment obligation to the Group, a number of individual conditions must be met. As it is not possible to break down the earliest dates on which such conditions are met by maturity time bands, all guarantees are included in the 0-1 month column.

The table excludes investment commitments in Danica Pension of DKK 17,612 million (2020: 18,822 million). The investment commitments relate primarily to commitments to participate in alternative investments where the insurance policyholders' assume the majority of the risks on the investments.

Notes – Danske Bank Group

G30. Transferred financial assets that are not derecognised

The Group enters into transactions that transfer ownership of financial assets, such as bonds and shares, to a counterparty, while the Group retains the risks associated with the holding of the assets. If the Group retains all significant risks, the securities remain in the balance sheet, and the transactions are accounted for as loans received against collateral. Such transactions are repo transactions and securities lending. The transactions involve selling the securities to be repurchased at a fixed price at a later date. Counterparties are entitled to sell the securities or deposit them as collateral for loans.

Trading portfolio (DKK millions)	2021 Bonds	2021 Shares	2020 Bonds	2020 Shares
Carrying amount of transferred assets				
Repo transactions	193,258		237,453	
Securities lending		2,988		2,051
Total transferred assets	**193,258**	**2,988**	**237,453**	**2,051**
Repo transactions, own issued bonds	32,592		19,556	
Carrying amount of associated liabilities	226,855	3,137	257,450	2,154
Net positions	**1,006**	**149**	**441**	**103**

The Group has not entered into any agreements on the sale of assets that entail the Group's continuing involvement in derecognised financial assets.

Notes – Danske Bank Group

G31. Assets provided or received as collateral

At the end of 2021, the Group had deposited securities (including bonds issued by the Group) worth DKK 42.1 billion as collateral with Danish and international clearing centres and other institutions (2020: DKK 36.7 billion).

At the end of 2021, the Group had provided cash and securities (including bonds issued by the Group) worth DKK 73.2 billion as collateral for derivatives transactions (2020: DKK 104.0 billion).

At the end of 2021, the Group had registered assets (including bonds and shares issued by the Group) under insurance contracts and unit-linked investment contracts worth DKK 514.5 billion (2020: DKK 473.5 billion) as collateral for policyholders' savings of DKK 493.1 billion (2020: DKK 458.1 billion).

At the end of 2021, the Group had registered loans at fair value and securities worth a total of DKK 818.9 billion (2020: DKK 827.1 billion) as collateral for bonds issued by Realkredit Danmark. Note G16 provides additional information. Similarly, the Group had registered DKK 325.1 billion worth of loans and other assets (2020: DKK 326.5 billion) as collateral for covered bonds issued under Danish, Swedish and Finnish law.

The table below shows assets provided as collateral for liabilities or contingent liabilities. Assets provided as collateral under repo transactions is shown separately whereas the types explained above are included in the column 'Other'.

	2021			2020		
(DKK millions)	Repo	Other	Total	Repo	Other	Total
Due from credit institutions	-	29,928	29,928	-	28,886	28,886
Trading and investment securities	193,258	70,857	264,115	237,453	80,062	317,515
Loans at fair value	-	809,872	809,872	-	816,284	816,284
Loans at amortised cost	-	339,183	339,183	-	360,511	360,511
Assets under insurance contracts and unit-linked investment contracts	-	433,672	433,672	-	370,176	370,176
Other assets	-	50	50	-	52	52
Total	193,258	1,683,562	1,876,820	237,453	1,655,971	1,893,424
Own issued bonds	32,592	90,192	122,784	19,556	93,992	113,548
Total, including own issued bonds	**225,850**	**1,773,754**	**1,999,604**	**257,009**	**1,749,963**	**2,006,972**

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 193.3 billion at the end of 2021 (2020: DKK 237.5 billion).

At the end of 2021, the Group had received DKK 297.8 billion worth of securities (2020: DKK 309.8 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 many 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 the end of 2021, the Group had sold securities or provided securities as collateral worth DKK 133.0 billion (2020: DKK 132.3 billion).

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

Notes – Danske Bank Group

G32. Offsetting of financial assets and liabilities

Offsetting of financial assets and liabilities in the financial statements requires some criteria to be fulfilled. In the event that the counterparty or the Group defaults, further offsetting will take place. This note shows the offsetting in the financial statements, further netting according to enforceable master netting agreements and similar agreements (i.e. in the event of default) and collateral provided or received under such agreements.

Accounting policy

Assets and liabilities are offset when the Group and the counterparty have a legally enforceable right to offset recognised amounts and have agreed to settle the balances on a net basis or to realise the asset and settle the liability simultaneously. Positive and negative fair values of derivatives with the same counterparty are offset if the Group has agreed with the counterparty to settle contractual cash flows net and to make cash payments or provide collateral on a daily basis to cover changes in the fair value of the derivative position. Master netting agreements or similar agreements give the right to additional offsetting in the event of default. Such agreements reduce the exposure further in the event of default, but do not qualify for offsetting in accordance with IFRS.

2021 (DKK millions)	Gross amount	Offsetting	Net amount presented in balance sheet	Further offsetting, master netting agreements	Collateral	Net amount
Financial assets						
Derivatives with positive market value	654,261	394,037	260,224	183,395	59,732	17,098
Reverse transactions	444,162	190,208	253,954	-	253,954	-
Other financial assets	5,632	-7,124	12,756	-	-	12,756
Total	**1,104,054**	**577,121**	**526,933**	**183,395**	**313,685**	**29,853**
Financial liabilities						
Derivatives with negative market value	636,041	394,037	242,004	183,395	46,489	12,121
Repo transactions	417,063	190,208	226,855	-	225,850	1,006
Other financial liabilities	60,353	-7,124	67,476	-	-	67,476
Total	**1,113,457**	**577,121**	**536,336**	**183,395**	**272,339**	**80,603**
2020 (DKK millions)						
Financial assets						
Derivatives with positive market value	880,479	500,913	379,566	269,964	78,835	30,767
Reverse transactions	453,986	196,103	257,883	-	257,883	-
Other financial assets	15,483	5,274	10,209	-	-	10,209
Total	**1,349,948**	**702,290**	**647,657**	**269,964**	**336,718**	**40,975**
Financial liabilities						
Derivatives with negative market value	867,899	500,913	366,985	269,964	83,304	13,717
Repo transactions	453,553	196,103	257,450	-	257,009	441
Other financial liabilities	72,277	5,274	67,003	-	-	67,003
Total	**1,393,729**	**702,290**	**691,439**	**269,964**	**340,314**	**81,161**

Notes – Danske Bank Group

G33. Fair value information for financial instruments

Financial instruments are carried in the balance sheet at fair value or amortised cost. The Group breaks down its financial instruments according to the valuation method (note G1 provides additional information).

	2021		2020	
(DKK millions)	Fair value	Amortised cost	Fair value	Amortised cost
Financial assets				
Cash in hand and demand deposits with central banks	-	293,386	-	320,702
Due from credit institutions and central banks	39,462	31,694	52,402	29,026
Trading portfolio assets	509,590	-	682,948	-
Investment securities	157,056	146,721	165,141	131,628
Loans at amortised cost	-	1,027,442	-	1,024,607
Loans at fair value	1,024,461	-	1,023,323	-
Assets under pooled schemes and unit-linked investment contracts	76,654	-	82,795	-
Assets under insurance contracts	522,184	-	521,245	-
Loans held for sale	-	4,539	-	416
Total	**2,329,407**	**1,503,781**	**2,527,854**	**1,506,379**
Financial liabilities				
Due to credit institutions and central banks	84,763	88,213	92,873	118,309
Trading portfolio liabilities	374,959	-	499,334	-
Deposits	134,332	1,157,698	150,844	1,182,937
Issued bonds at fair value	794,909	-	784,027	-
Issued bonds at amortised cost	-	223,854	-	245,573
Deposits under pooled schemes and unit-linked investment contracts	76,982	-	82,905	-
Liabilities held for sale	-	6,453	-	47
Non-preferred senior bonds	-	107,654	-	106,371
Subordinated debt	-	39,321	-	32,337
Loan commitments and guarantees	-	2,335	-	2,724
Total	**1,465,945**	**1,625,529**	**1,609,983**	**1,688,298**

(a) Financial instruments at fair value

The fair value is the amount for which a financial asset or a financial liability can be exchanged between knowledgeable, willing parties. Fair value is measured on the basis of the following hierarchy:

The fair value hierarchy

- Quoted price (level 1) consists of financial instruments that are quoted in an active market. The Group uses the price quoted in the principal market.
- Valuation based on observable input (level 2) consists of financial instruments valued substantially on the basis of observable input other than a quoted price for the instrument itself. If a financial instrument is quoted in a market that is not active, the Group bases its measurement on the most recent transaction price. Adjustment is made for subsequent changes to market conditions, for instance, by including transactions in similar financial instruments that are assumed to be motivated by normal business considerations. For a number of financial assets and liabilities, no market exists. In such cases, the Group uses recent transactions in similar instruments and discounted cash flows or other generally accepted estimation and valuation techniques based on market conditions at the balance sheet date to calculate an estimated value. 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.
- Valuation based on significant non-observable input (level 3): The valuation of certain financial instruments is based substantially on non-observable input. Such instruments include unlisted shares, some unlisted bonds and a limited portion of the derivatives portfolio (2%).

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 reclassifications 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 instead become liquid and have been moved from the Observable input to the Quoted prices category.

Notes – Danske Bank Group

G33. Fair value information for financial instruments continued

Valuation techniques

The most frequently used valuation techniques include the pricing of transactions with future settlement and swap models that apply present value calculations, credit pricing models and options models, such as Black & Scholes models. As part of the Group's control environment, valuation models are validated by units that are independent of the business units that develop the models and trade in the products covered by the models. Validation is made to test the implementation, quality and operating stability of models to ensure that the models can be used for pricing and risk management of financial products.

Loans granted and bonds issued by Realkredit Danmark are recognised at the fair value of the issued bonds (the quoted price in an active market). The Group adjusts for changes to the fair value of the credit risk on borrowers etc. The adjustment is described further in note G16.

The value of derivatives, primarily long-term contracts, is determined on observable yields extrapolated to yield curves for the full duration of the contracts. Moreover, the very limited portfolio of credit derivatives is valued on the basis of observable input as well as assumptions about the probability of default (recovery rate). Unlisted shares are measured at fair value in accordance with the International Private Equity and Venture Capital Valuation Guidelines (IPEV) which are compliant with IFRS. IPEV guides the calculation of the estimated fair value of unlisted shares as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation methods include discounted cash flow models and pricing based on a multiple of earnings or equity.

Fair value adjustments

Management estimates underlie the valuation of financial instruments for which the value is based on valuation techniques. The Group makes fair value adjustments to cover changes in counterparty risk (CVA and DVA) on derivatives, funding risk (FVA and ColVA), bid-offer spreads on the net open position of portfolios with offsetting market risk, and model risk on level 3 derivatives.

Credit value adjustment (CVA), debit value adjustment (DVA) and funding value adjustment (FVA and ColVA)

The Group makes a fair value adjustment to cover the counterparty credit risk on derivatives with a positive fair value (CVA). For a given counterparty's portfolio of derivatives, CVA is calculated as a function of the probability of default (PD), the expected positive exposure (EPE) and the loss given default in the event of bankruptcy (LGD). The Group enters into derivatives transactions mainly with counterparties in the Scandinavian market.

The PDs used in the CVA model are derived from single name liquid credit default swap (CDS). If this is not available, the PDs are derived using proxy-mapping to a CDS index. For the calculation of EPE, the Group uses simulations to estimate the expected positive exposures to the counterparty's portfolio over the term of the derivatives. The exposure model is based fully on market-implied data. For the calculation of LGD, the Group uses market compliant LGD. However, for customers classified in stage 3 in relation to the expected credit loss impairment, CVA is calculated as if the derivatives were loans subject to impairment because of credit losses.

A fair value adjustment for derivatives with an expected negative exposure is made to cover the counterparty's credit risk on Danske Bank (DVA), with PD calculated according to principles similar to CVA. The Group uses PD values derived from Danske Bank's liquid CDS spread.

A fair value adjustment for derivatives to cover expected funding costs (FVA and ColVA) is calculated. FVA primarily arises from the cost of funding uncollateralised derivatives. The adjustment is a function of the unsecured funding curve and expected future exposures. ColVA takes into account the funding cost and benefit on collateralised derivatives. The ColVA adjustment was implemented in the fourth quarter of 2020 and is a function of expected collateral balances and cross-currency basis and repo spreads.

At the end of 2021, CVA, DVA, FVA and ColVA came to a net amount of DKK 0.9 billion (2020: DKK 1.5 billion), including the adjustment for credit risk on derivatives in stage 3.

Bid-offer spread

For portfolios of assets and liabilities with offsetting market risk, the Group bases its measurement of the portfolios on mid-market prices and makes fair value adjustments to recognise net assets at the bid price and net liabilities at the offer price (exit prices). At the end of 2021, these fair value adjustments totalled DKK 106 million (2020: DKK 114 million).

Model risk

To account for the uncertainty associated with measuring the value of derivatives on the basis of non-observable input (level 3 in the fair value hierarchy), the Group has established guidelines to quantify risk. The Group calculates and monitors the reserve on an ongoing basis. At the end of 2021, the reserve totalled DKK 0 million (2020: DKK 0 million).

Notes – Danske Bank Group

G33. Fair value information for financial instruments continued

Amortisation of initial margin

If, at the time of acquisition, a difference arises between the model value of a financial instrument, calculated on the basis of non-observable input and actual cost (day-one profit or loss), and the difference is not the result of transaction costs, the Group adjusts model parameters to actual cost to take the initial margin into account. Accordingly, the valuation of derivatives includes amortisation of the value of initial margins over the remaining term to maturity. The initial margins relate to elements not covered by the above CVA, DVA and FVA adjustments, such as future administrative expenses and capital consumption. At 31 December 2021, the value of unamortised initial margins was DKK 1,381 million (2020: DKK 1,407 million).

(DKK millions)	2021	2020
Unamortised initial margins at 1 January	1,407	1,306
Amortised to the income statement during the year	-370	-337
Initial margins on new derivatives contracts	449	530
Terminated derivatives contracts	-105	-92
Unamortised initial margins as at 31 December	**1,381**	**1,407**

(DKK millions)	Quoted prices	Observable input	Non-observable input	Total
31 December 2021				
Financial assets				
Due from credit institutions and central banks	-	39,462	-	39,462
Derivatives				
Interest rate contracts	3,819	181,799	1,557	187,176
Currency contracts etc.	106	72,393	549	73,048
Trading portfolio bonds	226,350	10,933	-	237,283
Trading portfolio shares	11,977	-	106	12,083
Investment securities, bonds	132,415	23,411	-	155,826
Investment securities, shares	-	-	1,230	1,230
Loans at fair value	-	1,024,461	-	1,024,461
Assets under pooled schemes and unit-linked investment contracts	76,654	-	-	76,654
Assets under insurance contracts, bonds				
Danish mortgage bonds	63,737	10,530	434	74,701
Other covered bonds	112,742	13,080	4,866	130,688
Assets under insurance contracts, shares	156,574	4,998	45,353	206,925
Assets under insurance contracts, derivatives	-	107,636	2,234	109,870
Total	**784,374**	**1,488,704**	**56,329**	**2,329,407**
Financial liabilities				
Due to credit institutions and central banks	-	84,763	-	84,763
Derivatives				
Interest rate contracts	3,819	160,810	722	165,351
Currency contracts etc.	110	75,430	1,113	76,653
Obligations to repurchase securities	130,396	2,443	116	132,955
Deposits	-	134,332	-	134,332
Issued bonds at fair value	794,909	-	-	794,909
Deposits under pooled schemes and unit-linked investment contracts	-	76,982	-	76,982
Total	**929,234**	**534,760**	**1,951**	**1,465,945**

Notes – Danske Bank Group

G33. Fair value information for financial instruments continued

(DKK millions)	Quoted prices	Observable input	Non-observable input	Total
31 December 2020				
Financial assets				
Due from credit institutions and central banks	-	52,402	-	52,402
Derivatives				
Interest rate contracts	1,935	254,211	2,172	258,318
Currency contracts etc.	86	119,787	1,375	121,248
Trading portfolio bonds	275,717	11,296	-	287,013
Trading portfolio shares	15,595	-	775	16,370
Investment securities, bonds	144,208	20,598	-	164,806
Investment securities, shares	-	-	335	335
Loans at fair value	-	1,023,323	-	1,023,323
Assets under pooled schemes and unit-linked investment contracts	82,795	-	-	82,795
Assets under insurance contracts, bonds				
Danish mortgage bonds	59,005	10,342	452	69,799
Other covered bonds	130,481	14,856	6,986	152,323
Assets under insurance contracts, shares	120,021	2,122	35,026	157,169
Assets under insurance contracts, derivatives	-	138,734	3,220	141,954
Total	**829,843**	**1,647,670**	**50,341**	**2,527,854**
Financial liabilities				
Due to credit institutions and central banks	-	92,873	-	92,873
Derivatives				
Interest rate contracts	1,535	226,059	2,279	229,873
Currency contracts etc.	85	135,622	1,405	137,112
Obligations to repurchase securities	131,193	1,048	108	132,349
Deposits	-	150,844	-	150,844
Issued bonds at fair value	784,027	-	-	784,027
Deposits under pooled schemes and unit-linked investment contracts	-	82,905	-	82,905
Total	**916,840**	**689,351**	**3,792**	**1,609,983**

Financial instruments valued on the basis of non-observable input

The tables below shows financial instruments valued on the basis of non-observable input.

		Sensitivity (change in fair value)		Gains/losses for the period	
(DKK millions)	Carrying amount	Increase	Decrease	Realised	Unrealised
31 December 2021					
Unlisted shares					
allocated to insurance contract policyholders	45,353	-	-	3,950	7,802
other	1,220	122	122	125	-12
Illiquid bonds	5,300	101	101	120	117
Derivatives, net fair value	2,504	-	-	-	-909
31 December 2020					
Unlisted shares					
allocated to insurance contract policyholders	35,026	-	-	411	-1,276
other	1,002	100	100	200	-39
Illiquid bonds	7,438	106	106	235	-236
Derivatives, net fair value	3,083	-	-	-	489

Notes – Danske Bank Group

G33. Fair value information for financial instruments continued

For unlisted shares allocated to insurance contract policyholders, the policyholders assume most of the risk on the shares. Therefore, changes in the fair value of those shares will only to a limited extent affect the Group's net profit. The Group's remaining portfolio of unlisted shares consists primarily of banking-related investments and holdings in private equity funds. The sensitivity of the fair value measurement to changes in the unobservable input disclosed in the table is calculated as a 10% increase or 10 % decrease in fair value. Under 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. The unrealised adjustments in 2021 were attributable to various unlisted shares.

The estimated fair value of illiquid bonds depends significantly on the estimated credit spread. In the table, the sensitivity of the fair value measurement to changes in non-observable input is calculated as a 50bps widening or narrowing of the credit spread.

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

Reconciliation from beginning to end of period	2021			2020		
(DKK millions)	Shares	Bonds	Derivatives	Shares	Bonds	Derivatives
Fair value at 1 January	36,028	7,438	3,083	41,223	4,099	2,480
Value adjustment through profit or loss	11,865	237	-909	-704	-1	489
Acquisitions	9,556	122	-191	7,198	4,076	-274
Sale and redemption	-10,611	-2,497	161	-9,620	-1,572	-522
Transferred from quoted prices and observable input	-	-	-2	-511	836	1,618
Transferred to quoted prices and observable input	-265	-	363	-1,558	-	-708
Fair value end of period	**46,573**	**5,300**	**2,504**	**36,028**	**7,438**	**3,083**

The value adjustment through profit or loss is recognised under Net trading income or loss. The transfer of derivatives to the Observable input category consists primarily of maturity reductions, implying that the yield curves have become observable.

(b) Financial instruments at amortised cost

In this section, the fair value of financial instruments recognised at amortised cost is presented. The fair value is based on quoted market prices, if available. If quoted prices are not available, the value is approximated to reflect the price that would have been fixed had the terms been agreed at the balance sheet date.

The fair values disclosed below are determined on the basis of the following principles:

Investment securities (bonds classified as held-to-collect), other issued bonds and subordinated debt

Quoted prices in an active market exist for a significant part of these financial instruments. If quoted prices in an active market do not exist, the Group uses an estimate of the current return required by the market to estimate the fair value.

Other financial instruments

The determination of the fair value of financial instruments recognised at amortised cost is based on the following preconditions relating to interest rate risk:

- For a significant number of the Group's deposits and loans, the interest rate depends on the standard variable rate fixed by the Group. The rate is adjusted only upon certain changes in market conditions. Such deposits and loans are considered to carry interest at a variable rate, as the standard variable rate fixed by the Group at any time applies to both new and existing arrangements.
- The interest rate risk on some fixed-rate loans extended by the Group is designated as a hedge of the interest rate risk on liabilities. Interest rate risk not hedging the interest rate risk on liabilities is hedged by derivatives. Such hedges are accounted for as fair value hedges, and the fair value of the hedged interest risk is adjusted in the carrying amount of the hedged financial instruments. Consequently, only fair value changes related to fixed-rate loans not hedged by derivatives are adjusted in the fair values presented in the table below.

For financial instruments that are only to a limited extent influenced by changes in credit risk, the amortised cost, including the adjustment for the fair value hedge accounting of the interest rate risk, is a reasonable approximation of fair value. This is the case for Due from/to credit institutions and central banks and Deposits.

It is assessed that the expected credit loss impairment model used for loans measured at amortised cost is a reasonable proxy for the fair value of the credit risk.

Notes – Danske Bank Group

G33. Fair value information for financial instruments continued

In the table below, fair value is presented for classes of financial instruments for which the carrying amount is not a reasonable approximation of fair value.

31 December 2021 (DKK millions)	Carrying amount	Fair value	Quoted prices	Observable input	Non-observable input
Financial assets					
Investment securities	146,721	146,286	132,476	13,810	-
Loans at amortised cost	1,027,442	1,026,701	-	8,035	1,018,666
Financial liabilities					
Issued bonds, including non-preferred senior bonds	331,508	334,761	274,019	32,913	27,830
Subordinated debt	39,321	40,835	40,427	408	-

31 December 2020 (DKK millions)	Carrying amount	Fair value	Quoted prices	Observable input	Non-observable input
Financial assets					
Investment securities	131,628	133,910	113,230	20,680	-
Loans at amortised cost	1,024,607	1,024,316	-	9,546	1,014,769
Financial liabilities					
Issued bonds, including non-preferred senior bonds	351,944	355,210	293,842	31,149	30,220
Subordinated debt	32,337	33,853	33,135	718	-

(c) Impact of IBOR Reform on financial instruments

The Interest Rate Benchmark Reform will replace existing benchmark inter-bank offered rates (IBORs) with alternative risk-free rates. At the beginning of 2019, the Group formally established an IBOR Transition Programme, the main objectives being to identify how the IBOR transition will affect the Group financially and operationally, and identify how cessation of IBOR publications would affect the Group's ability to service its customer base. The programme has looked at both the financial and operational impact of the transition towards risk free rates and how to engage with customers that have been affected. The programme will continue into 2022 as attention turns to the USD LIBOR contracts and the transition of these ahead of the 30 June 2023 deadline. In addition, the programme will also undertake a review on how the introduction of the DESTR and SWESTR indexes could affect its core Nordic base.

In 2020, IASB issued amendments IAS 39 (Interest Rate Benchmark Reform phase II), to be applied from 1 January 2021. The amendments introduce a practical expedient to account for a change to the basis for determination of the contractual cash flows of financial assets and financial liabilities at the date on which interest rate benchmarks are altered or replaced. Under the practical expedient, a change to the determination of the contractual cash flows is applied prospectively by altering the effective interest rate to reflect, for example, the change in an interest rate benchmark from IBOR to an alternative benchmark rate, and therefore not leading to a modification gain or loss recognised in the income statement. To be applicable for the practical expedient, a change must meet two conditions: (a) the change is necessary as a direct consequence of the reform, and (b) the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

The table below shows the nominal contract amount of all non-derivative financial assets and non-derivative financial liabilities that are yet to transition to alternative rates at the end of 2021, by the major reference rates. These exposures are segregated across a number of components parts: principally, USD LIBOR contracts that will be actively transitioned during 2022/23 before this benchmark ceases to be published after 30 June 2023; customer contracts that had an interest rate period that straddled the year-end and which will repay or be transitioned at the next interest rate reset; and legacy GBP contracts that in the future will continue to use Synthetic LIBOR until they can be re-negotiated. The financial instruments that are reported at amortised cost are disclosed at their gross carrying value and do not include any expected credit losses that are held against them. Balances held at fair value are reported at their fair value as at 31 December 2021. The nominal amount of derivatives that are yet to transition to alternative benchmarks is disclosed in G12(d).

Non-derivative financial instruments yet to transition to alternative benchmark rates as at 31 December 2021

(DKK millions)	Financial assets	Financial liabilities
USD LIBOR	21,144	4,288
GBP LIBOR	2,878	3,574
Other	461	43
Total	**24,483**	**7,905**

The amendments further introduce reliefs from existing hedge accounting requirements, which are detailed in G12(d).

Notes – Danske Bank Group

G34. Non-financial assets recognised at fair value

Non-financial assets are recognised at fair value on a recurring or non-recurring basis after initial recognition. Investment property is measured at fair value on a recurring basis, and assets that are marketed for sale and expected to be sold within one year are written down to fair value less expected costs to sell, i.e. measured at fair value on a non-recurring basis.

Accounting policy

Investment property (fair value on recurring basis)

Investment property is recognised at fair value through profit or loss. Property investments are made for own investment purposes and recognised under Other assets, or on behalf of insurance customers and recognised under Assets under insurance contracts and Assets under pooled schemes and unit-linked investment contracts. Value adjustments of investment property are recognised under Other income.

The fair value is assessed by the Group's valuers at least once a year on the basis of a discounted cash flow model.

Assets held for sale (fair value on non-recurring basis)

Assets held for sale are measured at the lower of cost and fair value less expected costs to sell and are no longer depreciated.

(a) Investment property (DKK millions)	2021	2020
Fair value as at 1 January	2,256	2,644
Value adjustment through profit or loss	-35	-14
Acquisitions and improvements	279	139
Sale	237	513
Fair value as at 31 December	**2,263**	**2,256**

The investment properties included in the table above consist of investments made for own investment purposes. The valuations rely substantially on non-observable input. Valuations are based on cash flow estimates and on the required rate of return calculated for each property that reflects the price at which the property can be exchanged between knowledgeable, willing parties under current market conditions. The cash flow estimates are determined on the basis of the market rent for each property. The required rate of return on a property is determined on the basis of its location, type, possible uses, layout and condition as well as on the terms of lease agreements, rent adjustment and the credit quality of lessees. The required rate of return ranged between 2.5-8.0% (2020: 2.5-8.0%) and averaged 4.9% (2020: 5.1%). An increase in the required rate of return of 1.0 percentage point would reduce fair value at end-2021 by DKK 276 million (2020: DKK 342 million).

Investment properties held on behalf of insurance customers amount to DKK 24,041 million (2020: DKK 22,694 million), including DKK 7,028 million (2020: DKK 5,767 million) related to unit-linked investment contracts. Changes in the fair value of these will only to a limited extent affect the Group's net profit. The valuation is based on the same principles as investments made for own investment purposes. The required rate of return ranged between 2.5-8.0% (2020: 2.5-8.0%) and averaged 4.6% (2020: 4.6%). An increase in the required rate of return of 1.0 percentage point would reduce fair value at end-2021 by DKK 3,645 million (2020: DKK 4,081 million).

(b) Assets held for sale

Non-financial assets held for sale are measured at the lower of cost and fair value less expected costs to sell and include lease assets (where the Group act as lessor) put up for sale, and properties taken over by the Group under non-performing loan agreements. Note G23 provides more information. No significant changes in the fair value of non-financial assets held for sale occurred during 2021. During 2020, a negative fair value adjustment of DKK 78 million was recognised on properties held for sale.

Notes – Danske Bank Group

G35. Related parties

Danske Bank A/S acts as the bank of a number of its related parties. Payment services, trading in securities and other instruments, depositing of surplus liquidity and provision of short- and long-term financing are the primary services provided by Danske Bank A/S.

Danica Pension manages the pension plans of a number of related parties, and Danske Bank manages the assets of a number of the Group's pension funds.

Accounting policy

A related party to the Group is either a party over which the Group has control or significant influence or a party that has control or significant influence over the Group. All entities over which the Group has control are consolidated and are therefore not considered a related party to the Group.

Entities that are related parties to the Group comprise shareholders that have a significant holding of shares (significant influence over the Group), associates, joint venture partners or defined benefit pension plan providers (the Group has significant influence over the entity). Further, key management personnel, defined as members of the Board of Directors and the Executive Leadership Team, are related parties to the Group.

Transactions with related parties are settled on an arm's-length basis and recognised in the financial statements according to the same accounting policy as for similar transactions with unrelated parties.

(a) Related parties	Parties with significant influence		Associates		Board of Directors		Executive Leadership Team	
(DKK millions)	2021	2020	2021	2020	2021	2020	2021	2020
Loans and loan commitments	4,045	3,408	2,029	1,659	52	39	43	37
Securities and derivatives	2,667	1,883	11,736	11,092	-	-	-	-
Deposits	7,620	9,017	1,020	894	24	56	15	11
Derivatives	64	475	6	-	-	-	-	-
Pension obligation	-	-	-	-	-	-	-	-
Guarantees issued	127	227	6	9	-	-	-	-
Guarantees and collateral received	221	262	419	568	49	67	31	30
Interest income	58	53	56	52	1	1	-	-
Interest expense	4	39	1	7	-	-	-	-
Fee income	11	14	3	3	-	12	-	-
Dividend income	21	5	-	15	-	-	-	-
Other income	6	4	-	-1	-	-	-	-
Loan impairment charges*	1	-	11	1	-	-	-	-
Trade in Danske Bank shares								
Acquisitions	-	-	-	-	-	2	-	4
Sales	-	-	-	-	-	-	-	-

* For parties with signifiant influence, all exposures are in stage 1

The Group is a listed company, with no shareholder having control over the Group. Related parties with significant influence include shareholders with holdings exceeding 20% of Danske Bank A/S's share capital. The A.P. Møller and Chastine Mc-Kinney Møller Foundation and companies of A.P. Møller Holding Group, Copenhagen, hold 21.3% of the share capital. Note G39 lists significant holdings in associates. The Board of Directors and Executive Leadership Team columns list the personal facilities, deposits, etc. held by members of the Board of Directors and the Executive Leadership Team and their dependants, and facilities with businesses in which these parties have control, joint control or significant influence.

In 2021, the average interest rates on credit facilities granted to members of the Board of Directors and the Executive Leadership Team were 1.3% (2020: 1.5%) and 1.6% (2020: 1.3%), respectively. Notes G36 and G37 specify the remuneration and shareholdings of management.

Pension funds set up for the purpose of paying out pension benefits to employees of the Danske Bank Group are also considered related parties. The Danske Bank Group has entered into transactions with these funds. Such transactions are not eliminated in the consolidated financial statements. Transactions with pension funds comprised loans in the amount of DKK 6 million (2020: DKK 6 million), deposits amounting to DKK 102 million (2020: DKK 76 million), DKK 10 million worth of bonds issued (2020: DKK 22 million), derivatives with a positive fair value of DKK 0 million (2020: DKK 0 million), derivatives with a negative fair value of DKK 382 million (2020: DKK 301 million), interest expenses of DKK 2 million (2020: DKK 2 million), fee income of DKK 0 million (2020: DKK 0 million) and pension contributions of DKK 13 million (2020: DKK 25 million).

The figures above do not include debt to related parties in the form of issued notes or bonds. Such notes or bonds are bearer securities, which means that Danske Bank does not know the identity of the holders. Danske Bank shares may be registered by name. Related parties' holdings of Danske Bank shares equalling 5% or more of Danske Bank's share capital are determined on the basis of the most recent reporting of holdings to Danske Bank.

Notes – Danske Bank Group

G36. Remuneration of management and material risk takers

This note gives information on the total remuneration of the Group's management in the form of the Board of Directors and the Executive Leadership Team, and remuneration of other material risk takers. This note further includes information on the Group's share-based payment. Remuneration Report 2021 available at danskebank.com/remuneration provides a detailed description of remuneration paid to the Board of Directors and the Executive Leadership team.

(a) Remuneration of the Board of Directors

Danske Bank's directors receive fixed remuneration only and are not covered by incentive programmes. Directors also receive a fee for board committee membership. The Board of Directors is remunerated by the parent company, Danske Bank A/S. No director has received remuneration for membership of the executive management or the Board of Directors in any of the Group's subsidiaries. The Group has no pension obligations towards the directors.

Remuneration of the Board of Directors (DKK thousands)	2021	2020
Total remuneration	15,536	12,037
Remuneration for committee work included in total remuneration	4,518	3,501
Members of the Board end of year	11	13

In 2021, Christian Sagild decided not to stand for the re-election at the Annual General Meeting held on the 16 March 2021, and Gerrit Zalm resigned from the Board of Directors on 19 April 2021. In 2020, Jens Due Olsen stepped down from his position as member of the Board of Directors on 7 April 2020 and Martin Blessing and Raija-Leena Hankonen-Nybom were elected to the Board of Directors at the Annual General Meeting held on 9 June 2020.

(b) Remuneration of the Executive Leadership Team

For the Executive Leadership Team, a total remuneration of DKK 95.2 million for 2021 (2020: DKK 110.0 million) has been expensed, with fixed remuneration amounting to DKK 77.3 million (2020: DKK 82.4 million) and variable remuneration amounting to DKK 17.9 million (2020: DKK 27.6 million). Part of the variable remuneration of the Executive Leadership Team is provided as a share-based Long-term Incentive Programme as described in section (d). The variable share-based payment for 2021 includes deferred variable payments from the Short-term Incentive Programme to be paid in future financial years, in accordance with EBA regulations, and prorated provisions for the Long-term Incentive Programme. In the Remuneration Report, the value of the Long-term Incentive Programme grant is the grant value of the award for the 2021-2023 performance period, whereas just one third of the award granted is included within total variable remuneration here of DKK 17.9 million. Danske Bank Group's Remuneration Policy, March 2021 provides more information on the Group's remuneration policy. The policy is available at danskebank.com/remuneration-policy. Membership of the Board of Directors in one or more of the Group's subsidiaries is not remunerated separately but considered part of the Executive Leadership Team's responsibilities and as such part of the remuneration of the Executive Leadership Team.

Chris Vogelzang resigned and left his position as member of the Executive Leadership Team and CEO of the Group on 19 April 2021. On 19 April 2021 Carsten Rasch Egeriis was appointed CEO of the Group. Magnus Agustsson was appointed member of the Executive Leadership Team on 22 November 2021. At the end of 2021, the Executive Leadership Team had 8 members.

Notes – Danske Bank Group

G36. Remuneration of management and material risk takers continued

(c) Remuneration of other material risk takers

Danske Bank Group is required to identify all employees whose professional activities could have a material impact on the risk profile of Danske Bank in accordance with current legislation. Other material risk takers do not include members of the Board of Directors or the Executive Leadership Team.

At the end of 2021, 482 other material risk takers were designated (end of 2020: 634 other material risk takers). During 2021, 469 full-time-equivalents were designated as other material risk takers (2020: 648 FTEs). The 469 FTEs designated as other material risk takers earned remuneration of DKK 994 million (2020: 648 FTEs earned remuneration of DKK 1,220 million), with fixed remuneration amounting to DKK 824 million and variable remuneration amounting to DKK 170 million (2020: DKK 998 million and DKK 222 million, respectively). Variable pay for 2021 is estimated and the final figure is determined at the end of February 2022. The final variable pay for material risk takes will be published in the quantitative disclosure on material risk takers' remuneration, compliant with the Danish FSA and EBA requirements. The disclosure will be available at danskebank.com/remuneration in May 2022.

Of the above remuneration for 2021, 304 FTEs designated as other material risk takers at the parent company, Danske Bank A/S, earned remuneration of DKK 762 million (2020: DKK 941 million to 388 FTEs), with fixed remuneration amounting to DKK 617 million and variable remuneration amounting to DKK 145 million (2020: DKK 754 million and DKK 187 million, respectively).

The Group's pension obligations towards other material risk takers amounted to DKK 264 million to 61 employees at year-end 2021 (2020: DKK 539 million and 99 employees). Variable payment for other material risk takers is split into cash and equity shares according to EBA regulations. Further, 40-60% of variable payments are deferred for a minimum of three years. All variable payments are subject to back testing and claw-back if granted on the basis of results which has subsequently proven to not be sustainable or accurate.

(d) Share-based payment

The total expense recognised as Operating expenses in 2021 arising from share-based payments was DKK 148 million (2020: DKK 108 million). All share-based payments are equity-settled. The exact number of shares granted for 2021 will be determined at the end of March 2022.

The Group has granted rights to conditional shares under the bonus structure for material risk takers and other employees as part of their variable remuneration. Such employees have a performance agreement based on the performance of the Group, the business unit and the individual employee. Part of the Danske Bank shares granted to material risk takers are, as required by the EBA, deferred (see section (c) above on variable payment). The fair value at the grant date is measured at the expected monetary value of the underlying agreement.

The variable remuneration of the Executive Leadership Team is provided as part of a Short-term Incentive Programme and a Long-term Incentive Programme. The Short-term Incentive Programme is structured as the programme for other material risk takers, as described above. However, the rights to Danske Bank shares are deferred for five years, followed by a one year retention period before shares are available to trade. The Long-term Incentive Programme is based on total shareholder return performance relative to peers over a three-year performance period. In 2021, there were three Long-term Incentive Programmes running and the programmes have a vesting period of three years. The current programmes running are the 2019-2021, the 2020-2022 and the 2021-2023 Long-term Incentive Programmes. After the vesting period, part of the shares will be paid out. The remaining shares are deferred for five years from grant date followed by a one year retention period before shares are available to trade. The remuneration is subject to back-testing and claw-back. The fair value of the Long-term Incentive programmes at the grant date was DKK 5.4 million for the 2021-2023 programme and DKK 5.4 million for the 2020-2022 programme. The fair value of the shares is calculated at the grant date, which includes valuing market conditions. The estimated fair value is based on relevant assumptions, which relate to the expected return on equity and volatility relative to peers. The fair value at grant date is expensed over the three-year vesting period.

Notes – Danske Bank Group

G36. Remuneration of management and material risk takers continued

Conditional shares	Number				Fair value (FV)	Fair value
	Executive Leadership Team	Other staff	Total	Employee payment price (DKK)	At issue (DKK m)	End of year (DKK m)
Granted in 2016						
1 January 2020	2,752	32,945	35,697	-	6.5	4.0
Vested 2020	-2,752	-22,052	-24,804	-	-	-
Forfeited 2020	-	-6,799	-6,799	-	-	-
Other changes 2020	-	-	-	-	-	-
31 December 2020	-	4,094	4,094	-	0.7	0.5
Vested 2021	-	-98	-98	-	-	-
Forfeited 2021	-	-3,757	-3,757	-	-	-
Other changes 2021	-	-	-	-	-	-
31 December 2021	-	239	239	-	0.0	0.0
Granted in 2017						
1 January 2020	17,409	473,045	490,454	-	116.5	55.4
Vested 2020	-11,117	-440,026	-451,143	-	-	-
Forfeited 2020	-3,001	-7,134	-10,135	-	-	-
Other changes 2020	-	2,813	2,813	-	-	-
31 December 2020	3,291	28,698	31,989	-	7.6	3.6
Vested 2021	-3,291	-16,584	-19,875	-	-	-
Forfeited 2021	-	-8,366	-8,366	-	-	-
Other changes 2021	-	1,630	1,630	-	-	-
31 December 2021	-	5,378	5,378	-	1.3	0.6
Granted in 2018						
1 January 2020	52,806	467,625	520,431	-	122.0	58.8
Vested 2020	-	-	-	-	-	-
Forfeited 2020	-19,566	-27,418	-46,984	-	-	-
Other changes 2020	-12,027	14,446	2,419	-	-	-
31 December 2020	21,213	454,653	475,866	-	111.5	53.7
Vested 2021	-2,409	-397,696	-400,105	-	-	-
Forfeited 2021	-	-343	-343	-	-	-
Other changes 2021	-11,733	-24,820	-36,553	-	-	-
31 December 2021	7,071	31,794	38,865	-	9.1	4.4
Granted in 2019						
1 January 2020	78,577	484,131	562,708	-	69.9	63.6
Vested 2020	-	-22,969	-22,969	-	-	-
Forfeited 2020	-12,220	-16,474	-28,694	-	-	-
Other changes 2020	-9,864	11,365	1,501	-	-	-
31 December 2020	56,493	456,053	512,546	-	63.7	57.9
Vested 2021	-	-1,122	-1,122	-	-	-
Forfeited 2021	-	-11,420	-11,420	-	-	-
Other changes 2021	-15,619	20,656	5,037	-	-	-
31 December 2021	40,874	464,167	505,041	-	62.7	57.0
Granted in 2020						
1 January 2020	187,567	1,222,961	1,410,528	-	136.3	159.3
Vested 2020	-1,345	-518,028	-519,373	-	-	-
Forfeited 2020	-15,913	-45,968	-61,881	-	-	-
Other changes 2020	-12,169	12,169	-	-	-	-
31 December 2020	158,140	671,134	829,274	-	80.1	93.7
Vested 2021	-	-844	-844	-	-	-
Forfeited 2021	-	-24,420	-24,420	-	-	-
Other changes 2021	-39,288	46,719	7,431	-	-	-
31 December 2021	118,852	692,589	811,441	-	78.4	91.7
Granted in 2021						
1 January 2021	208,049	1,047,538	1,255,587	-	148.4	141.8
Vested 2021	-1,385	-357,270	-358,655	-	-	-
Forfeited 2021	-	-26,203	-26,203	-	-	-
Other changes 2021	-45,042	49,451	4,409	-	-	-
31 December 2021	161,622	713,516	875,138	-	103.2	98.8

Other staff includes material risk takers and other employees eligible for share-based payment.

Notes – Danske Bank Group

G36. Remuneration of management and material risk takers continued

At the end of 2021, the Executive Leadership Team held a total of 328,419 conditional shares with fair value of DKK 37.1 million (2020: 239,137 conditional shares with fair value of DKK 27.0 million). See Remuneration Report 2021 for further details of the Executive Leadership Team's holdings.

In 2021, the average price at the vesting date for rights to conditional shares was DKK 109.6 (2020: DKK 95.2).

G37. Danske Bank shares held by the Board of Directors and the Executive Leadership Team

(Number)	Beginning of 2021	Upon appointment/ retirement	Additions	Disposals	End of 2021
Board of Directors					
Karsten Dybvad	11,258	-	-	300*	10,958
Jan Thorsgaard Nielsen	20,000	-	-	-	20,000
Carol Sergeant	7,023	-	-	-	7,023
Martin Blessing	-	-	-	-	-
Lars-Erik Brenøe	29,305	-	-	-	29,305
Raija-Leena Hankonen-Nybom	2,890	-	-	-	2,890
Bente Avnung Landsnes	8,000	-	-	-	8,000
Bente Bang	882	-	-	-	882
Kirsten Ebbe Brich	3,796	-	-	-	3,796
Thorbjørn Lundholm Dahl	2,724	-	-	-	2,724
Charlotte Hoffmann	6,000	-	-	-	6,000
Christian Sagild	50,000	-50,000	-	-	-
Gerrit Zalm	5,325	-5,325	-	-	-
Total	**147,203**	**-55,325**	**-**	**300**	**91,578**
Executive Leadership Team					
Carsten Rasch Egeriis	1,334	-	-	-	1,334
Magnus Agustsson	-	-	-	-	-
Berit Behring	16,720	-	2,409	-	19,129
Karsten Breum	65,551	-	1,385	-	66,936
Stephan Engels	15,000	-	-	-	15,000
Glenn Söderholm	37,461	-	3,291	-	40,752
Philippe Vollot	-	-	-	-	-
Frans Woelders	-	-	-	-	-
Chris Vogelzang	44,300	-44,300	-	-	-
Total	**180,366**	**-44,300**	**7,085**	**-**	**143,151**

* This disposal is not a sale, but is due to change in the immediate houshold.

Danske Bank discloses all additions, disposals and total holdings of members of the Board of Directors and the Executive Leadership Team and their immediate family. The total holdings of conditional shares of the members of the Executive Leadership Team is disclosed in note G36.

Notes – Danske Bank Group

G38. Group holdings and undertakings

This note provides information on subsidiaries.

Accounting policy

The financial statements consolidate Danske Bank A/S and group undertakings in which the Group has control over financial and operating policy decisions. Control is said to exist if Danske Bank A/S, directly or indirectly, is exposed, or has rights, to variable returns from the involvement with the entity and has the ability to affect these returns through the power over the entity. Power exists if Danske Bank A/S, directly or indirectly, holds more than half of the voting rights in an undertaking or otherwise has power to control management and operating policy decisions. Operating policy control may be exercised through agreements about the undertaking's activities. In the rare situations where potential voting rights exist, these are taken into account if Danske Bank has the practical ability to exercise these rights.

When assessing whether to consolidate investment funds, the Group reviews all facts and circumstances to determine whether the Group, as fund manager, is acting as agent or principal. The Group is deemed to be a principal, and the Group controls and consolidates a fund when it acts as fund manager and cannot be removed without cause (i.e. when kick-out rights are weak), has variable returns through significant holdings, and is able to influence the returns of the funds by exercising its power. Holdings where all returns belong to customers (pooled schemes and unit-linked investment contracts) are not considered as exposure to variable returns, whereas holdings where the majority of the returns belong to customers (holdings related to insurance contracts) are considered only limited exposure to variable returns.

The consolidated financial statements are prepared by consolidating items of the same nature and eliminating intra-group transactions, balances and trading profits and losses.

Undertakings acquired are included in the financial statements at the time of acquisition. The net assets of such undertakings (assets, including identifiable intangible assets, less liabilities and contingent liabilities) are measured at fair value at the date of acquisition according to the acquisition method.

If the cost of acquisition (until 1 January 2010 including direct transaction costs) exceeds the fair value of the net assets acquired, the excess amount is recognised as goodwill. Goodwill is recognised in the functional currency of the undertaking acquired. The portion of the acquisition that is attributable to non-controlling interests does not include goodwill.

Divested undertakings are included in the financial statements until the transfer date. Changes in the ownership share in a subsidiary that do not result in loss of control are accounted for as equity transactions. This implies that the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in the relative interest in the subsidiary, and any difference between the fair value of the consideration paid/received and the adjustment made to non-controlling interests is attributed to the shareholders of Danske Bank A/S. If changes in the ownership share in a subsidiary result in the loss of control, any investment retained in the former subsidiary is recognised at fair value, and amounts recognised under Other comprehensive income are reclassified to the income statement or transferred directly to retained earnings if so required by other IFRSs. The difference between the fair value of the consideration received plus any investment retained in the former subsidiary and the carrying amount of the net assets in the subsidiary less the carrying amounts of any non-controlling interests is recognised in the income statement.

Held-for-sale group undertakings

Companies taken over by the Group under non-performing loan agreements and actively marketed for sale and expected to be sold within 12 months of classification are recognised as held-for-sale. Assets and liabilities in such companies are presented under Other assets and Other liabilities. The assets are recognised at the lower of cost and fair value less expected costs to sell.

(a) Further explanation

All credit institutions and insurance companies supervised by national FSAs are subject to local statutory capital requirements. These requirements restrict intra-group facilities and dividend payouts.

Danica Pension has an obligation to allocate part of the margin by which Danica Pension's equity exceeds the statutory solvency requirement to certain policyholders who were previously policyholders of Statsanstalten for Livsforsikring (now part of Danica Pension). This applies only if the margin exceeds the margin in Statsanstalten for Livsforsikring before the privatisation in 1990 and relates to any excess included in the shareholders' equity or paid out as dividend. Such special allotments are expensed and recognised under Net insurance benefits.

Restrictions impacting the Group's ability to use assets are disclosed in note G31 and include, among others, assets pledged as collateral under repo transactions funded by covered bonds and assets held by insurance subsidiaries that are primarily held to satisfy obligations to policyholders' savings.

The Group has established a number of investment funds in which the Group acts as fund manager. The Group has consolidated investment funds of DKK 11,814 million (2020: DKK 9,656 million), as the Group is deemed to be acting as principal rather than agent in its role as fund manager and as the Group is the sole investor. The investments are held to satisfy obligations towards insurance policyholders and are recognised under Assets under insurance contracts. The Group does not have consolidated structured entities in the form of securitisation vehicles or asset-backed financing vehicles.

(b) Acquisition of subsidiary undertakings

The Group did not make any acquisitions of undertakings in 2021 or 2020.

Notes – Danske Bank Group

G38. Group holdings and undertakings continued

(c) List of significant subsidiaries

		Share capital (thousands)	Net profit (DKK m)	Shareholders' equity (DKK m)	Share capital (%)
Danske Bank A/S, Copenhagen	DKK	8,621,846	4,589	168,678	
Credit institutions					
Danske Bank International S.A., Luxembourg	EUR	90,625	89	1,164	100
Danske Hypotek AB (publ), Stockholm	SEK	50,000	578	4,113	100
Danske Mortgage Bank Plc, Helsinki	EUR	70,000	169	2,426	100
Northern Bank Limited, Belfast	GBP	218,170	67	7,541	100
Realkredit Danmark A/S, Copenhagen	DKK	630,000	3,883	49,590	100
Insurance operations					
Danica Pension, Livsforsikringsaktieselskab, Copenhagen	DKK	1,101,000	1,730	24,122	100
Danica Pensjonsforsikring AS, Trondheim	NOK	185,844	104	1,124	100
Investment and real property operations etc.					
Danica Ejendomsselskab ApS, Copenhagen	DKK	4,410,000	953	35,014	100
Danske Corporation, Delaware	USD	4	-	2	100
Danske Invest Asset Management AS, Trondheim	NOK	6,000	35	58	100
Danske Invest Management A/S, Copenhagen	DKK	120,000	95	448	100
Danske IT and Support services India Private Limited, Bangalore	INR	3,228	50	78	100
Danske Leasing A/S, Birkerød	DKK	10,000	257	3,278	100
Danske Markets Inc., Delaware	USD	2,000	18	292	100
Danske Private Equity A/S, Copenhagen	DKK	6,000	44	98	100
DDB Invest AB, Stockholm	SEK	100,000	2	166	100
home a/s, Åbyhøj	DKK	15,000	44	147	100
MobilePay A/S, Copenhagen	DKK	10,520	-77	149	100

The list above includes significant active subsidiary operations only.

In 2021, Danica Pension, Livsforsikringsaktieselskab, and Forsikringsselskabet Danica Skadeforsikringsaktieselskab af 1999 merged with Danica Pension, Livsforsikringsaktieselskab as the continuing company, and MobilePay A/S, MobilePay Denmark A/S and MobilePay Finland OY merged with MobilePay Denmark A/S as the continuing company. MobilePay Denmark A/S later changed its name to MobilePay A/S.

In June 2021, Danske Bank entered into an agreement with OP Financial Group in Finland and the consortium of banks behind Vipps in Norway to merge the three mobile payment providers MobilePay, Vipps and Pivo into one comprehensive digital wallet serving 11 million users and over 330,000 shops and web shops. The merger is expected to result in a one-off gain for Danske Bank of approximately DKK 400 – 500 million once it is approved by the relevant authorities. Final approval is expected in the first half of 2022. After the merger, Danske Bank will own 25% of the new parent company, Vipps AS.

The Group´s ownership share of the other subsidiaries is unchanged from 2020 to 2021. The financial information above is extracted from the companies´ most recent annual reports prior to 3 February 2022.

Notes – Danske Bank Group

G39. Interests in associates and joint arrangements

This note provides information about the Group's interests in associates and joint arrangements.

Accounting policy

Joint ventures and associates are entities other than group undertakings in which the Group has holdings and joint control with one or more parties or significant but not controlling influence, respectively. The Group generally classifies entities as joint ventures/associates if Danske Bank A/S, directly or indirectly, holds 20-50% of the share capital and has influence over management and operating policy decisions. Holdings in joint ventures and associates are recognised at cost at the date of acquisition and are subsequently measured according to the equity method. The proportionate share of the net profit or loss of the individual entity is included under Income from holdings in associates. The share is calculated on the basis of data from financial statements with balance sheet dates no earlier than three months before the Group's balance sheet date. If objective evidence of impairment exists, the investment is recognised at the lower of carrying amount and the present value of future cash flows.

The proportionate share of the profit or loss on transactions between associates/joint ventures and group undertakings is eliminated.

Ownership shares held by the Group's insurance business are treated as held by a venture capital organisation and are measured at fair value.

Significant associates		Share capital (thousands)	Net profit (DKK m)	Shareholders' equity (DKK m)	Share capital (%)
Sanistål A/S, Aalborg	**DKK**	**11,924**	**-21**	**582**	**43**

The financial information above is extracted from the most recent annual reports prior to 3 February 2022.

The total carrying amount of holdings in associates amounted to DKK 206 million (2020: DKK 209 million) and is presented under Other assets in note G24. The list above includes significant associates held at end 2021. Sanistål, which was taken over by the Group under a non-performing loan agreement, is a listed company. The investment had a market value of DKK 394 million at 31 December 2021 (31 December 2020: DKK 314 million). The Group´s ownership share in Sanistål A/S is unchanged from 2020 to 2021.

The Group does not have any significant holdings in joint ventures or joint operations.

There are no other significant restrictions on the ability of associates to transfer funds to Danske Bank Group in the form of dividends or to repay loans granted.

Notes – Danske Bank Group

G40. Interests in unconsolidated structured entities

The Group has established a number of investment funds in which the Group acts as fund manager. The Group is entitled to receive management fees based on the assets under management. The Group may also retain units in these funds. The assets in unconsolidated investment funds managed by the Group totalled DKK 858.7 billion (2020: DKK 737.3 billion). The Group retained holdings of DKK 151.6 billion (2020: DKK 122.7 billion) in these funds. Substantially all of these holdings are related to pooled schemes, unit-linked investment contracts and insurance contracts. Income generated to the Group in the form of management fees amounted to DKK 4.0 billion (2020: DKK 3.4 billion). In addition, the Group has holdings in private equity investment funds of DKK 0.1 billion (2020: DKK 0.1 billion).

The Group has limited exposure to structured securitisation entities. The exposure dates back to the period between 2001-2007 when the Group acted as an investor. This involved the purchase of bonds and entering into facilities for securitisation assets that were either structurally senior or triple A-rated by at least one of the major rating agencies. The Group has not acted as a sponsor or an orginator, and none of the assets of the structured entities were previously held on the Group's balance sheet. The remaining exposure consists mainly of liquidity facilities and is reported as part of the credit exposure in the Non-core segment. At end-2021, the gross exposure amounted to DKK 3.6 billion (2020: DKK 3.4 billion). During the year, the Group did not provide any non-contractual financial or other support to any of the structural entities. The key risk on the portfolio relates to the underlying securitisation transactions, which consist mainly of commercial and residential mortgage loans originated in the UK and Germany.

Notes – Danske Bank Group – Risk management

Risk exposure

Danske Bank Group is exposed to a number of risks and manages them at various organisational levels.

The main categories of financial risks are the following:

- Credit risk: The risk of losses because debtors or counterparties fail to meet all or part of their payment obligations to the Group.
- Market risk: The risk of losses because the fair value of the Group's assets, liabilities and off-balance-sheet items varies with changes in market conditions.
- Liquidity risk: The risk of losses because funding costs become excessive, lack of funding prevents the Group from maintaining its business model, or lack of funding prevents the Group from fulfilling its payment obligations.
- Insurance risk: All types of risk at Danica Pension, including market risk, life insurance risk and operational risk.
- Non-financial risk. The risk of financial losses or gains, regulatory impact, reputational impact or customer impact resulting from inadequate or failed internal processes, people ord systems or from external events, including legal and compliance risks.

Danica Pension is a wholly-owned subsidiary of Danske Bank A/S. As required by Danish law and the Danish Executive Order on the Contribution Principle, Danica Pension has notified the Danish Financial Supervisory Authority (the Danish FSA) of its profit policy. The contribution principle and the profit policy mean that policyholders assume risks and receive the returns on assets allocated to them. Assets are allocated to policyholders to secure their guaranteed benefits. Market risk and other risks on assets and liabilities allocated to policyholders are therefore not consolidated in the tables of this section, but are treated in the section on insurance risk.

The Management's report and Risk Management 2021 provide a detailed description of Danske Bank Group's risk management practices, including on pension and non-financial risk. Risk Management 2021 is available at danskebank.com/ir. The publication is not covered by the statutory audit.

Total capital

Capital risk is the risk of not having enough capital to cover all material risks arising from the Group's chosen business strategy.

The Danske Bank Group has licences to provide financial services and must therefore comply with the capital requirements of the Capital Requirements Regulation (CRR) and the Danish Financial Business Act. The Danish rules are based on the EU Capital Requirements Directive (CRD) and apply to both Danske Bank A/S (the Parent Company) and the Group. Similarly, the Group's financial subsidiaries in and outside Denmark must comply with local capital requirements. The regulatory requirements stipulate a minimum capital level of 8% of the total risk exposure amount (REA) under Pillar I (including risk exposure amounts for credit risk, counterparty credit risk, market risk and operational risk). In addition, financial institutions are required to calculate their solvency need under Pillar II to reflect all relevant risks. Danske Bank A/S was designated a systemically important financial institution (SIFI) in Denmark in 2014. This means that the Group is subject to stricter requirements than non-SIFIs. The Danske Bank Group's SIFI buffer requirement is set at an additional 3% above the regulatory requirements and must be funded with common equity tier 1 (CET1) capital.

The Group's total capital consists of tier 1 capital (share capital and additional tier 1 capital after deductions) and tier 2 capital (subordinated loan capital after deductions).

The Group's CET1 capital is based on the carrying amount of shareholders' equity corrected for equity-accounted additional tier 1 capital and adjusted with the following main deductions.

- Adjustments to eligible capital instruments
- Deferred tax assets that rely on future profitability
- Defined benefit pension fund assets
- Intangible assets of banking operations, including goodwill
- Minimum loss coverage for non-performing exposures
- Expected/proposed dividends
- Prudential filters
- Reversal of the effect of IFRS 9 (expected credit losses) implementation due to transitional rules
- Statutory deductions for insurance subsidiaries

The presentation of the Group's total capital in the statement of capital shows the difference between the carrying amount of shareholders' equity and CET1 capital. At the end of 2021, the Group's CET1 capital amounted to DKK 151.9 billion (2020: DKK 143.7 billion), and its CET1 capital ratio was 17.7% (2020: 18.3%)

The Group's additional tier 1 capital and tier 2 capital may, subject to certain conditions, be included in total capital. The conditions are described in the CRR. Notes G22 and G25 show additional tier 1 capital and tier 2 capital. At the end of 2021, the Group's total capital was DKK 192.8 billion (2020: DKK 180.1 billion), and its total capital ratio was 22.4% (2020: 23.0%). The Group's tier 1 capital was DKK 171.9 billion (2020: DKK 161.0 billion), and its tier 1 capital ratio was 20.0% (2020: 20.5%).

Risk Management 2021 provides a description of the Group's solvency need.

Notes – Danske Bank Group – Risk management

Total capital continued

At the end of 2021, the Group's capital targets were unchanged from the levels set in 2019. The target for the CET1 capital ratio was kept at above 16% in the short term to ensure a sufficiently prudent buffer in relation to the capital requirement. This implies a management buffer of at least 2.1% in relation to the fully phased-in CET1 capital requirement. The target for the total capital ratio was kept at above 20%.

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

Credit risk

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

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

In accordance with the Group's Credit Policy, the Group carefully assesses the financial situation of customers to ensure that loans granted are suited to their needs and financial capacity and that customers understand their financial obligations. Besides providing loans in a responsible manner, the Group has spent the past few years integrating sustainability and ESG considerations into its lending practices.

In 2015, work began to integrate ESG considerations into credit processes with the aim of identifying and managing business with customers believed to disregard or deliberately violate UN-based principles on environmental protection, human rights, labour rights and anti-corruption. In 2016, the Group published position statements on sectors with elevated ESG risks, describing processes and restrictions within these sectors.

Sectors that are recognised to have elevated ESG risks are also specified in the Credit Policy and are subject to periodic review. These include sectors such as metals and mining, forestry, fossil fuels, and arms and defence, for which instructions specify minimum requirements for managing ESG risks and how to perform ESG assessments at the customer level. Furthermore, ESG risk identification is made at the portfolio level for specific sectors on an ongoing basis by screening large customers using external ESG data providers.

Climate risk pertains to transition risks, which are the risks associated with shifting to a low-carbon economy, and to physical risks arising from projected climate changes such as weather-related hazards. From a financial materiality perspective, climate-related risks have been deemed most relevant for the Group's lending activities.

The Group takes a risk-based approach in prioritising risk management efforts for credit portfolios that are likely to be most exposed to transition and physical risks. For that purpose, a climate risk heat map has been designed to define the size of the Group's credit exposure to climate risk (see the Group's risk management report for more details). The lending activities most likely to be exposed to future transition risks relate primarily to heavy-emitting sectors. These sectors are estimated to account for around 15% of the Group's total lending activities, with the risk concentrated to a few portfolios. Transition risk is managed at the portfolio-level through risk appetite limits and the Group's climate strategies as well as at a customer-level by differentiating between customers who are preparing for and undertaking the necessary transition and customers not accelerating fast enough on their transition plans. Physical risks are identified mainly for collateral-related exposure (flooding risk, in particular) by using data on historically worst flood events and future climate data projections. Flooding risk is the primary physical risk hazard to consider in the Nordic countries, with identified risk exposures amounting to around 6% of the Group's total lending activities. The size of the exposure at risk from physical risk is currently being further refined and monitored.

The climate heat map gives an indication of the size of the exposure at risk and not the expected stress impacts such as impact on expected credit losses. Such quantitative measures are to be assessed through scenario analysis and future stress testing. Climate scenario analysis is already being performed - following the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) for key sectors for both transition risk and physical risk such as oil and gas, agriculture and property portfolios. However, the methodology is still in its infancy and the Group's climate stress testing capabilities will continuously be enhanced over the coming years in order to better assess potential future loss levels. Conclusions have not led to adjustments to staging or expected credit losses, as the impacts either manifest over a longer time period than loan maturities, or as transition risks are concentrated on sectors with downside risks recognised in the bank's expected credit losses, for instance in the agriculture and oil and gas portfolios. See the Group's risk management report for more details.

In order to mitigate credit risk, the Group uses collateral, guarantees and covenants.

Further information on the Group's risk management practices related to credit risk can be found in the report Risk management 2021.

Notes – Danske Bank Group – Risk management

Credit exposure continued

Credit exposure

Credit exposure consists of balance sheet items and off-balance-sheet items that carry credit risk. Most of the exposure derives from lending activities in the form of secured and unsecured loans. The Non-core business unit is not considered part of Danske Bank's core activities and is stated separately. Securities positions taken by the Group's trading and investment units also entail credit risk and are presented as credit exposure from trading and investment securities as well as derivatives and loans at the Group's trading units.

The overall management of credit risk thus covers credit risk from direct lending activities, counterparty credit risk on derivatives and loans at the Group's trading units and credit risk from securities positions.

The Group's exposure to the risk on some balance sheet items is limited. This is the case for assets under customer-funded investment pools, unit-linked investment contracts and insurance contracts. The risk on assets under pooled schemes and unit-linked investment contracts is assumed solely by the customers, while the risk on assets under insurance contracts is assumed primarily by the customers. The section on insurance risk describes the Group's credit risk on insurance contracts.

Breakdown of credit exposure

(DKK billions) 31 December 2021	Total	Lending activities Core	 Non-core	Counterparty credit risk	Trading and investment securities	Customer-funded investments
Balance sheet items						
Demand deposits with central banks	286.6	286.6	-	-	-	-
Due from credit institutions and central banks	71.2	31.7	-	39.5	-	-
Trading portfolio assets	509.6	-	-	260.2	249.4	-
Investment securities	303.8	-	-	-	303.8	-
Loans at amortised cost	1,027.4	1,026.1	1.3	-	-	-
Loans at fair value	1,024.5	809.9	-	214.6	-	-
Assets under pooled schemes and unit-linked investment contracts	76.7	-	-	-	-	76.7
Assets under insurance contracts	547.8	-	-	-	-	547.8
Assets held for sale	28.5	4.5	-	-	-	24.0
Off-balance-sheet items						
Guarantees	81.0	81.0	-	-	-	-
Loan commitments shorter than 1 year	271.9	270.3	1.6	-	-	-
Loan commitments longer than 1 year	205.5	205.5	-	-	-	-
Other unutilised commitments	16.2	-	-	-	0.1	16.0
Total	**4,450.5**	**2,715.6**	**2.9**	**514.3**	**553.3**	**664.5**
31 December 2020						
Balance sheet items						
Demand deposits with central banks	314.6	314.6	-	-	-	-
Due from credit institutions and central banks	81.4	28.9	0.1	52.4	-	-
Trading portfolio assets	682.9	-	-	379.6	303.4	-
Investment securities	296.8	-	-	-	296.8	-
Loans at amortised cost	1,024.6	1,022.7	1.9	-	-	-
Loans at fair value	1,023.3	816.3	-	207.0	-	-
Assets under pooled schemes and unit-linked investment contracts	82.8	-	-	-	-	82.8
Assets under insurance contracts	545.7	-	-	-	-	545.7
Loans held for sale	0.4	-	0.4	-	-	-
Off-balance-sheet items						
Guarantees	71.8	71.7	0.2	-	-	-
Loan commitments shorter than 1 year	276.4	274.9	1.5	-	-	-
Loan commitments longer than 1 year	198.8	198.8	-	-	-	-
Other unutilised commitments	19.0	-	-	-	0.2	18.8
Total	**4,618.6**	**2,727.9**	**4.1**	**639.0**	**600.3**	**647.3**

In addition to credit exposure from lending activities, the Group had made uncommitted loan offers and granted uncommitted lines of credit of DKK 194 billion at 31 December 2021 (2020: DKK 242 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 – Risk management

Credit exposure continued

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 expected credit losses and includes repo loans at amortised cost. 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 further on in these notes.

For details about the Group's credit risk management and the use of information on expected credit losses for risk management purposes, see Risk Management 2021.

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. While all large customers are rated, the Group uses fully automated and statistically-based scoring models for small customers such as personal customers and small businesses. Credit scores are updated monthly in a process subject to automated controls.

The Group has developed a number of classification models to assess customer PD and to classify customers in various segments.

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 within the next 12 months 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.

The classification of facilities between stage 1 and 2 for the purpose of calculating expected credit losses under IFRS 9 depends on whether the credit risk has increased significantly since initial recognition. The assessment of whether the credit risk has increased significantly since initial recognition is performed by considering the change in the risk of default occurring over the remaining life of the individual facility and incorporating forward-looking information. A facility is transferred from stage 1 to stage 2 on the basis of observed increases in the probability of default:

- For facilities originated below 1% in PD: an increase in the facility's 12-month PD of at least 0.5 of a percentage point since initial recognition and a doubling in the facility's lifetime PD since origination.
- For facilities originated above 1% in PD: an increase in the facility's 12-month PD of 2 percentage points since origination or a doubling of the facility's lifetime PD since origination.

In addition, facilities that are more than 30 days past due are moved to stage 2. 30 days past due is considered a backstop. Finally, customers subject to forbearance measures are placed in stage 2, if the Group, in the most likely outcome, expects no loss or the customers are in the two-year probation period for performing forborne exposures.

A facility is transferred from stage 2 to stage 3 when it becomes credit-impaired. A facility becomes credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows have occurred. This includes observable data about (a) significant financial difficulty of the issuer or the borrower; (b) a breach of contract, such as a default or past due event; (c) the borrower, for financial or contractual reasons relating to the borrower's financial difficulty, having been granted a concession that would not otherwise have been considered; (d) it is becoming probable that the borrower will enter into bankruptcy or other financial restructuring; and (e) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit loss. It may not be possible to identify a single discrete event – instead, the combined effect of several events may cause a financial asset to become credit-impaired. Credit-impaired facilities are placed in rating category 10 or 11. For customers in rating category 10, the stage 3 classification applies only to customers where a loss is expected in the most likely scenario. For rating category 11 (default), all facilities are classified as stage 3 exposures.

Exposures which are considered to be in default for regulatory purposes will always be categorised as stage 3 exposures under IFRS 9. This applies to 90-days-past-due considerations and unlikely-to-pay factors leading to regulatory default.

Management applies judgement and recognises post-model adjustments to cover risks that are not reflected sufficiently in the Group's expected credit loss model. Besides increasing the expected credit losses, the post-model adjustments may lead to the transfer of part of the gross exposure covered by the post-model adjustments from stage 1 to stage 2 through targeted PD pushes to the current point in time estimates of PD (i.e. increases in the PD for the underlying customers in the selected portfolios covered by the post-model adjustments) to ensure consistency between the methods used for disclosing information about expected credit losses and exposures subject to significant increase in credit risk. While the distribution of customers between the Group's 11 rating categories is unchanged and reflects the current point-in-time estimate of the underlying customers' PDs, the PD pushes may lead to the transfer of gross exposures to stage 2 as the assessment of the increase in credit risk is performed by comparing the initial PD with the current PD (after the adjustment for the targeted PD pushes).

Notes – Danske Bank Group – Risk management

Credit exposure continued

Expected credit losses

The expected credit loss is calculated for all individual facilities as a function of the probability of default (PD), the exposure at default (EAD) and the loss given default (LGD). For exposures in stage 1, 12- month expected credit losses are recognised, while lifetime expected credit losses are recognised for exposures in stage 2-3. For further information see note G15.

Credit portfolio in core activities broken down by rating category

31 December 2021	PD level		Gross exposure			Expected credit loss			Net exposure			Net exposure, ex collateral		
(DKK billions)	Upper	Lower	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
1	-	0.01	264.7	0.1	-	-	-	-	264.7	0.1	-	245.1	-	-
2	0.01	0.03	207.3	0.6	0.4	-	-	-	207.3	0.6	0.4	80.6	0.2	-
3	0.03	0.06	570.6	1.9	1.5	0.1	-	-	570.6	1.9	1.4	264.9	0.9	-
4	0.06	0.14	637.2	2.5	2.3	0.1	-	-	637.0	2.5	2.2	287.3	0.8	0.1
5	0.14	0.31	485.0	4.0	2.1	0.3	-	-	484.7	4.0	2.1	150.3	0.9	0.1
6	0.31	0.63	275.7	17.1	1.1	0.5	0.2	-	275.1	16.9	1.1	94.6	5.9	-
7	0.63	1.90	103.0	46.6	1.0	0.9	1.4	-	102.1	45.2	1.0	30.1	13.8	-
8	1.90	7.98	16.5	40.0	0.3	0.6	2.9	0.1	16.0	37.1	0.2	3.8	11.0	-
9	7.98	25.70	0.6	5.1	0.1	0.1	1.1	-	0.5	4.0	0.1	0.1	0.5	-
10	25.70	99.99	0.4	12.6	22.5	-	1.2	4.9	0.4	11.4	17.7	0.1	3.4	3.0
11 (default)	100.00	100.00	-	0.2	14.6	0.1	-	7.3	0.1	0.2	7.3	0.1	-	0.2
Total			**2,560.9**	**130.6**	**46.0**	**2.7**	**6.8**	**12.4**	**2,558.2**	**123.8**	**33.6**	**1,156.8**	**37.5**	**3.5**

31 December 2020	PD level		Gross exposure			Expected credit loss			Net exposure			Net exposure, ex collateral		
(DKK billions)	Upper	Lower	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
1	-	0.01	270.7	0.1	-	-	-	-	270.7	0.1	-	252.4	-	-
2	0.01	0.03	239.9	0.4	-	-	-	-	239.8	0.4	-	119.2	0.1	-
3	0.03	0.06	536.8	0.8	-	0.1	-	-	536.7	0.8	-	234.9	0.2	-
4	0.06	0.14	574.9	2.0	0.4	0.2	-	-	574.7	2.0	0.4	241.9	0.6	0.1
5	0.14	0.31	501.2	7.4	0.3	0.4	0.1	-	500.8	7.3	0.3	166.9	2.8	-
6	0.31	0.63	282.4	19.1	1.6	0.4	0.3	-	281.9	18.8	1.6	96.8	5.9	0.5
7	0.63	1.90	131.8	40.9	1.0	0.7	1.0	-	131.1	40.0	1.0	38.5	13.0	0.2
8	1.90	7.98	20.2	35.3	0.7	0.4	2.6	-	19.7	32.7	0.7	5.2	10.1	0.1
9	7.98	25.70	1.3	10.2	1.0	-	1.1	-	1.3	9.0	1.0	0.3	0.6	0.1
10	25.70	99.99	1.0	25.1	25.8	-	2.4	5.1	1.0	22.7	20.7	0.5	10.9	3.8
11 (default)	100.00	100.00	0.1	0.2	18.0	-	-	7.9	0.1	0.2	10.1	-	0.1	2.2
Total			**2,560.2**	**141.4**	**48.9**	**2.3**	**7.4**	**12.9**	**2,558.0**	**134.0**	**35.9**	**1,156.6**	**44.3**	**7.0**

For Personal customers, the gross exposure within stage 3 increased by DKK 5.7 billion from the end of 2020 to December 2021. The increase is driven by alignment of customer staging within the Group. Expected credit losses only increased by less than DKK 0.1 billion in the same period because the majority of the exposure transferred to stage 3 is covered by collateral.

Notes – Danske Bank Group – Risk management

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 is based on the classification principles of the Statistical Classification of Economic Activities in the European Community (NACE) standard adapted to the Group's business risk approach used for the active management of the credit portfolio.

31 December 2021	Gross exposure			Expected credit loss			Net exposure			Net exposure, ex collateral		
(DKK billions)	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Public institutions	332.8	1.4	-	-	-	-	332.8	1.4	-	330.1	0.1	-
Financials	122.0	2.8	0.4	0.1	0.2	0.2	122.0	2.5	0.2	107.9	1.4	-
Agriculture	57.6	5.6	4.8	0.3	0.9	1.2	57.3	4.7	3.6	12.2	0.8	0.1
Automotive	25.3	1.6	0.3	-	0.1	0.1	25.3	1.5	0.2	19.9	0.7	0.1
Capital goods	71.4	6.9	1.6	-	0.3	0.6	71.3	6.7	1.0	62.6	5.7	0.5
Commercial property	291.2	19.6	5.5	0.5	1.5	1.2	290.7	18.1	4.3	59.3	1.9	0.6
Construction and building materials	46.1	4.5	1.9	-	0.4	0.7	46.1	4.1	1.2	32.8	1.9	0.5
Consumer goods	71.1	4.3	1.0	-	0.3	0.3	71.0	4.0	0.7	53.0	2.6	-
Hotels, restaurants and leisure	8.5	5.4	1.9	-	0.2	0.4	8.5	5.2	1.4	3.0	0.8	0.2
Metals and mining	12.6	0.4	0.1	-	-	-	12.6	0.4	-	10.0	0.1	-
Other commercials	13.3	1.1	0.1	0.2	-	-	13.1	1.1	0.1	9.1	0.2	-
Pharma and medical devices	53.1	5.5	-	-	0.1	-	53.1	5.5	-	50.7	4.5	-
Private housing co-ops and non-profit associations	207.4	4.2	0.9	0.1	0.2	0.2	207.3	4.0	0.7	34.1	0.5	0.1
Pulp, paper and chemicals	39.0	1.5	0.2	-	-	0.1	39.0	1.5	0.1	27.8	0.3	-
Retailing	28.4	1.7	2.4	-	0.1	1.0	28.4	1.6	1.4	18.1	1.0	0.2
Services	57.9	3.3	0.8	0.2	0.2	0.4	57.7	3.2	0.5	46.9	1.9	0.1
Shipping, oil and gas	31.3	3.2	6.6	0.1	0.3	2.4	31.2	2.9	4.2	16.8	1.4	-
Social services	25.5	0.9	1.0	-	0.1	0.3	25.4	0.8	0.7	9.3	0.4	0.4
Telecom and media	22.2	0.5	0.2	-	-	0.1	22.2	0.5	0.1	20.3	0.3	-
Transportation	14.3	2.0	0.5	-	0.2	0.1	14.3	1.8	0.4	6.5	0.8	0.1
Utilities and infrastructure	76.1	4.6	-	-	0.1	-	76.0	4.4	-	56.4	4.2	-
Personal customers	953.9	49.6	15.9	1.1	1.6	3.1	952.8	48.0	12.8	170.1	5.8	0.5
Total	**2,560.9**	**130.6**	**46.0**	**2.7**	**6.8**	**12.4**	**2,558.2**	**123.8**	**33.6**	**1,156.8**	**37.5**	**3.5**

As at 31 December 2021, oil and gas exposures (within the Shipping, oil and gas industry) represented a gross exposure of DKK 18.3 billion (2020: DKK 23.3 billion) and expected credit losses of DKK 1.8 billion (2020: DKK 2.4 billion). Those exposures represented the majority of the exposures in stage 3 within the Shipping, oil and gas industry at the end of 2021.

For the Hotels, restaurants and leisure industry, the gross exposure within stage 2 increased by DKK 2.3 billion from the end of 2020 to 31 December 2021 while the expected credit losses remained unchanged. This is primarily due to an increase in collateral of DKK 2.4 billion but also due to the transfer of exposures from stage 1 to stage 2 improving the overall average credit quality within stage 2.

Notes – Danske Bank Group – Risk management

Credit exposure continued

31 December 2020 (DKK billions)	Gross exposure			Expected credit loss			Net exposure			Net exposure, ex collateral		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Public institutions	363.8	-	-	-	-	-	363.8	-	-	359.5	-	-
Financials	126.1	1.8	0.3	0.1	0.1	0.2	126.1	1.7	0.1	111.8	1.0	0.1
Agriculture	58.7	7.7	6.7	0.1	0.9	1.4	58.6	6.8	5.3	12.9	0.8	0.6
Automotive	27.5	3.2	0.5	-	0.2	0.1	27.5	2.9	0.5	20.2	1.6	0.2
Capital goods	68.6	7.0	2.1	-	0.5	0.7	68.5	6.5	1.4	59.9	5.6	0.7
Commercial property	312.8	11.5	7.1	0.6	0.9	1.1	312.1	10.6	5.9	68.2	1.0	0.7
Construction and building materials	43.6	5.1	2.0	-	0.3	0.6	43.6	4.8	1.4	31.2	2.0	0.6
Consumer goods	62.2	4.3	2.0	-	0.3	0.5	62.2	4.0	1.5	42.5	2.7	0.4
Hotels, restaurants and leisure	11.4	3.1	1.7	-	0.2	0.4	11.4	2.9	1.3	2.9	0.9	0.5
Metals and mining	12.7	0.6	0.1	-	-	-	12.7	0.6	0.1	10.3	0.3	-
Other commercials	22.1	1.1	0.1	0.1	-	-	22.0	1.1	-	20.4	0.3	-
Pharma and medical devices	47.2	2.6	0.2	-	-	-	47.2	2.5	0.2	43.7	1.8	-
Private housing co-ops. and non-profit associations	203.2	3.6	2.0	0.1	0.3	0.2	203.1	3.4	1.7	33.2	0.8	0.2
Pulp, paper and chemicals	38.1	1.6	0.6	-	-	0.2	38.1	1.5	0.4	27.3	0.4	0.1
Retailing	20.5	4.1	2.5	-	0.2	1.0	20.5	3.8	1.5	10.8	2.8	0.7
Services	57.4	3.8	1.6	0.1	0.2	0.6	57.3	3.6	1.0	46.5	2.0	0.5
Shipping, oil and gas	33.5	6.0	6.6	0.1	0.7	2.1	33.4	5.2	4.5	17.6	1.8	0.2
Social services	26.0	0.9	1.2	-	0.1	0.3	26.0	0.8	0.9	9.6	0.4	0.5
Telecom and media	20.3	0.6	0.2	-	-	0.1	20.3	0.6	0.1	18.3	0.3	-
Transportation	11.4	3.3	1.0	-	0.2	0.1	11.4	3.0	0.9	5.1	1.8	0.1
Utilities and infrastructure	64.2	4.2	0.1	-	-	-	64.2	4.2	-	45.5	3.6	-
Personal customers	928.9	65.6	10.2	0.9	2.2	3.1	928.0	63.4	7.2	159.1	12.3	0.7
Total	**2,560.2**	**141.4**	**48.8**	**2.3**	**7.4**	**12.9**	**2,558.0**	**134.0**	**35.9**	**1,156.6**	**44.3**	**7.0**

Notes – Danske Bank Group – Risk management

Credit exposure continued

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

Credit portfolio in core activities broken down by business unit

31 December 2021	Gross exposure			Expected credit loss			Net exposure			Net exposure, ex collateral		
(DKK billions)	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Personal & Business Customers												
Personal Customers Denmark	532.7	23.4	12.0	0.9	1.2	2.3	531.8	22.2	9.8	63.9	2.3	0.3
Personal Customers Nordic	400.8	20.1	3.2	0.2	0.3	0.6	400.6	19.8	2.6	103.8	2.9	0.2
Business Customers	663.6	45.3	17.7	1.0	3.7	4.9	662.6	41.6	12.8	176.3	11.0	1.9
Asset Finance	48.8	10.7	0.9	0.1	0.4	0.2	48.8	10.3	0.7	17.5	2.0	0.1
Other	4.0	0.2	0.1	-	-	-	4.0	0.2	0.1	0.9	0.1	-
Total	**1,650.0**	**99.7**	**33.9**	**2.2**	**5.6**	**8.0**	**1,647.7**	**94.2**	**25.9**	**362.5**	**18.3**	**2.4**
Large Corporates & Institutions	**560.5**	**25.4**	**10.1**	**0.3**	**1.1**	**3.8**	**560.2**	**24.2**	**6.3**	**482.2**	**18.4**	**0.9**
Northern Ireland	**93.7**	**5.4**	**2.0**	**0.1**	**0.1**	**0.6**	**93.6**	**5.3**	**1.4**	**55.9**	**0.7**	**0.1**
Group Functions	**256.7**	**0.1**	**-**	**-**	**-**	**-**	**256.7**	**0.1**	**-**	**256.3**	**0.1**	**-**
Total	**2,560.9**	**130.6**	**46.0**	**2.7**	**6.8**	**12.4**	**2,558.2**	**123.8**	**33.6**	**1,156.8**	**37.5**	**3.5**

31 December 2020	Gross exposure			Expected credit loss			Net exposure			Net exposure, ex collateral		
(DKK billions)	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Personal & Business Customers												
Personal Customers Denmark	545.5	34.0	5.3	0.8	1.6	2.3	544.6	32.4	3.1	69.6	6.6	0.4
Personal Customers Nordic	375.3	24.9	4.4	0.1	0.6	0.5	375.2	24.3	3.9	90.6	4.7	0.3
Business Customers	664.6	35.8	22.6	1.0	2.8	5.4	663.6	33.0	17.3	180.3	10.0	3.5
Asset Finance	45.8	13.8	1.5	0.1	0.4	0.3	45.7	13.4	1.2	15.6	2.8	0.2
Group Functions	4.8	0.3	0.1	-	-	-	4.8	0.3	0.1	0.9	0.2	-
Total	**1,635.9**	**108.9**	**34.0**	**1.9**	**5.4**	**8.5**	**1,633.9**	**103.5**	**25.5**	**357.0**	**24.3**	**4.4**
Large Corporates & Institutions	**588.3**	**25.6**	**11.6**	**0.2**	**1.8**	**3.7**	**588.1**	**23.7**	**7.9**	**497.7**	**18.4**	**2.2**
Northern Ireland	**83.1**	**6.9**	**3.1**	**0.1**	**0.2**	**0.6**	**83.0**	**6.7**	**2.4**	**49.6**	**1.5**	**0.4**
Group Functions	**253.0**	**0.1**	**-**	**-**	**-**	**-**	**253.0**	**0.1**	**-**	**252.3**	**-**	**-**
Total	**2,560.3**	**141.5**	**48.8**	**2.3**	**7.4**	**12.9**	**2,558.0**	**134.0**	**35.9**	**1,156.6**	**44.3**	**7.0**

From 1 January 2021, the business segmentation was changed. Further information can be found in note G3(a).

Notes – Danske Bank Group – Risk management

Concentration risk

The Group has implemented a set of frameworks to manage the concentration risk to which the Group is exposed. These frameworks cover single-name concentrations, industry concentrations and geographical concentrations.

Industry concentrations
The Group manages industry concentrations as part of its credit risk appetite framework by setting exposure limits on selected industries. For commercial property, this also includes reducing the number of low-quality customers in order to ensure creditworthiness within the concentration limits. The industry concentrations are updated on an ongoing basis and at least once a year. The Group accepts the risks on material concentrations in accordance with the industry-specific guidelines that outline the use of credit policies within the industry. For personal customers, the Group also manages key concentrations in relation to high LTV ratios and short-term interest loans, for example.

Geographical concentrations
Credit reporting includes a breakdown by region. Limits are set on exposures outside the Group's home markets (sovereigns, financial institutions and counterparties in derivatives trading). Limits are approved by the Group Credit Committee on the basis of expected business volume and an assessment of the specific country risk.

Single-name concentrations
Single-name concentrations are managed according to two frameworks:

- Large exposures: This framework is based on the regulatory definition of large exposures as specified in article 395 of the CRR (Regulation (EU) No. 575/2013) and the Supervisory Diamond from Danish FSA. The Group has also defined stricter internal limits for managing single-name concentrations within the large exposure framework, including the following:
  - Absolute limit on single-name exposures
  - Total absolute limit for the 20 largest exposures

- Single-name concentration: The Group has also implemented a risk-sensitive internal framework In order to limit potential losses on single names, the framework set limits on the following:
  - Exposure
  - Loss given default
  - Expected loss

The largest single-name exposures are monitored daily under the large exposures framework and are reported on a quarterly basis to the Group All Risk Committee, the Board Risk Committee and the Board of Directors. At the end of December 2021, the Group was well within the regulatory limits for large exposures.

Single-name concentrations are monitored monthly and reported on quarterly basis to the Group All Risk Committee, the Board Risk Committee and Board of Directors.

Collateral

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

The value of collateral is monitored and reassessed by advisers, internal or external assessors, and automatic valuation models to ensure it reflects current market prices. The Groups Collateral System supports this process by only accepting up-to-date values, thus ensuring that the Group complies with regulatory requirements.

The validity of the internal and external inputs on which the valuation models depend is assessed regularly and the performance of the models themselves is validated annually by an independent unit.

The market value of collateral is subject to a haircut to reflect the fact that the Group may not be able to obtain the estimated market value upon the sale of the individual asset in a distressed situation, and thus it includes a forced sale reduction, price volatility during the sales period, realisation costs and maintenance costs. The haircut applied depends on the type of collateral. For regulatory purposes, the Group also applies more conservative haircuts in order to capture the risk of an economic downturn.

The Group uses guarantee schemes offered by the governments in our markets to mitigate the economic consequences of the corona crisis. The outstanding amount of loans under such guarantee schemes was DKK 4.9 billion (2020: DKK 5.0 billion) with the guarantees covering DKK 4.0 billion of the loans (2020: DKK 4.2 billion). A large part of the guarantee relates to Northern Ireland.

Notes – Danske Bank Group – Risk management

Collateral continued

Type of collateral in core activities (after haircuts)

(DKK billions)	Personal & Business Customers 2021	Personal & Business Customers 2020	Large Corporates & Institutions 2021	Large Corporates & Institutions 2020	Northern Ireland 2021	Northern Ireland 2020	Group Functions 2021	Group Functions 2020	Total 2021	Total 2020
Real property	1,295.7	1,282.5	41.0	41.5	35.8	32.9	0.5	0.7	1,372.9	1,357.6
- Personal	794.1	781.8	-	-	23.8	21.5	0.4	0.6	818.3	804.0
- Commercial	457.7	453.1	39.3	39.3	9.7	9.1	0.1	-	506.7	501.6
- Agricultural	43.9	47.5	1.7	2.1	2.3	2.4	-	-	47.9	52.0
Bank accounts	1.1	2.0	0.2	0.4	-	-	-	-	1.3	2.4
Custody account and securities	12.6	11.7	4.8	6.6	-	-	-	-	17.3	18.3
Vehicles	24.2	24.0	0.1	0.1	-	-	-	-	24.3	24.2
Equipment	10.7	12.6	3.5	4.7	2.9	3.1	-	-	17.1	20.3
Vessels and aircraft	1.6	2.0	19.3	22.1	-	-	-	-	21.0	24.1
Guarantees	6.9	9.4	15.8	18.8	3.3	3.0	-	-	25.9	31.2
Amounts due	2.7	2.7	0.9	1.5	0.3	0.3	-	-	4.0	4.5
Other assets	29.0	30.4	3.8	5.7	1.2	1.3	-	-	34.0	37.4
Total collateral	**1,384.5**	**1,377.4**	**89.3**	**101.4**	**43.5**	**40.7**	**0.5**	**0.7**	**1,517.8**	**1,520**
Total unsecured credit exposure	**383.2**	**385.6**	**501.5**	**518.4**	**56.8**	**51.5**	**-**	**252.4**	**941.5**	**1,207.9**
Unsecured portion of credit exposure (%)	**21.7**	**21.9**	**84.9**	**83.6**	**56.6**	**55.9**	**-**	**99.7**	**38.3**	**44.3**

From 1 January 2021, the business segmentation was changed. Further information can be found in note G3(a).

Notes – Danske Bank Group – Risk management

Past due amounts in core activities (excluding loans in rating category 10 and 11)

Past due amounts

	Personal & Business Customers		Large Corporates & Institutions		Northern Ireland		Group Functions		Total past due amount		Total due under loans	
(DKK millions)	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
6-30 days	61	91	1	3	2	1	-	-	65	95	944	1,530
31-60 days	21	33	-	-	2	1	-	-	23	35	480	691
> 60 days	50	42	-	-	1	-	-	-	52	43	510	587
Total past due amounts	**132**	**166**	**2**	**4**	**6**	**2**	**-**	**-**	**140**	**173**	**-**	**-**
Total due under loans	**1,834**	**2,723**	**9**	**16**	**92**	**60**	**1**	**8**	**-**	**-**	**1,935**	**2,807**

From 1 January 2021, the business segmentation was changed. Further information can be found in note G3(a).

For the past due amounts, the average unsecured portion of the claims recorded was 19.7% at the end of 2021 (2020: 0%). Real property accounted for 83.5% of collateral provided (2020: 74.8%).

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 debt forgiveness. 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 its 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 2021, the Group had recognised properties taken over in Denmark at a carrying amount of DKK 7 million (2020: DKK 39 million), and there were no properties taken over in other countries (2020: DKK 0 million). The properties are held for sale and included under Assets held for sale in the balance sheet.

Forbearance measures lead to changes in staging for impairment purposes, and impairments relating to forborne exposures are handled according to the principles described in note G15.

During the corona crisis, the Group has granted concessions to assist customers affected by the crisis. Such concessions represented an increase in gross exposure of around DKK 13 billion (2020: DKK 44 billion), of which around DKK 13 billion (2020: DKK 6 billion) (net of expected credit losses) is considered forbearance measures, see note G1(b) for the definition of when such concessions are considered to be a forbearance measure. The concessions considered forbearance measures relate primarily to Personal customers and the industries Shipping, oil and gas, Hotels, restaurants and leisure, Consumer goods and Retailing. In our Nordic markets, such concessions are made on a voluntary basis, while in Northern Ireland, the Bank was selected by the UK Government to provide concessions through the UK government-backed lending schemes.

The Group applies the European Banking Authority's (the EBA's) definition of loans subject to forbearance measures. The table below is based on the EBA's definition, which states that a probation period of a minimum of two years must pass from the date when forborne exposures are considered to be performing again. Such exposures are included in the Under Probation category in the table below. Exposures with forbearance measures are divided into performing and non-performing loans. The Group's definition of non-performing loans is described in the next section. The increase in forborne exposures relates to proactive forbearance measures taken by the Group to improve the financial position of weak customers following the corona crisis.

Exposures subject to forbearance measures

	2021		2020	
(DKK millions)	Performing	Non-performing[1]	Performing	Non-performing[1]
Active forbearance	7,348	7,317	11,973	10,481
Under probation	13,993	-	14,962	-
Total	**21,341**	**7,317**	**26,934**	**10,481**

[1] These loans are part of the total non-performing loan amount. For more details, see the "Non-performing loans in core activities" table.

Notes – Danske Bank Group – Risk management

Non-performing loans

The Group defines non-performing loans as stage 3 exposures. However, 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 excludes exposures in stage 3 with no impairment charges or where the allowance account is considered immaterial to the gross exposure.

The impact of the corona crisis on total gross NPL exposures was limited in 2021.

The table below shows the reconciliation between the gross exposure in stage 3 and gross non-performing loans.

Non-performing loan bridge	2021			2020		
(DKK billions)	Non-default	Default	Total	Non-default	Default	Total
Gross exposure in stage 3	31.4	14.6	46.0	30.8	18.0	48.8
None or an immaterial allowance account	15.9	2.5	18.4	13.6	3.4	17.0
Gross non-performing loans	15.5	12.1	27.6	17.2	14.6	31.8
Expected credit loss	4.9	7.1	12.0	5.1	7.9	12.9
Net non-performing loans	**10.6**	**5.0**	**15.7**	**12.1**	**6.7**	**18.8**

Non-performing loans in core activities		
(DKK millions)	2021	2020
Total non-performing loans	15,657	18,842
- portion from customers in default*	5,042	6,698
Coverage ratio (default) (%)	100	100
Coverage ratio (non-default) (%)	78	54
Coverage ratio (total non-performing loans) (%)	90	75
Non-performing loans as a percentage of total gross exposure (%)	1.0	1.2

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

Notes – Danske Bank Group – Risk management

Non-performing loans continued

Non-performing loans in core activities broken down by industry (NACE)

(DKK millions)	2021 Gross exposure a	2021 Expected credit loss b	2021 Net exposure =a-b	2021 Net exposure, ex collateral	2020 Gross exposure a	2020 Expected credit loss b	2020 Net exposure =a-b	2020 Net exposure, ex collateral
Public institutions	5	-	5	5	-	-	-	-
Financials	521	192	329	-	199	199	-	-
Agriculture	2,261	1,215	1,046	22	3,156	1,410	1,746	440
Automotive	237	80	157	85	480	163	317	113
Capital goods	1,817	653	1,164	257	1,793	672	1,121	779
Commercial property	3,012	1,049	1,964	66	3,371	1,016	2,356	111
Construction and building materials	1,249	705	543	-	1,520	658	862	303
Consumer goods	806	328	479	54	1,452	575	878	173
Hotels, restaurants and leisure	1,117	434	683	42	1,563	410	1,153	678
Metals and mining	44	21	23	10	100	42	58	23
Other commercials	51	12	39	3	19	8	11	1
Pharma and medical devices	29	9	20	6	52	11	41	17
Private housing co-ops and non-profit associations	542	205	336	60	715	231	484	84
Pulp, paper and chemicals	137	92	44	-	418	180	237	62
Retailing	2,156	991	1,165	224	2,137	1,030	1,108	422
Services	592	329	263	63	941	526	415	182
Shipping, oil and gas	5,728	2,393	3,335	-	6,509	2,270	4,239	95
Social services	932	343	589	177	872	323	549	-
Telecom and media	167	87	80	7	177	106	71	9
Transportation	340	77	262	23	866	129	737	523
Utilities and infrastructure	25	13	12	8	47	47	-	-
Personal customers	5,870	2,750	3,120	289	5,388	2,931	2,457	261
Total	**27,636**	**11,980**	**15,657**	**1,399**	**31,776**	**12,934**	**18,842**	**4,275**

For non-performing exposures, the average unsecured portion was 8.9% at the end of 2021 (2020: 22.7%). Real property accounted for 47.6% of collateral provided (2020: 44.3%).

Notes – Danske Bank Group – Risk management

Non-performing loans continued

Non-performing loans in core activities broken down by business unit

	2021				2020			
(DKK millions)	Gross exposure a	Expected credit loss b	Net exposure =a-b	Net exposure, ex collateral	Gross exposure a	Expected credit loss b	Net exposure =a-b	Net exposure, ex collateral
Personal & Business Customers								
Personal Customers Denmark	3,711	1,984	1,727	197	3,915	2,229	1,685	328
Personal Customers Nordic	1,632	560	1,072	81	1,113	497	615	136
Business Customers	10,629	4,775	5,853	1,021	13,092	5,155	7,937	2,044
Asset Finance	861	177	685	22	970	216	754	168
Other	100	45	55	19	81	40	41	3
Total	**16,933**	**7,541**	**9,392**	**1,341**	**19,171**	**8,138**	**11,032**	**2,679**
Large Corporates & Institutions	**8,743**	**3,812**	**4,932**	**-**	**10,580**	**4,119**	**6,460**	**1,382**
Northern Ireland	**1,948**	**621**	**1,327**	**56**	**2,014**	**668**	**1,346**	**214**
Group Functions	**12**	**6**	**6**	**2**	**12**	**8**	**3**	**-**
Total NPL	**27,636**	**11,980**	**15,657**	**1,399**	**31,776**	**12,934**	**18,842**	**4,275**

From 1 January 2021, the business segmentation was changed. Further information can be found in note G3(a).

Notes – Danske Bank Group – Risk management

Expected credit losses (allowance account) in core activities

The expected credit loss is calculated for all individual facilities as a function of the probability of default (PD), the exposure at default (EAD) and the loss given default (LGD). In general, the Group's IFRS 9 impairment models and parameters draw on the bank's internal models in order to ensure alignment of models across the Group. New models and calculations have been developed especially for IFRS 9 purposes, including models for lifetime PD, prepayment and forward-looking LGD. All expected credit loss impairments are allocated to individual exposures. For significant stage 3 exposures, the Group determines the expected credit losses individually.

(DKK millions)	Stage 1	Stage 2	Stage 3	Total
ECL allowance account as at 1 January 2020	1,306	5,908	13,237	20,451
Transferred to stage 1 during the period	1,063	-1,006	-57	-
Transferred to stage 2 during the period	-117	754	-636	-
Transferred to stage 3 during the period	-22	-984	1,006	-
ECL on new assets	542	1,860	2,105	4,507
ECL on assets derecognised	-289	-1,307	-3,584	-5,180
Impact of net remeasurement of ECL (incl. changes in models)	-193	2,268	2,209	4,283
Write-offs debited to the allowance account	-1	-6	-1,069	-1,076
Foreign exchange adjustments	-22	-7	-396	-425
Other changes	-4	-42	40	-6
ECL allowance account as at 31 December 2020	**2,263**	**7,438**	**12,853**	**22,554**
Transferred to stage 1 during the period	1,843	-1,604	-239	-
Transferred to stage 2 during the period	-180	649	-469	-
Transferred to stage 3 during the period	-120	-864	984	-
ECL on new assets	646	1,282	1,839	3,767
ECL on assets derecognised	-629	-1,483	-4,377	-6,489
Impact of net remeasurement of ECL (incl. changes in models)	-923	1,172	1,011	1,259
Write-offs debited to the allowance account	-5	-	-	-5
Foreign exchange adjustments	21	54	268	343
Other changes	-182	160	527	505
ECL allowance account as at 31 December 2021	**2,733**	**6,804**	**12,397**	**21,935**

The stage 3 allowance account includes DKK 4.7 billion (2020: DKK 7.1 billion) relating to originated credit impaired financial assets. Originated credit impaired financial assets are granted as part of restructuring non-performing loan exposures, and are otherwise outside the Group's credit policy. The Group has not acquired any credit impaired financial assets.

Expected credit losses (allowance account) in core activities broken down by segment

(DKK millions)	Personal & Business Customers	Large Corporates & Institutions	Northern Ireland	Group Functions	Allowance account Total
ECL allowance account as at 1 January 2020	14,771	4,942	730	8	20,451
ECL on new assets	2,399	1,990	108	10	4,507
ECL on assets derecognised	-3,043	-2,031	-103	-3	-5,180
Impact on remeasurement of ECL (incl. change in models)	1,807	2,122	354	1	4,283
Write-offs debited to allowance account	-160	-865	-51	-	-1,076
Foreign currency translation	14	-388	-48	-2	-425
Other changes	-14	8	-1	1	-6
ECL allowance account as at 31 December 2020	**15,773**	**5,777**	**990**	**15**	**22,554**
ECL on new assets	2,292	1,215	259	2	3,767
ECL on assets derecognised	-2,887	-3,333	-266	-3	-6,489
Impact on remeasurement of ECL (incl. change in models)	1,238	152	-135	4	1,259
Write-offs debited to allowance account	-	-	-5	-	-5
Foreign currency translation	14	257	71	-	343
Other changes	-590	1,159	-63	-1	505
ECL allowance account as at 31 December 2021	**15,840**	**5,227**	**850**	**17**	**21,935**

The method used for calculating expected credit losses is described in detail in note G15.

Notes – Danske Bank Group – Risk management

Expected credit losses (allowance account) in core activities continued

Gross credit exposure in core activities

(DKK millions)	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 1 January 2020	2,267,273	154,243	42,758	2,464,274
Transferred to stage 1	44,248	-43,386	-863	-
Transferred to stage 2	-51,001	55,363	-4,362	-
Transferred to stage 3	-7,249	-10,380	17,628	-
New assets	735,906	35,729	10,131	781,766
Assets derecognised	-584,552	-41,981	-13,130	-639,662
Changes due to modifications that did not result in derecognition	-5	-8	-79	-92
Other changes	155,606	-8,136	-3,298	144,172
As at 31 December 2020	**2,560,227**	**141,445**	**48,786**	**2,750,458**
Transferred to stage 1	37,850	-35,380	-2,470	-
Transferred to stage 2	-45,587	51,357	-5,770	-
Transferred to stage 3	-9,335	-6,871	16,207	-
New assets	761,770	30,523	9,291	801,585
Assets derecognised	-653,242	-43,844	-16,605	-713,691
Changes due to modifications that did not result in derecognition	-9	-4	-59	-73
Other changes	-90,729	-6,638	-3,367	-100,734
As at 31 December 2021	**2,560,945**	**130,588**	**46,012**	**2,737,545**

The Group continued the use of modification of the contractual terms in the form of concessions to assist customers affected by the corona crisis. Part of the concessions were short-term reliefs in the form of amortisation holidays. Such modifications led only to insignificant modification losses (changes in the net present value of the contractual cash flows). In the table above, 'Changes due to modifications that did not result in derecognition' includes partial forgiveness of debt assessed to be uncollectible. The modification loss is recognised within the income statement as part of Loan impairment charges. The contractual amount of loans written off in 2021 and for which the Group retains the right to enforce its claims amounted to DKK 1,669 million (2020: DKK 3,616 million).

Allowance account in core activities broken down by balance sheet item

(DKK millions)	2021	2020
Due from credit institutions and central banks	28	19
Loans at amortised cost	16,328	16,512
Loan commitments and guarantees	2,607	3,175
ECL Impairment, Total	**18,964**	**19,705**
Fair value credit risk adjustment on loans at fair value	2,971	2,849
Total	**21,935**	**22,554**

Macroeconomic scenarios

The incorporation of forward-looking elements reflects the expectations of the Group's senior management and involves the creation of scenarios (base-case, upside and downside scenarios), including an assessment of the probability for each scenario. The purpose of using multiple scenarios is to model the non-linear impact of assumptions about macroeconomic factors on the expected credit losses.

Notes – Danske Bank Group – Risk management

Expected credit losses (allowance account) in core activities continued

The forward-looking information is based on a three-year forecast period converging to steady state in year seven. The based case is an extension of the Group's official view of the Nordic economies (the Nordic Outlook report from October 2021) and reflects an expectation of further recovery of the Nordic economies over the coming two years, although lack of labour, materials and equipment is becoming a break on growth.

In the upside scenario, consumers run down a large proportion of the substantial savings accumulated during the pandemic. There is a consumer-led global recovery, and in this scenario there is slightly more support for the housing market. GDP is about 1 per cent higher by the end of this scenario compared to the base case. We have assumed that 10 year yields will move slightly higher compared to the base case scenario as inflation expectations move higher. The European Central Bank / Danish central bank is no longer expected to keep rates unchanged throughout the forecast period, but hikes are still not expected to materialize before 2024 (year 3). The Group expects a slightly faster policy normalisation in Norway and additional 50bp of rate hikes in Sweden in 2024 compared to the baseline scenario.

The Group's downside scenario is a severe recession scenario, calibrated to a level of severity resembling the recession in 2008-2009. A trigger of the economic setback could be another wave of coronavirus causing a new round of countrywide lockdowns or just very cautious consumers, an escalating confidence crisis in Europe and some degree of financial crisis. Slowing private consumption will shock the economy and plunging global demand will hit European exports. This will lead to a severe slowdown in the economies in which the Group is represented.

Forecasts are produced for the coming three years. After this period, the outlook returns to a steady state level after a further four years. The macroeconomic parameters in the upside base case and downside scenario used in the ECL calculation for the first three years of the forecast horizon as an average across the Group's core markets are included below.

Notes – Danske Bank Group – Risk management

Expected credit losses (allowance account) in core activities continued

2021	Base case			Downside			Upside		
	2022	2023	2024	2022	2023	2024	2022	2023	2024
GDP	3.4	1.9	1.8	-1.5	0.3	0.2	4.5	1.7	1.6
Industrial Production	4.4	2.6	2.6	-2.2	0.5	0.4	5.9	2.4	2.2
Unemployment	5.0	4.9	4.8	9.9	10.4	10.6	4.7	4.6	4.6
Inflation	1.6	1.6	1.6	-0.7	-0.1	0.1	2.3	1.9	1.9
Consumption Expenditure	4.3	2.0	1.8	-0.7	-0.6	-0.2	5.4	1.5	1.6
Property prices - Residential	2.6	2.3	2.4	-8.3	-1.5	-0.3	3.6	3.3	2.4
Interest rate - 3 month	0.2	0.3	0.4	-0.6	-0.6	-0.7	0.3	0.3	0.7
Interest rate - 10 year	0.9	1.1	1.2	-1.1	-0.7	-0.7	1.1	1.5	1.5

After the forecast period, the macroeconomic scenarios revert slowly towards a long-term average.

The upside scenario represents a slightly better outlook than the base case scenario across the macroeconomic parameters.

At 31 December 2020, the following base case and downside scenarios were used:

2020	Base case				Downside			
	2020	2021	2022	2023	2020	2021	2022	2023
GDP	-3.7	3.3	2.1	1.8	-4.2	-1.2	2.7	2.3
Industrial Production	-5.0	4.1	3.1	2.5	-5.4	-1.7	4.8	3.6
Unemployment	6.7	6.1	5.5	5.1	6.6	7.4	6.6	5.9
Inflation	0.7	1.5	1.6	1.6	0.6	0.7	1.4	1.4
Consumption Expenditure	-4.4	4.7	1.8	1.7	-4.9	0.6	1.9	1.8
Property prices - Residential	2.7	2.7	2.6	2.9	2.7	-4.1	2.6	2.9
Interest rate - 3 month	-0.1	0.0	0.1	-0.2	-0.1	-0.1	0.0	0.2
Interest rate - 10 year	0.1	0.3	0.6	0.7	-0.2	0.1	0.4	0.7

At 31 December 2020, the upside scenario represented a slightly better outlook than the base case scenario across the macroeconomic parameters.

The base-case scenario enters with a probability of 70% (2020: 60%), the upside scenario with a probability of 10% (2020: 15%) and the downside scenario with a probability of 20% (2020: 25%). On the basis of these assessments, the allowance account at 31 December 2021 amounted to DKK 21.9 billion (2020: DKK 22.6 billion). If the base case scenario was assigned a probability of 100%, the allowance account would decrease DKK 1.7 billion (2020: DKK 0.4 billion). Compared to the base case scenario, the allowance account would increase DKK 8.5 billion (2020: DKK 1.7 billion), if the downside scenario was assigned a probability of 100%. The increase reflects primarily the transfer of exposures from stage 1 to stage 2 and increased expected credit losses within stage 2. If instead the upside scenario was assigned a probability of 100%, the allowance account would decrease by DKK 0.2 billion (2020: DKK 0.4 billion) compared to the base-case scenario. It should be noted that the expected credit losses in the individual scenarios (i.e. without the weighting) do not represent forecasts of expected credit losses (ECL).

The applied scenarios in 2021 differ from those used at 31 December 2020. In Q1 2021 the downside scenario was changed to the severe recession scenario applied in the Group's ICAAP processes and is similar in nature to regulatory stress tests. The severe recession scenario reflected negative growth and falling property prices for a longer period. The change of the downside scenario was made to capture the risk of prolonged lockdowns due to new coronavirus variants, and in order for the ECL calculation to include potential downside risks due to the elevated asset prices across the Nordics.

The scenario weightings were also changed, and kept stable for the first nine months of 2021. However, in Q4 2021 the scenarios weightings have been updated to the current weights.

Notes – Danske Bank Group – Risk management

Expected credit losses (allowance account) in core activities continued

Post-model adjustments

Management applies judgement when determining the need for post-model adjustments. At 31 December 2021, the post-model adjustments amounted to DKK 6.3 billion (2020: DKK 6.4 billion). The post-model adjustments related primarily to the following types of risk:

- specific macroeconomic risks on certain industries not fully captured by the expected credit loss model, for instance Agriculture industry and Oil & Gas. For such industries, supplementary calculations are made in order to ensure sufficient impairment coverage. This also includes post-model adjustments to capture the immediate risks arising from the corona crisis
- non-linear downside macroeconomic risks, for instance in relation to the property market in Copenhagen and other high growth areas for which the macroeconomic forecasts used in the models are based on the property market as a whole
- portfolios where the credit risk assessment process has identified an underestimation of the expected credit losses split by country and business unit
- upcoming model changes that will impact the credit loss model. Currently this only covers New Definition of Default, which was implemented in January 2022.

Following the significant impact on the expected credit losses from post-model adjustments, the table below provides more information about the post-model adjustments.

Post-model adjustments by type and mostly impacted industries

(DKK billions)	2021	2020
Specific macroeconomic risks		
Agriculture	0.8	0.8
Commercial Property	1.4	1.6
Personal customers	0.7	1.1
Others	0.3	0.4
Specific macroeconomic risks, total	3.2	3.9
of which corona crisis related	1.8	2.0
Process related	2.2	1.8
Upcoming model changes	0.9	0.6
Total	**6.3**	**6.4**

The post-model adjustments relating to the corona crisis concern industries directly affected by the corona crisis and for which the macroeconomic scenarios themselves do not lead to a sufficient increase in expected credit losses. It includes expected, but not yet materialised, credit deterioration across units, countries and industries in relation to the Personal customers and Commercial property industries in Denmark as government support ends. Uncertainty related to the corona crisis remains high. Currently the Group holds DKK 1.8 billion (2020: DKK 2.0 billion) in post-model adjustments directly related to the corona crisis.

In 2021 the post-model adjustments has been reduced by DKK 0.1 billion overall. This reflects a relatively unchanged view of the uncertainties and risks outside the model.

In Q4 2021, a DKK 0.2 billion post-model adjustment has been added on the Oil, Shipping and Gas portfolio to reflect continued low investment levels in the industry.

Notes – Danske Bank Group – Risk management

Credit exposure from Non-core lending activities

The Non-core business unit 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 of this part of the loan portfolio. The portfolio consists primarily of loans to customers in the Baltics and liquidity facilities for Special Purpose Vehicles (SPVs) and conduit structures.

In the fourth quarter of 2020, the Group entered into agreements to sell portfolios of commercial customers in Latvia also managed by the Lithuanian branch. The sale was settled in the first quarter of 2021. Further information can be found in note G23. At the end of 2021, loans held for sale were included in Core activities.

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

31 December 2021	Gross exposure			Expected credit loss			Net exposure			Net exposure, ex collateral		
(DKK millions)	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Non-core banking	126	6	14	-	2	14	126	3	-	33	-	-
Personal customers	-	-	6	-	-	6	-	-	-	-	-	-
Commercial customers	121	5	9	-	2	9	120	3	-	27	-	-
Public Institutions	5	-	-	-	-	-	5	-	-	5	-	-
Non-core conduits etc.	2,771	-	817	-	-	795	2,771	-	22	122	-	19
Total	**2,897**	**6**	**831**	**-**	**2**	**809**	**2,897**	**3**	**22**	**154**	**-**	**19**

31 December 2020	Gross exposure			Expected credit loss			Net exposure			Net exposure, ex collateral		
(DKK millions)	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Non-core banking	1,285	74	259	4	21	226	1,281	53	33	588	18	-
Personal customers	24	2	-	-	-	-	24	2	-	23	-	-
Commercial customers	1,033	69	259	4	21	226	1,029	48	33	403	16	-
Public Institutions	227	4	-	-	-	-	227	4	-	162	3	-
Non-core conduits etc.	2,603	-	778	-	-	686	2,603	-	92	256	-	-
Total	**3,887**	**74**	**1,037**	**4**	**21**	**912**	**3,884**	**53**	**125**	**844**	**18**	**-**

Notes – Danske Bank Group – Risk management

Credit exposure from Non-core lending activities continued

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

31 December 2021	PD level		Gross exposure			Expected credit loss			Net exposure			Net exposure, ex collateral		
(DKK millions)	Upper	Lower	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
1	-	0.01	587	-	-	-	-	-	587	-	-	122	-	-
2	0.01	0.03	1,026	-	2	-	-	-	1,026	-	2	14	-	2
3	0.03	0.06	1,086	-	-	-	-	-	1,085	-	-	3	-	-
4	0.06	0.14	127	-	-	-	-	-	127	-	-	1	-	-
5	0.14	0.31	2	-	-	-	-	-	2	-	-	-	-	-
6	0.31	0.63	48	2	2	-	-	-	48	2	2	-	-	-
7	0.63	1.90	20	-	-	-	-	-	20	-	-	15	-	-
8	1.90	7.98	-	2	-	-	2	-	-	-	-	-	-	-
9	7.98	25.70	-	-	-	-	-	-	-	-	-	-	-	-
10	25.70	99.99	-	-	18	-	-	5	-	-	13	-	-	13
11 (default)	100.00	100.00	1	-	809	-	-	804	1	-	5	-	-	4
Total			**2,897**	**6**	**831**	**-**	**2**	**809**	**2,897**	**3**	**22**	**154**	**-**	**19**

31 December 2020	PD level		Gross exposure			Expected credit loss			Net exposure			Net exposure, ex collateral		
(DKK millions)	Upper	Lower	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
1	-	0.01	432	-	-	-	-	-	432	-	-	-	-	-
2	0.01	0.03	1,189	12	8	-	-	-	1,189	12	8	403	12	-
3	0.03	0.06	1,205	7	5	-	-	-	1,205	7	5	125	2	-
4	0.06	0.14	322	3	2	-	-	-	322	3	2	168	1	-
5	0.14	0.31	210	8	6	-	-	-	210	8	6	11	-1	-
6	0.31	0.63	107	4	3	1	-	-	106	4	3	16	-	-
7	0.63	1.90	160	8	5	2	1	-	158	7	5	21	-	-
8	1.90	7.98	32	18	28	-	18	30	32	1	-2	-7	-1	-
9	7.98	25.70	2	2	-	-	2	-	2	-	-	-	-	-
10	25.70	99.99	38	2	28	-	-	27	38	2	1	-7	-	-
11 (default)	100.00	100.00	190	9	952	-	-	854	190	9	98	114	6	-
Total			**3,887**	**74**	**1,037**	**4**	**21**	**912**	**3,884**	**53**	**125**	**844**	**18**	**-**

Non-performing loans in Non-core activities broken down by industry (NACE)

	2021				2020			
(DKK millions)	Gross exposure a	Expected credit loss 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
Non-core banking	2	1	1	-	468	223	245	-
Non-core conduits etc.	814	794	20	18	778	686	92	-
Total	**815**	**794**	**21**	**18**	**1,246**	**908**	**337**	**-**

The average unsecured portion of non-performing loans was 83.2% at the end of 2021 (2020: 0.1%). Real property accounted for 0% of collateral provided (2020: 100%).

Notes – Danske Bank Group – Risk management

Counterparty credit risk

Exposure to counterparty credit risk and credit exposure from trading and investment securities

(DKK billions)	2021	2020
Counterparty credit risk		
Derivatives with positive fair value	260.2	379.6
Reverse transactions and other loans at fair value[1]	254.1	259.4
Credit exposure from other trading and investment securities		
Bonds	539.8	583.4
Shares	13.3	16.7
Other unutilised commitments[2]	0.1	0.2
Total	**1,067.6**	**1,239.3**

[1] Reverse transactions and other loans at fair value included as counterparty credit risk are loans at the trading units of Large Corporates & Institutions. These loans consist of reverse transactions of DKK 252.3 billion (2020: DKK 256.7 billion), of which DKK 37.7 billion relates to credit institutions and central banks (2020: DKK 50.0 billion), and other primarily short-term loans of DKK 1.7 billion (2020: DKK 2.8 billion), of which DKK 1.7 billion (2020: DKK 2.4 billion) relates to credit institutions and central banks.
[2] Other unutilised commitments comprise private equity investment commitments and other obligations.

Counterparty credit risk (derivatives)

Counterparty credit risk is the risk that the counterparty to a transaction defaults before the final settlement of the transaction's cash flows. It is a combination of credit risk (a deterioration in the creditworthiness of a counterparty) and market risk (the potential value of derivatives contracts).

Derivatives are subject to credit risk. Positive and negative fair values of derivatives with the same counterparty are offset in the balance sheet if certain conditions are fulfilled.

Danske Bank Group takes on counterparty credit risk when it enters into over-the-counter (OTC) derivatives, securities financing transactions (SFTs), and/or exchange-traded derivatives.

The Group mitigates counterparty credit risk through pre-deal controls, post-deal monitoring, clearing, close-out netting agreements and collateral agreements. Those agreements include rights to additional set-off in the event of default by a counterparty, they reduce the exposure further, but they do not qualify for offsetting under IFRSs. The net current exposure to derivatives with positive market value after offsetting under master netting agreements amounted to DKK 76.8 billion (2020: DKK 109.6 billion) (see note G32). The exposure is broken down by rating category in the table below.

Net current exposure broken down by category (DKK millions)	2021	2020
1	10,625	25,228
2	14,005	20,912
3	38,303	36,735
4	7,148	11,837
5	4,426	8,203
6	1,350	4,266
7	702	1,529
8	84	409
9	19	29
10	116	374
11	51	81
Total	**76,829**	**109,601**

The Group uses a range of measures to capture counterparty credit risk, including current exposure, potential future exposure (PFE) and exposure at default (EAD). Current exposure is a simple measure of counterparty credit risk exposure that takes into account only current mark-to-market values and collateral.

Customer-level counterparty risk is managed by means of PFE lines on a set of maturity buckets. It is measured at the 97.5% percentile for a set of future time horizons. PFE lines are approved by the relevant credit unit and all transactions are assumed to be held to contractual maturity. The Group carries out daily counterparty credit risk measurement and monitoring as well as intraday line utilisation monitoring.

The Danish FSA approved the Group's simulation model for calculating the regulatory capital requirement for counterparty credit risk in 2015. More advanced measures such as EAD, which is a regulatory measure, express potential future losses and are based on internal models for future scenarios of market data. EAD figures are provided in the Additional Pillar III Disclosures (accessible at danskebank.com/investor-relations).

An overview of counterparty credit risk exposures (at counterparty and portfolio levels) is reported to the Executive Leadership Team and other senior management on a monthly basis. The Group uses a simulation-based model to calculate counterparty credit risk exposure for the majority of its portfolio.

The Group makes fair value adjustments to cover the counterparty credit risk on derivatives with positive fair value (CVA) that are recognised in the financial statements. For more information, see note G33.

Notes – Danske Bank Group – Risk management

Bond portfolio

(DKK millions)	Central and local government bonds	Quasi-government bonds	Danish mortgage bonds	Swedish covered bonds	Other covered bonds	Corporate bonds	Total
31 December 2021							
Held-for-trading (FVPL)	174,732	3,305	11,113	38,878	3,576	5,679	237,283
Managed at fair value (FVPL)	4,342	921	27,360	819	670	2,417	36,530
Held to collect and sell (FVOCI)	14,620	4,822	69,859	10,116	19,640	239	119,296
Held to collect (AMC)	50,051	5,307	82,903	6,694	1,766	-	146,721
Total	**243,744**	**14,356**	**191,236**	**56,507**	**25,652**	**8,335**	**539,830**
31 December 2020							
Held-for-trading (FVPL)	197,777	1,920	19,285	53,729	5,712	8,591	287,014
Managed at fair value (FVPL)	19,084	929	22,851	1,964	630	2,576	48,034
Held to collect and sell (FVOCI)	15,272	3,469	82,299	8,641	5,899	1,192	116,772
Held to collect (AMC)	31,836	1,671	88,742	7,633	1,746	-	131,629
Total	**263,969**	**7,990**	**213,177**	**71,967**	**13,987**	**12,358**	**583,448**

At 31 December 2021, the Group had an additional bond portfolio, including bond-based unit trust certificates, worth DKK 205,389 million (2020: DKK 222,122 million) recognised as assets under insurance contracts and thus not included in the table above. The section on insurance risk provides more information.

Notes – Danske Bank Group – Risk management

Bond portfolio continued

Bond portfolio broken down by geographical area

(DKK millions)	Central and local govern-ment bonds	Quasi-government bonds	Danish mortgage bonds	Swedish covered bonds	Other covered bonds	Corporate bonds	Total
31 December 2021							
Denmark	79,233	-	191,236	-	-	2,498	272,967
Sweden	72,787	-	-	56,507	-	2,106	131,400
UK	4,300	-	-	-	2,128	274	6,701
Norway	5,249	-	-	-	21,612	1,737	28,599
USA	16,581	3,628	-	-	-	6	20,215
Spain	2,627	-	-	-	1	-	2,628
France	12,939	15	-	-	159	112	13,226
Luxembourg	-	5,982	-	-	-	66	6,048
Finland	6,684	1,908	-	-	766	760	10,119
Ireland	2,100	-	-	-	3	17	2,120
Italy	2,475	-	-	-	-	4	2,479
Portugal	46	-	-	-	-	-	46
Austria	4,674	-	-	-	-	57	4,731
Netherlands	5,526	6	-	-	27	489	6,047
Germany	27,564	-	-	-	687	38	28,289
Belgium	655	2,265	-	-	1	-	2,921
Other	304	551	-	-	268	168	1,291
Total	**243,744**	**14,356**	**191,236**	**56,507**	**25,652**	**8,335**	**539,830**
31 December 2020							
Denmark	80,654	-	213,177	-	-	2,968	296,800
Sweden	91,397	-	-	71,967	-	3,977	167,341
UK	2,955	-	-	-	1,096	1,489	5,540
Norway	3,681	-	-	-	10,693	1,657	16,031
USA	13,457	1,876	-	-	-	15	15,348
Spain	3,921	-	-	-	1	2	3,925
France	11,693	-	-	-	466	27	12,186
Luxembourg	-	4,404	-	-	-	75	4,479
Finland	7,964	999	-	-	751	1,432	11,147
Ireland	2,187	-	-	-	3	59	2,249
Italy	4,357	-	-	-	-	4	4,361
Portugal	249	-	-	-	-	-	249
Austria	5,347	-	-	-	-	56	5,402
Netherlands	4,987	4	-	-	15	176	5,182
Germany	30,316	-	-	-	711	181	31,208
Belgium	803	299	-	-	1	-	1,102
Other	-	409	-	-	249	239	897
Total	**263,969**	**7,990**	**213,177**	**71,967**	**13,987**	**12,358**	**583,448**

Risk Management 2021 provides additional details about the risk on the Group's bond portfolio. The publication is not covered by the statutory audit.

Notes – Danske Bank Group – Risk management

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
31 December 2021							
AAA	203,216	12,061	190,753	56,491	-	334	462,857
AA+	9,186	15	-	-	25,090	3	34,295
AA	19,022	2,279	-	16	87	1,718	23,123
AA-	4,731	-	-	-	3	87	4,821
A+	304	-	-	-	-	41	345
A	3,263	-	473	-	-	1,641	5,376
A-	-	-	-	-	472	956	1,428
BBB+	1,465	-	-	-	-	1,005	2,470
BBB	455	-	10	-	-	1,363	1,828
BBB-	2,065	-	-	-	-	415	2,481
BB+	-	-	-	-	-	324	324
BB	-	-	-	-	-	183	183
BB-	-	-	-	-	-	30	30
Sub-inv. grade or unrated	36	-	-	-	-	233	269
Total	**243,744**	**14,356**	**191,236**	**56,507**	**25,652**	**8,335**	**539,830**
31 December 2020							
AAA	221,354	7,522	212,971	71,928	13,344	1,387	528,506
AA+	11,293	-	-	-	66	157	11,516
AA	16,457	468	-	39	176	1,819	18,959
AA-	3,102	-	-	-	-	364	3,466
A+	-	-	-	-	-	110	110
A	3,700	-	174	-	378	3,142	7,394
A-	-	-	-	-	-	290	290
BBB+	2,408	-	-	-	-	940	3,348
BBB	1,628	-	32	-	-	1,953	3,613
BBB-	4,027	-	-	-	-	677	4,704
BB+	-	-	-	-	-	393	393
BB	-	-	-	-	-	927	927
BB-	-	-	-	-	-	31	31
Sub-inv. grade or unrated	-	-	-	-	24	168	192
Total	**263,969**	**7,990**	**213,177**	**71,967**	**13,987**	**12,359**	**583,448**

Notes – Danske Bank Group – Risk management

Market risk

The Group's market risk management is intended to ensure proper oversight of all market risks, including both trading-related market risk and non-trading-related market risk as well as market risk in relation to fair value adjustments. The market risk framework is designed to systematically identify, assess, monitor and report market risk.

The Group manages its market risk by means of three separate frameworks for the following areas:

- Trading-related activities at Large Corporates & Institutions (LC&I)
- Fair value adjustments (xVA) at LC&I
- Non-trading portfolio at Group Treasury and Group Finance

Large Corporates & Institutions manages the market risk (such as interest rate risk, equity market risk and foreign exchange risk) associated with its trading activities in the financial markets. Market risk in relation to the trading portfolio can be defined as the risk of losses caused by changes in the market value of financial assets, liabilities and derivatives resulting from changes in market prices or rates. In particular, Large Corporates & Institutions hedges the market risk incurred from market-making activities and client flows by taking positions in financial instruments, assets and liabilities that offset this market risk. In addition, Large Corporates & Institutions uses financial instruments to hedge the fair value adjustments (xVA) in relation to derivatives trading.

Group Treasury manages the interest rate risk and structural foreign exchange risk associated with the assets and liabilities of the non-trading portfolio. Interest rate risk in the banking book refers to the current or prospective risk to the Group's capital and earnings arising from adverse movements in interest rates that affect the Group's non-trading portfolio positions. Changes in interest rates also affect the Group's earnings by altering interest rate-sensitive income and expenses, thus affecting the Group's net interest income. Group Treasury also monitors the risks associated with the Group's legacy defined benefit pension plans. Equity risk in the non-trading portfolio is managed by Group Finance.

The market risk at Danica Pension is managed separately.

Trading-related market risk at Large Corporates & Institutions

The trading-related activities at Large Corporates & Institutions (LC&I) cover trading in fixed income products, derivatives, foreign exchange, money markets, debt capital markets and equities. LC&I acts mainly as a market maker processing large client flows.

The table below shows the VaR for the trading-related activities at LC&I.

Value-at-Risk for trading-related activities at LC&I

	2021		2020	
(DKK millions)	Average	End of year	Average	End of year
Total	**29**	**21**	**29**	**28**

VaR is calculated at a confidence level of 95% for a 1-day horizon.

The Group continued its trading strategy in 2021, with average trading-related market risk ending at the same level as in 2020 (DKK 29 million). Throughout the period, the risk related chiefly to fixed income products, which gave rise to bond spread risk and interest rate risk. Both average interest rate risk and bond spread risk increased in 2021. Furthermore, foreign exchange risk rose, while average equity risk declined. Because of substantial diversification, however, the risk factors hedged each other well, and the increases in average bond spread risk, interest rate risk and foreign exchange risk were counterbalanced by higher diversification.

Market risk in relation to fair value adjustments

The Group's fair value accounting includes various valuation adjustments (referred to the Group's derivatives portfolio – specifically credit value adjustments (CVA), funding value adjustments (FVA) and collateral value adjustments (ColVA). The Group applies a market-implied approach that is in line with industry best practice. Hence, these valuation adjustments are sensitive to market risks that chiefly materialise due to changes in interest rates, funding spreads and credit spreads. These market risks can give rise to volatility in the fair value adjustments.

Because of the size and nature of the Group's derivatives portfolio, the credit, funding and collateral valuation adjustments are substantial, and the associated market risks are similarly of a considerable size. The strategy is therefore to hedge large parts of the market risks, while the default risks are capitalised in accordance with regulation. When managing xVA, the Group focuses on managing economic risk rather than regulatory capital. This means that the Group also manages market risks originating from counterparties outside the scope of the CVA risk charge.

Market risk in relation to the non-trading portfolio

The Group's exposure to market risk in the non-trading portfolio originates mainly from interest rate risk in the banking book, credit spread risk in the banking book and, to a far lesser extent, from the equity risk associated with a small portfolio of equity investments. Furthermore, the Group is exposed to market risk arising from the hedge of structural foreign exchange risk.

Notes – Danske Bank Group – Risk management

Market risk continued

Interest rate risk in the banking book (IRRBB)

Interest rate risk in the banking book (IRRBB) derives from providing the Group's core banking customers with conventional banking products and from the Group's funding and liquidity management activities at Group Treasury. IRRBB arises from adverse movements in interest rates, and in turn they changes the underlying value of the Group's assets, liabilities and off-balance sheet items and its economic value.

The level of IRRBB is monitored using a number of risk measures, such as prescribed regulatory metrics, the risk appetites as set by the Board of Directors and other risk measures that are considered appropriate. The table below shows the Group's total interest rate sensitivity in the banking book (economic value-based measure) measured as the change in the net present value of assets, liabilities and off-balance sheet items in the banking book subject to a parallel interest rate curve shift of +100bp and -100bp. The sensitivity to falling interest rates changed from a loss of DKK 1.1 billion in 2020 to a gain of DKK 3.3 billion at the end of 2021, while the sensitivity to rising interest rates changed from a gain of DKK 2.3 billion in 2020 to a loss of DKK 1.5 billion at the end of 2021. The change in the sensitivity was affected mainly by a lowering of the threshold for negative interest rates on demand deposits in Denmark, an increase in market interest rates and an update of the Non Maturing Deposits (NMD) model.

Interest rate risk in the banking book (economic value-based measure)

	2021		2020	
At last business day (DKK millions)	+100bp	-100bp	+100bp	-100bp
Total	**-1,458**	**3,287**	**2,269**	**-1,064**

The net interest income (NII) risk metric is used for measuring the change in net interest income over a forecast horizon of 12 months in a number of different scenarios. A constant balance-sheet approach is used for creating a base scenario over the 12-month time horizon. At the end of December 2021 the scenarios did not result in a decline due to the 12 month time horizon. At the end of 2020, the worst case scenario was the 'short rates up' scenario that had a negative impact on the Group's NII of DKK 664 million compared to the base case scenario.

Credit spread risk in the banking book

Credit spread risk in the banking book (CSRBB) derives from bond positions primarily related to the Group's funding and liquidity management activities at Group Treasury.

On the basis of a 10-day 99% VaR measure, the Group's credit spread risk in the banking book was DKK 202 million at the end of 2021, up from DKK 195 million at the end of 2020.

Structural foreign exchange risk

Structural foreign exchange risk arises as, the Group's CET1 capital is denominated in its domestic currency, DKK, while some of its assets and liabilities are denominated in foreign currencies. Although a fully matched foreign currency position will protect Danske Bank against losses from movements in exchange rates, the Group's CET1 capital ratio will fall if the domestic currency depreciates because of the imbalance between the CET1 capital in a particular foreign currency and the CET1 capital required to support the REA denominated in that same currency.

The Group's objective is to manage structural foreign exchange risk in order to reduce the potential effect of fluctuations in exchange rates on the CET1 capital ratio in a manner that avoids income statement volatility, while at the same time acknowledging potential increased volatility in other comprehensive income. The Group pursues a strategy of hedging the foreign exchange sensitivity of the CET1 capital ratio stemming from the allocated capital that reflects credit and operational risk REAs in the three most significant balance sheet currencies (NOK, SEK and EUR). By nature, structural foreign exchange (hedge) positions are long-term and non-trading positions and they also remain relatively stable over time.

Regulatory capital for market risk

The Group mainly uses the internal model approach (IMA) to measure the risk exposure amount (REA) used for determining the minimum capital requirement for market risk in the trading book. The IMA comprises the Value-at-Risk (VaR) capital charge, the Stressed Value-at-Risk (SVaR) capital charge and the incremental risk charge (IRC). The Group uses the internal VaR model to calculate the VaR and SVaR capital charges, whereas the IRC is calculated on the basis of the incremental risk model. No diversification effects between capital charges are taken into account.

The REA for the Group's minor exposures to commodity risk and collective investment undertakings is calculated according to the standardised approach.

The REA for CVA risk is measured mainly using the internal VaR model based on exposure calculations from the counterparty risk exposure model and allocated CDS spread hedges. The risk exposure amount for CVA risk from the Group's minor exposures to transactions not included in the counterparty credit risk exposure model is calculated according to the standardised approach.

Notes – Danske Bank Group – Risk management

Liquidity risk

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

Accepting and managing liquidity risk is an integral part of the Group's business strategy. Realkredit Danmark and Danica Pension each manage their liquidity separately and are not included in the Group's general liquidity reporting. At Realkredit Danmark, the financing of mortgage loans through the issuance of listed mortgage bonds with matching conditions has eliminated liquidity risk in all material respects. Danica Pension's balance sheet contains long-term life insurance liabilities and assets, a large part of which are invested in readily marketable bonds and shares. Both companies are subject to statutory limits on their exposures to Danske Bank A/S. In the following, references to the Group's liquidity thus exclude Realkredit Danmark and Danica Pension with the exception of the Group's liquidity coverage ratio and net stable funding ratio, which includes Realkredit Danmark data.

Markets and funding

At the beginning of 2021, the liquidity and funding markets were still affected by the uncertainty surrounding the global pandemic. Government support packages and central bank measures meant that market liquidity levels remained high. As vaccination rates began to climb and economies started to reopen, consumer and business sentiment began to improve. This resulted in deposits declining slightly as customers became less inclined to hold precautionary deposit balances. Negative interest rates on deposits further encouraged customers to hold less liquidity, especially in the Danish market. However, overall deposit levels remain higher than pre-COVID 19 levels (2019). The Group's liquidity position remained strong throughout 2021, as the decline in deposits was offset by reductions in other off-balance-sheet liquidity reservations (such as, outstanding credit facilities, derivatives and other commitments).

At the end of 2021, the Group's liquidity coverage ratio (LCR) stood at 164% compared to 154% at the end of 2020.

Credit markets remained solid throughout 2021, because liquidity was well supported by central bank measures. Moderate setbacks continued to occur from time to time as a result of equity and rates volatility, but spreads in 2021 generally tightened slightly or remained stable. Save for the initial shock effects of the Omicron coronavirus variant, market attention gradually shifted away from the impact of the COVID-19 pandemic to themes such as inflation and central bank monetary policy.

Liquidity risk management

At Group level, liquidity management is based on the monitoring and management of short- and long-term liquidity risks. Liquidity triggers make up a vital part of day-to-day liquidity management because they are used as early warnings of a potential liquidity crisis. The triggers are monitored by various functions across the Group, depending on the type of trigger. Liquidity management is organised according to the framework described in the following sections, although it is not limited to that framework.

Distance to default

The principal aim of the Group's short-term risk management is to ensure that the liquidity reserve is sufficient to absorb the net effects of known future receipts and payments from current transactions. Cash and bond holdings eligible for repo agreements with central banks are considered liquid assets. Potential and expected outflows are monitored on an ongoing basis using different tools, notably the LCR.

For liquidity and funding purposes, foreign currency is an important consideration. With its large market share in Denmark, the Group has a net deposit surplus in DKK (deposits exceed lending). The opposite is the case for SEK and NOK (other currencies such as USD and GBP roughly balance out). The net deposit surplus in Danish kroner is a valuable, stable funding source for the Group. In addition to limits set by the Board of Directors and the Group All Risk Committee, the Group Balance Sheet Risk Committee sets overnight targets for each key currency.

Distance to default under stress

The Group conducts stress tests to measure its immediate liquidity risk and to ensure that it has sufficient time to respond to a crisis. The stress tests estimate liquidity risk in various scenarios, including three standard scenarios: a scenario specific to the Group, a general market crisis scenario and a combination of the two.

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

Liquidity coverage ratio, aggregated and by currency

The LCR requirement stipulates that financial institutions must have a liquidity reserve in excess of projected net outflows during a severe stress scenario lasting 30 days. By executive order, Danish SIFIs are also subject to currency-specific liquidity requirements. The requirements apply individually and only for currencies that are significant to the individual bank. For Danske Bank, these currencies are USD and EUR. Additionally, Danske Bank has chosen to apply internal limits on SEK and NOK.

Notes – Danske Bank Group – Risk management

Liquidity risk continued

Market reliance

Managing reliance on wholesale deposits and market funding is a key concern for the Group. Such funding may be unstable, especially in the event of general market unrest or issues specific to Danske Bank. Large funding needs can make the Group vulnerable to investor sentiments, market stress and market dysfunctionalities. The size and maturity profile of wholesale funding must therefore be prudent.

Retail deposits, are a very important and stable funding source for the Group. Retail customers do not tend to make withdrawls on the basis of short-term considerations, and most retail deposits are covered by a deposit guarantee scheme, which eliminates credit exposure to the bank.

Stress testing is also used to assess the Group's ability to withstand liquidity outflows when capital markets are inaccessible, i.e. market reliance. The assumed scenarios are different from the ones used to assess distance to default, especially with respect to time horizon.

Net stable funding ratio

Entering into force in June 2021, the NSFR requires that banks maintain a stable funding profile in relation to the composition of their assets. The NSFR limits overreliance on short-term wholesale funding, promoting funding stability. Stable funding sources include, among other things, own capital, debt issues or deposits with a maturity of over a year. The amount of required stable funding is determined by assigning weights to asset based on type and maturity.

At the end of 2021, the Group's Net Stable Funding Ratio stood at 130%.

Funding sources

The Group monitors its funding mix to ensure that it is well-diversified in terms of funding sources, maturities and currencies. A diverse range of funding sources provides protection against market disruptions. The following tables break down funding sources by type and currency. It does not include mortgage bonds issued by Realkredit Danmark.

Funding sources by type of liability (%)	2021	2020*
Central banks/credit institutions	13	14
Repo transactions	-2	-
Short-term bonds	1	1
Long-term bonds	9	9
Other covered bonds	9	9
Deposits (business)	27	27
Deposits (personal)	31	30
Subordinated debt	2	2
Shareholders' equity	10	9
Total	**100**	**100**

*Comparatives have been restated, following a customer reclassification to better align with LCR and NSFR reporting. As well the inclusion of eliminations, premium/discount adjustments and amortized cost on debt instruments. Lastly, central bank secured borrowing facilities have been reclassified as repo transactions.

Funding sources by currency (%)	2021	2020*
DKK	30	29
EUR	24	28
USD	12	12
SEK	15	13
NOK	12	10
GBP	7	6
Other	1	1
Total	**100**	**100**

*Comparatives have been restated to include eliminations, premium/discount adjustments and amortized cost on debt instruments.

Notes – Danske Bank Group – Risk management

Liquidity risk continued

Liquidity reserve

The minimum size and the composition of the liquidity reserve are determined on the basis of the Group's capacity to meet its obligations in case of a stressed liquidity situation. The LCR regulation determines its minimum size and imposes requirements on its composition.

Danske Bank's liquidity reserve consists of liquid assets available in a stressed situation. Assets received as collateral are included in the reserve, while assets used as collateral – or otherwise encumbered - are excluded. The table below shows the value of the Group's LCR liquidity reserve after the application of the statutory haircuts which may differ from the ones available in the market and the ones used for internal stress testing. Most of the Group's bond holdings are highly liquid because they are repo eligible with central banks and in money markets. Central bank eligibility is vital for intra-day liquidity management and overnight liquidity facilities and also for determining liquidity in markets during stressed periods.

Group liquidity reserve - LCR definition

After haircut

(DKK billions)		2021	2020
Total high-quality liquid assets		**687**	**710**
Level 1a assets	Central bank reserves	318	345
	Central government debt	100	112
	Other level 1a assets	54	43
Level 1b assets	Extremely high-quality covered bonds	196	196
Level 2a assets	High-quality covered bonds	12	9
	Other level 2a assets	5	5
Level 2b assets		0.5	0.3

Notes – Danske Bank Group – Risk management

Insurance risk

The Danske Bank Group's insurance and pension risk consists of the risks originating from its ownership of Danica Pension. This includes market risk, life insurance risk and non-financial risk. The Group runs its life insurance and pension operations with the aim of providing best-in-class services to customers, while at the same time maintaining a predictable risk profile. The Group is also subject to internal pension risk through its defined benefit plans established for current and former employees. The Bank's defined benefit plans are described in note G9 (b) to the Annual Report for the Danske Bank Group.

Danske Bank's financial results are affected by Danica Pension's financial position. Earnings from Danica Pension consist mainly of the risk allowance from with-profits policies, earnings from unit-linked and health and accident products, and the investment return on Danica Pension's equity capital.

The insurance and pension risk framework is governed by Danica Pension's Board of Directors. On a daily basis, Danica Pension's Risk Management function monitors both the risk and asset-liability management (ALM) limits set by its Board of Directors and its solvency capital requirement. The Risk Management function also follows up on investment limits and calculates key risk figures for ALM purposes.

Operating under Solvency II regulations, Danica Pension provides pensions as well as life and health insurance products in Denmark and Norway. As part of its product offerings, Danica Pension provides guaranteed life annuities; insurance against death, disability and accident; and guaranteed benefits on retirement. This exposes Danica Pension to insurance risks (such as longevity and disability risks) and to market risk.

At 31 December 2021, the activities in Denmark accounted for 95% of total life insurance provisions, while the remaining 5% related to the activities in Norway. In the Norwegian market, Danica Pension offers mainly unit-linked products without guarantees, which gives rise to relatively limited risk from a group perspective.

In Denmark, Danica Pension's main products are with-profit policies and unit-linked policies.

Financial risk

Danica Pension has three sources of financial risk:

- Investments relating to with-profits products (conventional, average-rate products)
- Investments relating to unit-linked products (to which customers may have attached an investment guarantee)
- Investments relating to assets allocated to shareholders' equity and other products with direct equity exposure

The amount of financial risk differs for the various products in Danica Pension's product range.

Danica Pension's most significant financial risk is the market risk relating to its with-profit products.

Financial risks related to the Danish with-profits product

The main source of risk at Danica Pension is the market risk related to the Danish with-profits pension product. This product offers guaranteed benefits based on a technical rate of interest and is called Danica Traditionel. It is closed for new business, which means that the portfolio is in run-off.

The with-profits product offers policyholders an annuity or a lump sum consisting of a guaranteed minimum amount in nominal terms. Customers are divided into homogeneous interest rate groups on basis of the technical rates, and each group has its own investment strategy and asset allocation. In each interest rate group, customers participate in a collective investment pool.

The policyholders earn interest at a rate set at the discretion of the life insurance company, and the rate can be changed at any time.

The difference between the actual (set) interest rate and the return on the policyholders' (collective) assets is allocated to collective buffer accounts owned by the customers. The balances of these buffer accounts are gradually transferred to the individual customer accounts in subsequent years by means of a bonus allocation mechanism. This means that high investment returns may lead to higher benefits than those guaranteed. The mark-to-market value of the guaranteed benefits depends on the level of the discount curve, which is defined under Solvency II and based primarily on EUR swap rates and also takes into account yields on Danish mortgage, credit and government bonds. The level of the long end of the discount curve, for which no reliable market data is available, is determined by the European Insurance and Occupational Pensions Authority (EIOPA).

Danica Pension will have to cover the shortfall if the value of the assets falls below the value of the liabilities. This will be the case if investment returns become negative (reducing the asset values) or if the discount curve falls (increasing the value of the liabilities). Hence, the market risk on investments is borne by the customers to the extent that the negative returns can be covered by the collective buffer accounts. Once the buffer accounts have been depleted, negative investment returns on customer savings will force Danica Pension to step in with funds to ensure that it is possible to provide the benefits guaranteed to the policyholders. In that case, Danske Bank A/S will incur a loss in the form of a decrease in equity holdings in Danica Pension.

Furthermore, Danica Pension can book the annual risk allowance fee income for each of the individual interest rate groups only if the collective bonus potential for the interest rate group is sufficient to cover the risk allowance.

Managing the with-profits product thus involves a combination of managing risks on behalf of the policyholders and managing Danica Pension's risk of having to cover losses. For more information about the management of these risks, see Danica Pension's Annual Report 2021.

Notes – Danske Bank Group – Risk management

Insurance risk continued

Market risks related to unit-linked products

In unit-linked policies, policyholders receive the actual return on the investments rather than a fixed interest rate return. However, some of the unit-linked products give the policyholders the option to have their benefits guaranteed.

The market risk associated with unit-linked products is primarily borne by the policyholders, particularly in respect of contracts without an investment guarantee.

Danica Pension hedges the risk on financial guarantees in unit-linked products by means of financial derivatives and by adjusting the investment allocation during the period leading up to retirement. The investment allocation is adjusted according to the guarantee amount, the investment horizon etc. However, if a guarantee is attached to the individual policy, Danica Pension bears the risk in relation to the guarantee.

Danica Pension's main savings product – and the product recommended to most customers – is called Danica Balance. Danica Balance is a life-cycle product, meaning that the asset allocation between different risk categories (bonds or equities, for example) for each customer is adjusted gradually as the customer gets older and approaches retirement.

Market risk related to assets allocated to shareholders' equity

Shareholders' equity in Danica Pension is exposed to financial risk on assets in which shareholders' equity is invested, including investments relating to health and accident business. Danica Pension has separate investment strategies for these assets.

Insurance risk

Insurance risks are linked to trends in mortality, disability, critical illness and other variables. For example, an increase in longevity lengthens the period during which benefits are payable under certain pension plans. Similarly, trends in mortality, sickness and recovery affect life insurance and disability benefits. The principal insurance risks are longevity risk and the risk of increased surrenders (i.e. the risk of customers leaving Danica Pension or ceasing to pay premiums). Most insurance risks materialise over long time horizons during which the gradual changes in biometric conditions deviate from those assumed in contract pricing.

Concentration risk relating to life insurance risk comprises the risk of losses as a result of high exposure to a few customer groups and to a few individuals. Danica Pension limits concentration risk by means of risk diversification of the insurance portfolio and by means of reinsurance.

To limit losses on individual life insurance policies subject to high-risk exposure, Danica Pension reinsures a small portion of the risk related to mortality and disability.

The various risk elements are subject to ongoing actuarial assessment for the purposes of calculating insurance obligations and making relevant business adjustments.

Non-financial risk

Non-financial risk arises from Danica Pension's activities. Danica Pension assumes additional non-financial risk whenever it enters into agreements with new customers, introduces new products and hires new employees. Non-financial risk may also arise as a result of changes in processes and systems.

ESG risk

Issues relating to environmental, social and governance (ESG) criteria are factors that have gradually become more and more important to Danica Pension and Danica Pension's customers in recent years. ESG factors also have an impact on the regulation to which Danica Pension is subject.

Danica Pension's ESG work focuses mainly on three of the United Nations Sustainable Development Goals:

- Climate and environment – Danica Pension will help society transition to a net-zero carbon economy by investing in the green transition, for example through green transition investments, active ownership and restrictions against investing in certain companies and countries
- Financial security – Danica Pension will help people and businesses become more financially secure, for example through proactive advisory services
- Healthy working and senior lives – Danica Pension will help businesses and people achieve healthy working and senior lives, for example by focusing on prevention/treatment and on helping customers return to work after a period of illness

In particular, the ESG factors have an impact on Danica Pension's

- reputational risk – for example if customers or other stakeholders find that Danica Pension's ESG efforts are not adequate or if activities related to green investments are marketed as more sustainable than they really are
- regulatory risk – for example if Danica Pension is unable to meet the regulatory requirements for sustainable investments
- financial risk – for example if future climate change – or expected future climate change – affects the valuation of investment assets to cause Danica Pension a loss. Furthermore, Danica Pension may suffer a loss if the valuation of the investments changes, for instance because the companies in which the investments are made will no longer be able to meet the criteria for sustainability
- insurance risk – for example if future climate change affects mortality and disease transmission patterns

Notes – Danske Bank Group – Risk management

Insurance risk continued

Monitoring and reporting

Danica Pension's Board of Directors has set overall risk limits on the potential loss in a number of stress scenarios. The Risk Management function monitors these limits on a daily basis. Any breaches are reported by the CRO to the ALM committee and senior management.

Danica Pension's Board of Directors receives quarterly reports on Danica Pension's risk and solvency position, including stress and sensitivity figures. Stress and sensitivity figures are also reported to Danske Bank A/S via Group Risk Management and CFO Area (Capital Management).

Danica Group's solvency coverage ratio was 210% at 31 December 2021up from 191% at year-end 2020, mainly driven by positive investment returns.

The table below shows the changes in different risk factors that result in a solvency capital ratio of 125%.

	2021		2020	
	Stress (%)	Solvency capital ratio (%)	Stress (%)	Solvency capital ratio (%)
Interest rate risk	-1.71	125	-1.35	125
Equity risk	69	125	58	125
Property risk	68	125	64	125
Credit spread risk				
- Danish mortgage bonds	14	125	15	125
- Non-Danish government bonds	36	125	24	125
- Other bonds	48	125	39	125
Longevity risk	54	125	42	125

Notes – Danske Bank Group – Risk management

Insurance risk continued

The tables below provides information on the bond portfolio held in connection with with-profit and unit-linked products.

Bond portfolio (insurance business) broken down by geographical area

(DKK millions) 31 December 2021	Central and local government bond	Quasi-government bonds	Danish mortgage bonds	Swedish covered bonds	Other covered bonds	Corporate bonds	Total
Denmark	9,731	-	74,701	-	-	18,858	103,290
Sweden	-	-	-	-	-	2,033	2,033
UK	7	-	-	-	-	2,585	2,592
Norway	-	-	-	-	-	2,155	2,155
USA	11,429	1,202	-	-	-	11,960	24,591
Spain	2,034	-	-	-	-	708	2,742
France	6,284	-	-	-	-	2,593	8,877
Luxembourg	-	94	-	-	-	1,849	1,943
Canada	1	-	-	-	-	723	724
Finland	268	11	-	-	-	200	479
Ireland	688	-	-	-	-	3,818	4,506
Italy	4,360	-	-	-	-	748	5,108
Portugal	2	-	-	-	-	50	52
Austria	-	-	-	-	-	257	257
Netherlands	928	-	-	-	-	3,769	4,697
Germany	17,999	368	-	-	822	2,433	21,622
Other	9,171	745	-	-	-	9,805	19,721
Total	**62,902**	**2,420**	**74,701**	**-**	**822**	**64,544**	**205,389**

31 December 2020							
Denmark	11,780	-	69,799	-	-	28,750	110,329
Sweden	-	-	-	1,519	15	2,694	4,228
UK	8	-	-	-	-	2,652	2,660
Norway	198	3	-	-	113	3,531	3,845
USA	11,920	1,269	-	-	-	11,125	24,314
Spain	3,388	-	-	-	-	820	4,208
France	4,014	-	-	-	-	3,587	7,601
Luxembourg	-	448	-	-	-	2,509	2,957
Canada	-	-	-	-	-	493	493
Finland	282	13	-	-	-	201	496
Ireland	891	-	-	-	-	3,250	4,141
Italy	11,457	-	-	-	-	1,108	12,565
Portugal	2	-	-	-	-	67	69
Austria	-	-	-	-	-	312	312
Netherlands	909	-	-	-	-	4,804	5,713
Germany	15,091	-	-	-	-	3,402	18,493
Other	9,199	691	-	-	-	9,808	19,698
Total	**69,139**	**2,424**	**69,799**	**1,519**	**128**	**79,113**	**222,122**

Notes – Danske Bank Group – Risk management

Insurance risk continued

Bond portfolio (insurance business) broken down by external ratings

(DKK millions) 31 December 2021	Central and local government bond	Quasi-government bonds	Danish mortgage bonds	Swedish covered bonds	Other covered bonds	Corporate bonds	Total
AAA	40,090	1,989	68,591	-	822	1,559	113,051
AA+	274	-	-	-	-	156	430
AA	8,633	-	-	-	-	505	9,138
AA-	748	-	-	-	-	1,217	1,965
A+	436	-	5,519	-	-	18,278	24,233
A	2,059	13	10	-	-	1,632	3,714
A-	646	25	-	-	-	2,454	3,125
BBB+	121	18	-	-	-	2,175	2,314
BBB	6,024	110	-	-	-	3,241	9,375
BBB-	803	108	-	-	-	2,095	3,006
Sub-inv. grade or unrated	3,068	157	581	-	-	31,232	35,038
Total	**62,902**	**2,420**	**74,701**	**-**	**822**	**64,544**	**205,389**

31 December 2020							
AAA	39,899	2,058	60,244	1,511	23	2,517	106,252
AA+	289	-	-	-	-	488	777
AA	7,026	-	-	-	-	828	7,854
AA-	953	-	-	-	-	1,291	2,244
A+	180	-	8,712	-	-	22,052	30,944
A	3,519	-	12	8	3	2,646	6,188
A-	710	36	-	-	15	3,243	4,004
BBB+	94	-	-	-	-	2,315	2,409
BBB	13,058	93	-	-	-	2,654	15,805
BBB-	711	22	-	-	-	2,030	2,763
Sub-inv. grade or unrated	2,700	215	831	-	87	39,049	42,882
Total	**69,139**	**2,424**	**69,799**	**1,519**	**128**	**79,113**	**222,122**

Danica Pension has set a separate investment strategy for assets in which its shareholders' equity is invested.

Notes – Danske Bank Group – Risk management

Non-financial risk

Non-financial risk is the risk of financial losses or gains, regulatory impact, reputational impact or customer impact resulting from inadequate or failed internal processes, people or systems or from external events, including legal and compliance risks. According to the Group's risk taxonomy as set out in its enterprise risk management (ERM) framework, non-financial risk consists of six risk categories: model risk, operational risk, technology risk, financial crime risk, regulatory compliance risk and financial control and strategic risk. In addition, to the six non-financial risk categories, reputational risk, conduct risk and sustainability risk are embedded across the taxonomy and may arise as any or all other risk types materialise.

Implementation of the non-financial risk management framework is linked to building and maintaining a strong risk and compliance culture across the Group. The Group has a suite of mandatory training courses for all employees including the Executive Leadership Team. The internal website "DoRight" allows employees to share their concerns and is supported by a group-wide whistleblower system. The Executive Leadership Team uses a set of key performance indicators (KPIs) to measure the risk and compliance culture.

The Group's approach to non-financial risk management is set out in a number of governing documents. The Group Non-Financial Risk Policy is the overarching policy and lays down the principles and responsibilities for managing non-financial risks across the three lines of defence. Supplementary policies are in place and reviewed annually to ensure alignment with regulatory developments.

Given the varying levels of development and maturity across non-financial risk, an iterative approach has been taken to establish risk tolerance statements. The first series of Non-Financial Risk Tolerance Statements were approved by the Board of Directors in April 2021. Additional tolerances were developed during the second half of 2021 and will be presented to the Board of Directors for approval in the first quarter of 2022.

In line with industry practice, the Bank operates a three lines of defence model. In order to provide a strong governance structure and effectively cover specific non-financial risk categories, the Group All Risk Committee has a number of non-financial risk sub-committees: the Non-Financial Operational Risk Committee (NFRC), the Compliance, Conduct and Reputation Committee (CCRC) and the Model Risk Management Committee (MRMC). Furthermore, non-financial risks are overseen by two of the Board of Directors' committees: the Risk Committee and the Conduct & Compliance Committee. The third line of defence is Group Internal Audit (GIA).

Risk assessment

The Group´s approach to assessment of its non-financial risks and controls is in line with industry standards and comprises the following steps: non-financial risk and control identification, inherent risk assessment, assessment of controls, residual risk assessment and definition of mitigating actions. The Group also conducts scenario analyses to understand exposure to low-frequency high-severity events. Results from risk assessments and stress tests are used as input for the Group's Internal Capital Adequacy Assessment Process (ICAAP).

In 2021, the Group continued to make progress on its 2023 Better Bank ambitions towards customers, employees, shareholders and society. Risks related to the Better Bank transformation are identified, assessed and managed in accordance with the Group's standards on an ongoing basis. The performed risk assessments ensure that changes are embedded into the risk management process and that appropriate mitigating actions are identified and implemented. Business units (BU) are in charge of implementing and executing the Better Bank strategy and taking corrective action in relation to deviations and risks relating to strategy operationalisation. The implementation approach is tested against the Group's risk appetite to ensure alignment. Throughout 2021, the Better Bank risk assessments and the Tribe risk identification processes have contributed to an increase in awareness of change risk and its impact across the Group.

Event management

Event management aims to ensure timely and appropriate handling of detected events in order to minimise the impact on the Group and its stakeholders and to prevent reoccurrence. Furthermore, event management provides timely, accurate and complete information for both internal and external reporting, including timely notification to relevant supervisory authorities. Non-financial risk events are registered, categorised and handled according to reporting thresholds Risk assessment and root-cause analyses are performed to effectively address underlying risks and provide mitigation plans. The Group strives to learn from materialised events and observed near-misses to continually improve its operational risk management framework. Event awareness and coverage continues to improve across the Group as registration, approval and escalations take place in an increasingly timely manner.

There is a substantial focus on strengthening the control environment across the Group through a number of programmes to address a combination of Danish FSA orders and observed control weaknesses and to adhere to regulatory requirements.

As in 2020, the majority of loss events in 2021 continue to fall into the two broad categories: "Execution, delivery and process management" and "Clients, products and business practices". There were losses relating to legacy systems and limitations in manual processes as well as product and services-related events. Increases in external fraud were driven by card fraud, payment fraud, and lending fraud. Despite an increase in value, the bank's effort to keep customers safe from fraud resulted in the overall number of customers affected decreasing by 16%.

Operational resilience

Operational resilience represents the Group's ability to continue to serve its customers and society and to protect its workforce in the face of operational stress resulting from disruptions. The Group approaches operational resilience through effective operation of risk management frameworks combined with sufficient resources to manage and learn from disruptions and to adapt to changing conditions.

In its efforts to further embed operational resilience across the organisation, the Group took a number of initiatives in 2021:

- The Operational Resilience Programme was further strengthened with a focus on developing and implementing an operating model for operational resilience.
- Working groups continued to track the progress and closure of lessons learned from COVID-19

Notes – Danske Bank Group – Risk management

Non-financial risk continued

- The Group's framework was further consolidated by introducing requirements to manage disruptions from a customer and societal perspective, embedding continuity measures, enabling appropriate alignment with the Group's financial resilience, and linking to third-party risk management and cyber security, for example.
- The Group continued its work to track and provide input for legislative proposals directly relevant to this area (that is, European Union's Digital Operational Resilience Act and other related cyber and non-cyber proposals).
- As part of the lessons learned from the Group's disruption of services to customers at the beginning of the fourth quarter of 2021, the Group looked into further strengthening alignment among incident responses, contingency planning and third parties

The Group will carry on its efforts to strengthen the programme in 2022, focusing on further implementation of its framework. Moreover, the Group will continue to monitor regulatory and peer developments in order to ensure that a solid understanding of expectations and trends is in place.

Cyber security

The volume and sophistication of cyber-related attacks continue to grow. Information security (including cybersecurity) is identified as a top risk concern across global and Nordic peers, and this trend is expected to continue. This type of attacks remains an effective method for criminals to monetise illicit access into an organisation, resulting in data leaks when an organisation is unwilling to pay. The Board of Directors and the Executive Leadership Team acknowledge the materiality of the risk posed by cyber-related attacks, and continue to invest in maturing the Group's ability to prevent, detect, respond to and recover from cyber-related attacks. The management of cyber-related risks is covered within the Group's overall risk management framework, as they may prevent the bank from achieving its objectives. Governance structures and methodologies to oversee, prioritise and undertake risk mitigation activity related to cyber-related attacks are in place to ensure that the focus remains on this area.

Financial crime

The Group's business units and functions constitute the first line of defence and are responsible for identifying financial crime risks and for having appropriate processes and controls in place to ensure that risks are identified, assessed, managed and reported appropriately. The Financial Crime Compliance function at Group Compliance constitutes the second line of defence and is responsible for designing frameworks and policies and for providing independent oversight and challenges to ensure that financial crime risks are managed effectively.

The Group is undertaking a multi-year enhancement programme to materially upgrade its financial crime framework. The Group has embarked on a comprehensive transformation, covering all aspects of an effective control environment. The programme covers areas such as transaction monitoring, sanctions screening, Know-Your-Customer processes, suspicious activity investigation and reporting, employee training, etc. The aim of the enhancement programme is to ensure that the Group has a financial crime control framework which (i) meets the regulatory requirements in the jurisdictions in which the Group operates and (ii) manages the Group's inherent risk in line with Group risk appetite, and this will be achieved by leveraging international market practice. The enhancement programme is tracked through formal governance and monthly status updates are provided to the Group's Executive Leadership team and the Danish FSA. Regular updates are also provided to the Group's Conduct & Compliance Committee (CCC) and the Board of Directors.

In 2021, the Group continued to expand its business-as-usual risk management frameworks in anticipation of the transition from a remediation approach to a focus on measuring, reporting and mitigating risks in real time. The Group established more detailed risk tolerance statements for elements of financial crime, and they are now being operationalised. The Group also set up a formalised governance structure for overseeing its business-as-usual risk management in a more systematic way, making greater use of key risk indicators.

Regulatory compliance

Group Compliance provides primary and independent second line oversight of regulatory compliance risk, including risks in relation to market integrity, fair treatment of customers, data protection and is developing its oversight capabilities for IT risks. Group Compliance assesses the framework in place across other second-line-of-defence units and independent oversight/control functions for the purpose reviewing their methods and procedures to ensure adherence to applicable laws, rules and regulations. The Group has a key focus on compliance gaps identified in its control environment and on ensuring that risks are proactively managed on an ongoing basis, including risks arising from regulatory change.

In 2021, further improvements were made in respect of compliance oversight within the Group. The Group appointed a dedicated Data Protection Officer with the required capacity and specialist expertise to lead the data protection & confidentiality and IT compliance functions. In 2021, there was an increased focus on the compliance coverage of branches and regulated subsidiaries through governance, reporting improvements and targeted recruitment. This will continue to be a focal area in 2022. Regulatory compliance risk tolerance statements have been developed in 2021 to be implemented in 2022, and this will improve risk management, mitigation and oversight at the Group level.

Conduct risk

The supporting risk management framework is being developed and implemented through the Conduct Programme, established in 2020 as a key strategic initiative in the Group's Better Bank transformation programme. The Conduct Risk Policy was approved by the Board of Directors in June 2021, and the supporting instruction and risk tolerance statement are being aligned with relevant stakeholders across the Group and will be implemented by the first line of defence. The key capabilities to be implemented across the Group are as follows: i) conduct risk identification and assessment, ii) conduct risk data and management information, and iii) conduct risk governance and reporting. The compliance conduct function will provide advisory and oversight at the Group level.

Notes – Danske Bank Group

(DKK millions)	2021	2020	2019	2018	2017
Highlights					
Net interest and fee income	39,266	39,004	38,749	39,496	40,885
Value adjustments	36,225	22,340	34,034	-10,332	19,134
Staff costs and administrative expenses	24,973	26,289	24,700	23,821	22,192
Loan impairment charges	141	7,089	1,729	-387	-1,582
Income from associates and group undertakings	226	-93	386	451	566
Net profit	12,920	4,589	15,072	14,862	20,900
Loans	2,051,903	2,047,930	2,150,059	2,043,580	1,899,975
Total equity	176,704	168,679	170,508	163,276	168,256
Total assets	3,935,834	4,109,231	3,761,050	3,578,467	3,539,528

Ratios and key figures					
Total capital ratio (%)	22.4	23.0	22.7	21.3	22.6
Tier 1 capital ratio (%)	20.0	20.5	20.4	20.1	20.1
Return on equity before tax (%)	9.6	3.7	8.3	11.7	15.7
Return on equity after tax (%)	7.5	2.7	9.0	9.0	12.5
Income/cost ratio (%)	153.5	115.8	140.3	169.9	208.2
Interest rate risk (%)	-1.0	1.9	2.9	2.7	2.3
Foreign exchange position (%)	1.9	23.4	4.0	1.8	0.4
Foreign exchange risk (%)	-	-	-	-	-
Loans plus impairment charges as % of deposits	153.7	149.1	181.5	185.9	173.7
Liquidity coverage ratio (%)	163.7	153.5	140.1	120.6	171.0
Sum of large exposures as % of CET1 capital	108.7	128.6	138.1	115.1	12.6
Impairment ratio (%)	-	0.3	0.1	-	-0.1
Growth in loans (%)	-0.2	0.7	2.4	3.2	1.1
Loans as % of equity	11.6	12.1	12.6	12.5	11.3
Return on assets (%)	0.3	0.1	0.4	0.4	0.6
Earnings per share (Nominal value DKK 100)*	14.6	4.7	16.7	16.2	22.2
Book value per share (DKK)	207.1	197.6	199.7	191.0	188.2
Proposed dividend per share (DKK)	2.0	2.0	8.5	8.5	10.0
Share price end of period/earnings per share (DKK)	7.7	21.3	6.4	8.0	10.9
Share price end of period/book value per share (DKK)	0.55	0.51	0.54	0.67	1.28

* According to the guidelines for the Supervisory Diamond, changes have been made to the limit values and calculation method in 2018. Comparative figures for 2017 are not restated.

The ratios and key figures are calculated in accordance with the requirements stipulated in the Danish FSA's Executive Order on Financial Reports for Credit Institutions and Investment Companies, etc., and on the basis of IFRS figures except where otherwise indicated.

Notes – Danske Bank Group

Definitions of ratios and key figures

Ratios and key figures	Definition
Earnings per share (DKK)	Net profit for the year divided by the average number of shares outstanding during the year. Net profit is stated after the deduction of interest on equity-accounted additional tier 1 capital.
Diluted earnings per share (DKK)	Net profit for the year divided by the average number of shares outstanding during the year, including the dilutive effect of share options and conditional shares granted as share-based payments. Net profit is stated after the deduction of interest on equity-accounted additional tier 1 capital.
Return on equity (%)	Net profit for the year divided by average equity (average equity as end of current and prior year), including equity-accounted additional tier 1 capital. For the definition used in the management report see page"Definition of alterntive Performance Measures".
Income/cost ratio (%)	Total income divided by expenses, including goodwill impairment charges.
Common equity tier 1 (CET1) capital	Primarily paid-up share capital and retained earnings. CET1 capital is defined in the Capital Requirements Regulation (CRR).
Additional tier 1 capital	Capital instruments that form part of tier 1 capital. Additional tier 1 capital is defined in CRR.
Tier 1 capital	Common equity tier 1 capital plus additional tier 1 capital, less certain deductions, such as intangible assets. The deductions are defined in CRR.
Tier 2 capital	Subordinated loan capital subject to certain restrictions that falls under the requirements for such instruments in CRR.
Total capital	Tier 1 capital plus tier 2 capital, less certain deductions as defined in CRR.
Risk exposure amount	Total risk exposure amount and off-balance-sheet items that involve credit risk, market risk and operational risk as calculated in accordance with the Capital Requirements Regulation (CRR).
Common equity tier 1 capital ratio	Common equity tier 1 capital divided by the total risk exposure amount.
Tier 1 capital ratio	Tier 1 capital divided by the total risk exposure amount.
Total capital ratio	Total capital divided by the total risk exposure amount.
Dividend per share (DKK)	Proposed dividend on the net profit for the year divided by the number of shares issued at the end of the year.
Share price at 31 December	Closing price of Danske Bank shares at the end of the year.
Book value per share (DKK)	Total equity at 31 December divided by the number of shares outstanding at the end of the year. For the definition used in the management report see page "Definition of alternative Performance Measures".
Number of full-time-equivalent staff at 31 December	Number of full-time-equivalent staff (part-time staff translated into full-time staff) at the end of the year.
Lending growth	Growth in lending from the beginning to the end of the year, excluding repo transactions.
Loans plus impairment charges as % of deposits	Loans at fair value and loans at amortised cost (gross of expected credit losses) divided by deposits including deposits under pooled schemes.
Return on assets	Net profit for the year divided by average assets (average assets as total assets end of current and prior year)

Financial statements – Danske Bank A/S

The financial statements of the Parent Company, Danske Bank A/S, are prepared in accordance with the Danish Financial Business Act and the Danish FSA's Executive Order No. 281 of 26 March 2014 on Financial Reports for Credit Institutions and Investment Companies, etc. as amended by Executive Order No. 707 of 1 June 2016, Executive Order No. 1043 of 5 September 2017, Executive Order No. 1441 of 3 December 2018 and Executive Order No. 1593 of 9 November 2020. The amendments of 9 November 2020 incorporate a requirement to provide a description of policies for data ethics applicable for annual reporting periods beginning on or after 1 January 2021. This is available at https://danskebank.com/about-us/corporate-governance.

Note G2(a) provides further information on changes in accounting policies implemented as at 1 January 2021. Except for these changes, Danske Bank A/S has not changed its significant accounting policies from those applied in the Annual Report 2020.

The accounting policies applied are identical to the Group's IFRS accounting principles, see note G1(a)-(c), with the following exception:

- Domicile property (except right-of-use assets) is measured (revalued) at its estimated fair value through Other comprehensive income.

The estimated fair value of domicile property is determined in accordance with the Danish FSA's Executive Order on Financial Reports for Credit Institutions and Investment Companies, etc.

Holdings in subsidiaries are measured on the basis of the equity method. Net profit from these undertakings is recognised under Income from associates and group undertakings.

The format of the Parent Company's financial statements is not identical to the format of the consolidated financial statements in accordance with IFRS.

The table below shows the differences in net profit and shareholders' equity between the IFRS consolidated financial statements and the Parent Company's financial statements presented in accordance with Danish FSA rules.

(DKK millions)	Net profit 2021	Net profit 2020	Equity 2021	Equity 2020
Danske Bank Group based on IFRS	12,920	4,589	176,704	168,679
Domicile properties	12	-92	200	176
Tax effect	1	14	-23	-17
Parent company statement based on Danish FSA rules	**12,933**	**4,511**	**176,881**	**168,836**

Note G38 lists the Group's significant holdings and undertakings.

In 2020, 'Domicile properties' includes an adjustment in net profit related to investment properties previously held by Danica Pension and included as Assets under insurance contracts in the financial statements for Danske Bank Group. As Danske Bank occupied more than 10% of the properties, they were accounted for as domicile property in Danske Bank Group and Danske Bank A/S. In the consolidated financial statements for Danske Bank Group, domicile property is measured using the cost method, and a gain on the sale of those properties of DKK 76 million, net of tax, was recognised in the income statement. Under the revaluation method used in the financial statements for Danske Bank A/S, there was no gain on the sale.

Income statement – Danske Bank A/S

Note	(DKK millions)	2021	2020
P2	Interest income	24,039	26,673
P3	Interest expense	10,092	11,792
	Net interest income	13,947	14,881
	Dividends from shares etc.	375	212
P4	Fee and commission income	14,471	13,128
	Fees and commissions paid	2,258	2,036
	Net interest and fee income	26,535	26,185
P5	Value adjustments	2,758	1,739
	Other operating income	1,721	1,365
P6	Staff costs and administrative expenses	20,520	21,465
	Amortisation, depreciation and impairment charges	3,058	3,733
	Other operating expenses	2	0
	Loan impairment charges etc.	-44	6,319
	Income from associates and group undertakings	7,115	6,620
	Profit before tax	14,592	4,392
P9	Tax	1,659	-119
	Net profit	**12,933**	**4,511**
	Proposed profit allocation		
	Equity method reserve	2,129	760
	Dividends for the year	1,724	1,724
	Additional tier 1 capital holders	451	551
	Retained earnings	8,629	1,476
	Total	**12,933**	**4,511**

Statement of comprehensive income – Danske Bank A/S

Note	(DKK millions)	2021	2020
	Net profit	12,933	4,511
	Other comprehensive income		
	Items that will not be reclassified to profit or loss		
	Remeasurement of defined benefit pension plans	-90	304
P9	Tax*	-146	38
	Items that will not be reclassified to profit or loss	**56**	**266**
	Items that are or may be reclassified subsequently to profit or loss		
	Translation of units outside Denmark	1,708	-1,902
	Hedging of units outside Denmark	-1,270	1,224
	Unrealised value adjustments of bonds at fair value (OCI)	-326	264
	Realised value adjustments of bonds at fair value (OCI)	10	-12
P9	Tax*	-154	70
	Items that are or may be reclassified subsequently to profit or loss	**276**	**-496**
	Total other comprehensive income	**332**	**-230**
	Total comprehensive income	**13,265**	**4,281**
	Portion attributable to		
	Shareholders of Danske Bank A/S (the Parent Company)	12,814	3,730
	Additional Tier 1 capital holders	451	551
	Total comprehensive income	**13,265**	**4,281**

* A positive amount is a tax expense and a negative amount is a tax income.

Balance sheet – Danske Bank A/S

Note	(DKK millions)	2021	2020
	Assets		
	Cash in hand and demand deposits with central banks	248,835	283,570
P10	Due from credit institutions and central banks	109,816	119,014
P11	Loans and other amounts due at fair value	214,590	209,122
P11	Loans and other amounts due at amortised costs	855,956	840,579
P13	Bonds at fair value	359,178	438,530
P13	Bonds at amortised cost	101,672	94,248
	Shares etc.	12,631	16,689
	Holdings in associates	206	204
	Holdings in group undertakings	94,315	92,291
P14	Assets under pooled schemes	55,945	53,337
	Intangible assets	5,963	5,836
	Land and buildings	3,400	4,183
P15	Investment property	192	185
P15	Domicile property	3,208	3,998
P16	Other tangible assets	5,197	4,636
	Current tax assets	4,152	4,504
P17	Deferred tax assets	700	984
P18	Assets held for sale	92	523
P19	Other assets	289,666	405,091
	Prepayments	958	1,495
	Total assets	**2,363,271**	**2,574,837**
	Liabilities and equity		
	Amounts due		
P20	Due to credit institutions and central banks	191,259	238,089
P21	Deposits and other amounts due	1,204,160	1,253,900
	Deposits under pooled schemes	56,135	53,380
P22	Issued bonds at fair value	24,248	8,183
P22	Issued bonds at amortised cost	246,265	267,753
	Current tax liabilities	160	22
P23	Other liabilities	424,840	551,917
	Deferred income	577	532
	Total amounts due	**2,147,645**	**2,373,776**
	Provisions for liabilities		
	Provisions and pensions and similar obligations	177	300
P17	Provisions for deferred tax	104	20
	Provisions for losses on guarantees	2,542	3,014
	Other provisions for liabilities	451	511
	Total provisions for liabilities	**3,275**	**3,845**
P24	Subordinated debt	35,470	28,379
	Equity		
	Share capital	8,622	8,622
	Accumulated value adjustments	-564	-686
	Equity method reserve	29,651	27,522
	Retained earnings	131,950	123,146
	Proposed dividends	1,724	1,724
	Shareholders of Danske Bank A/S (the Parent Company)	171,383	160,328
	Additional tier 1 capital holders	5,497	8,508
	Total equity	**176,881**	**168,836**
	Total liabilities and equity	**2,363,271**	**2,574,837**

Statement of capital – Danske Bank A/S

Changes in equity

(DKK millions)	Share capital	Accumulated value adjustments*	Equity method reserve	Retained earnings	Proposed dividends	Total	Additional tier 1 capital	Total
Total equity as at 1 January 2020	8,622	-260	26,762	114,052	7,329	156,504	14,237	170,741
Net profit	-	-	760	3,201	-	3,961	551	4,511
Other comprehensive income								
Remeasurement of defined benefit pension plans	-	-	-	304	-	304	-	304
Translation of units outside Denmark	-	-1,902	-	-	-	-1,902	-	-1,902
Hedging of units outside Denmark	-	1,224	-	-	-	1,224	-	1,224
Unrealised value adjustments	-	264	-	-	-	264	-	264
Realised value adjustments	-	-12	-	-	-	-12	-	-12
Tax	-	-	-	-108	-	-108	-	-108
Total other comprehensive income	**-**	**-426**	**-**	**196**	**-**	**-230**	**-**	**-230**
Total comprehensive income	**-**	**-426**	**760**	**3,397**	**-**	**3,730**	**551**	**4,281**
Transactions with owners								
Paid interest on additional tier 1 capital	-	-	-	-	-	-	-625	-625
Proposed dividends	-	-	-	-1,724	1,724	-	-	-
Proposed dividends reversed**	-	-	-	7,329	-7,329	-	-	-
Redemption of additional tier 1 capital	-	-	-	-4	-	-4	-5,596	-5,600
Acquisition of own shares and additional tier 1 capital	-	-	-	-29,252	-	-29,252	-59	-29,311
Sale of own shares and additional tier 1 capital	-	-	-	29,228	-	29,228	-	29,228
Share based payments	-	-	-	108	-	108	-	108
Tax	-	-	-	12	-	12	-	12
Total equity as at 31 December 2020	**8,622**	**-686**	**27,522**	**123,146**	**1,724**	**160,328**	**8,508**	**168,836**
Net profit	-	-	2,129	10,353	-	12,482	451	12,933
Other comprehensive income								
Remeasurement of defined benefit pension plans	-	-	-	-90	-	-90	-	-90
Translation of units outside Denmark	-	1,708	-	-	-	1,708	-	1,708
Hedging of units outside Denmark	-	-1,270	-	-	-	-1,270	-	-1,270
Unrealised value adjustments	-	-326	-	-	-	-326	-	-326
Realised value adjustments	-	10	-	-	-	10	-	10
Tax	-	-	-	300	-	300	-	300
Total other comprehensive income	**-**	**122**	**-**	**210**	**-**	**332**	**-**	**332**
Total comprehensive income	**-**	**122**	**2,129**	**10,563**	**-**	**12,814**	**451**	**13,265**
Transactions with owners								
Paid interest on additional tier 1 capital	-	-	-	-	-	-	-466	-466
Dividends paid	-	-	-	16	-1,724	-1,708	-	-1,708
Proposed dividends	-	-	-	-1,724	1,724	-	-	-
Redemption of additional tier 1 capital	-	-	-	-	-	-	-3,000	-3,000
Acquisition of own shares and additional tier 1 capital	-	-	-	-19,801	-	-19,801	-	-19,801
Sale of own shares and additional tier 1 capital	-	-	-	19,715	-	19,715	4	19,719
Share based payments	-	-	-	146	-	146	-	146
Tax	-	-	-	-111	-	-111	-	-111
Total equity as at 31 December 2021	**8,622**	**-564**	**29,651**	**131,950**	**1,724**	**171,383**	**5,497**	**176,881**

*Accumulated value adjustments includes foreign currency transaction reserve, reserve for bonds at fair value through other comprehensive income (FVOCI) and valuation reserve.

Statement of capital – Danske Bank A/S

Holding of own shares - Danske Bank A/S	Number of shares	Nominal value (DKK m)	Percentage of share capital	Sales/purchase price (DKK m)
Holding as at 1 January 2020	3,933,450	39	0.46	-
Acquired in 2020	318,668,618	3,187	36.96	29,012
Sold in 2020	318,681,706	3,187	36.96	29,021
Holding as at 31 December 2020	**4,034,791**	**40**	**0.47**	
Acquired in 2021	175,195,431	1,752	20.32	19,677
Sold in 2021	175,007,057	1,750	20.30	19,603
Holding as at 31 December 2021	**4,223,165**	**42**	**0.49**	

Acquisitions in 2021 and 2020 comprised shares acquired for the trading portfolio and shares acquired on behalf of customers.

Danske Bank shares held by subsidiaries	Number of shares	Nominal value (DKK m)	Percentage of share capital	Sales/purchase price (DKK m)
Holding as at 1 January 2020	4,546,256	45	0.53	473
Acquired in 2020	2,488,896	25	0.29	240
Sold in 2020	2,534,698	25	0.29	207
Holding as at 31 December 2020	**4,500,454**	**45**	**0.52**	**453**
Acquired in 2021	1,099,457	11	0.13	124
Sold in 2021	990,898	10	0.11	112
Holding as at 31 December 2021	**4,609,013**	**46**	**0.53**	**521**

Acquisitions in 2021 and 2020 comprised shares acquired on behalf of customers.

Statement of capital – Danske Bank A/S

Total capital and total capital ratio

(DKK millions)	2021	2020
Total equity	176,881	168,836
Additional tier 1 capital instruments included in total equity	-5,419	-8,415
Accrued interest on additional tier 1 capital instruments	-78	-93
Common equity tier 1 capital instruments	171,383	160,329
Adjustment to eligible capital instruments	-104	-75
IFRS 9 reversal due to transitional rules	2,508	2,374
Prudent valuation	-949	-672
Prudential filters	-173	-147
Expected/Proposed dividends*	-6,466	-1,724
Intangible assets of banking operations	-5,233	-5,092
Minimum Loss Coverage for Non-Performing Exposures	-8	-
Deferred tax on intangible assets	178	147
Deferred tax assets that rely on future profitability, excluding temporary differences	-35	-9
Defined benefit pension plan assets	-1,052	-729
Statutory deduction for insurance subsidiaries	-6,882	-8,992
Common equity tier 1 capital	**153,168**	**145,410**
Additional tier 1 capital instruments	19,933	17,282
Tier 1 capital	**173,101**	**162,692**
Tier 2 capital instruments	20,887	19,108
Total capital	**193,989**	**181,800**
Total risk exposure amount	**733,082**	**691,532**
Common equity tier 1 capital ratio (%)	20.9%	21.0%
Tier 1 capital ratio (%)	23.6%	23.5%
Total capital ratio (%)	26.5%	26.3%

* In accordance with Danske Bank's dividend policy, Danske Bank intends to pay-out a total dividend of DKK 7.5 pr share for 2021, corresponding to 50 per cent of the net profit for the year. The Board of Directors proposes an initial dividend payment of DKK 2 per share to the annual general meeting. The remaining DKK 5.5 per share is intended to be paid out in three tranches following the publication of interim reports in 2022, subject to a decision by the Board of Directors in accordance with the authorisation given to the Board and based on the usual assessment of the bank's capital position at the end of each interim period. This approach is taken to preserve the dividend policy of the bank while ensuring a prudent capital management with a high degree of flexibility, in light of the Estonia matter, where we remain unable to estimate any potential outcome or timing. Thus Danske Bank's dividend policy remains unchanged, targeting a dividend of 40-60% of net profit.

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

In terms of the transitional arrangements for the impact of IFRS 9 on regulatory capital, the Group applies the so-called dynamic approach in accordance with the CRR.

The Internal Capital Adequacy Assessment report provides more details about Danske Bank's solvency need. The report is available at danskebank.com/investorrelations/reports. The Internal Capital Adequacy Assessment report is not covered by the independent auditors' review.

Notes – Danske Bank A/S

P1. Net interest and fee income and value adjustments broken down by business segment

(DKK millions)	2021	2020
Personal & Business Customers	15,310	15,128
Large Corporates & Institutions	13,696	14,021
Group Functions	287	-1,225
Total	**29,293**	**27,924**
Geographical segmentation		
Denmark	12,615	12,084
Finland	4,071	3,671
Ireland	178	161
Norway	5,181	4,936
UK	334	351
Sweden	6,656	6,406
Baltics	7	64
Germany	167	160
Poland	85	91
Total	**29,293**	**27,924**

Geographical segmentation is based on the location in which the individual transaction is recorded. The figures for Denmark include financing costs related to investments in activities outside Denmark. Comparative figures have been restated due to organisational changes etc.

P2. Interest income

(DKK millions)	2021	2020
Reverse transactions with credit institutions and central banks	-323	-152
Other transactions with credit institutions and central banks	138	463
Reverse loans	-527	-752
Loans and other amounts due	14,712	16,627
Bonds	1,770	1,000
Derivatives, total	2,519	4,693
Currency contracts	304	1,338
Interest rate contracts	2,113	3,562
Equity contracts	102	-207
Other interest income	11	60
Total	**18,299**	**21,940**

Negative interest income amounts to DKK 1,731 million (2020: DKK 1,913 million) and relates primarily to repo transactions. In the table above, negative interest income is offset against interest income. In the Income statement, negative interest income is presented as interest expenses and negative interest expenses as interest income.

P3. Interest expense

(DKK millions)	2021	2020
Repo transactions with credit institutions and central banks	-748	-263
Other transactions with credit institutions and central banks	787	839
Repo deposits	-266	-208
Deposits and other amounts due	-1,207	471
Issued bonds	4,291	4,746
Subordinated debt	1,234	1,139
Other interest expenses	262	333
Total	**4,352**	**7,059**

Negative interest expenses amount to DKK 4,009 million (2020: DKK 2,820 million) and relates primarily to deposits and repo transactions. In the table above, negative interest expenses are offset against interest expenses. In the Income statement, negative interest expenses are presented as interest income and negative interest income as interest expenses.

Notes – Danske Bank A/S

P4. Fee and commission income

(DKK millions)	2021	2020
Securities trading and custody account fees	7,532	6,680
Payment services fees	2,411	2,182
Origination fees	2,184	1,898
Guarantee commissions	819	821
Other fees and commissions	1,524	1,548
Total	**14,471**	**13,128**

Origination fees includes mainly fee income from the establishment of Danish mortgage loans (received from Realkredit Danmark), and fee income for coordinating and arranging syndicated loan transactions, as well as issuing bonds on behalf of customers.

P5. Value adjustments

(DKK millions)	2021	2020
Loans at fair value	-517	486
Bonds	-2,064	829
Shares etc.	3,575	-1
Currency	2,075	588
Derivatives	-5,938	1,458
Assets under pooled schemes	-18	7
Other liabilities	5,645	-1,628
Total	**2,758**	**1,739**

P6. Staff costs and administrative expenses

(DKK millions)	2021	2020
Remuneration of the Executive Leadership Team and the Board of Directors		
Executive Leadership Team	95	110
Board of Directors	16	12
Total	**111**	**122**

The remuneration of the Executive Leadership Team includes remuneration for membership of the board of directors of one or more of the Group's subsidiaries. Such remuneration is deducted from the contractual remuneration.

Staff costs

(DKK millions)	2021	2020
Salaries	10,716	11,053
Pensions	1,272	1,186
Financial services employer tax and social security costs	1,764	1,676
Total	**13,752**	**13,915**
Other administrative expenses	**6,657**	**7,428**
Total staff costs and administrative expenses	**20,520**	**21,465**
Number of full-time-equivalent staff	**17,327**	**18,039**

Note G36 contains additional information about the remuneration of the Board of Directors, the Executive Leadership Team, and other material risk takers.

P7. Amortisation, depreciation and impairment charges

This item includes impairment charges for software of DKK 36 million (2020: DKK 379 million). Note G19 contains additional information.

Notes – Danske Bank A/S

P8. Audit fees

(DKK millions)	2021	2020
Audit firms appointed by the general meeting		
Fees for statutory audit of the parent company financial statements	11	11
Fees for other assurance engagements	3	5
Fees for other services	1	4
Total	**15**	**21**

P9. Tax

(DKK millions)	2021	2020
Calculated tax charge for the year	1,623	132
Deferred tax	286	-332
Adjustment of prior-year tax charges	-250	81
Total	**1,659**	**-119**
Effective tax rate	(%)	(%)
Danish tax rate	22.0	22.0
Non-taxable income and non-deductible expenses	2.2	8.1
Difference between tax rates of units outside Denmark and Danish tax rate	0.1	-1.4
Adjustment of prior-year tax charges	-1.7	1.8
Effective tax rate	22.6	30.5
Portion included under Income from associates and group undertakings	-11.2	-33.2
Total	**11.4**	**-2.7**
Tax on other comprehensive income		
Remeasurement of defined benefit plans	-146	38
Hedging of units outside Denmark	-154	70
Total	**-300**	**108**

Notes – Danske Bank A/S

P10. Due from credit institutions and central banks

(DKK millions)	2021	2020
On demand	6,893	7,164
Up to 3 months	65,368	73,599
From 3 months to 1 year	5,613	696
From 1 to 5 years	29,431	35,038
Over 5 years	2,510	2,517
Total	**109,816**	**119,014**
Due from credit institutions	74,485	81,329
Term deposits with central banks	35,332	37,686
Total	**109,816**	**119,014**
Reverse transactions included in above item	**38,849**	**50,420**

DKK 40,576 million (2020: DKK 52,847 million) of Due from credit institutions and central banks are recognised at fair value through profit or loss. For further information see note G14.

P11. Loans and other amounts due

(DKK millions)	2021	2020
On demand	58,632	55,086
Up to 3 months	216,905	282,997
From 3 months to 1 year	148,569	139,991
From 1 to 5 years	351,323	326,835
Over 5 years	295,116	244,792
Total	**1,070,545**	**1,049,701**
Revers transactions included in above item	**325,187**	**320,806**

Loans and other amounts due includes Loans and other amounts due at amortised cost and Loans and other amounts due at fair value.

Loans and guarantees broken down by sector and industry (%)

	2021	2020
Public sector	3.0	3.0
Business customers		
Agriculture, hunting, forestry and fisheries	2.8	2.8
Manufacturing industries and extraction of raw materials	9.2	9.0
Energy and utilities	5.1	2.9
Building and construction	1.3	1.6
Trade	4.2	3.6
Transport, hotels and restaurants	2.9	3.8
Information and communication	1.7	1.2
Finance and insurance	21.8	23.8
Property administration	14.3	14.9
Other	3.3	3.8
Total Business customers	66.8	67.4
Personal customers	30.3	29.7
Total	**100.0**	**100.0**

The relative distribution between industries includes loans at amortised cost, loans at fair value and guarantees. The comparative information has been restated with minor adjustments between multiple lines.

Notes – Danske Bank A/S

P12. Impairment charges for loans and guarantees

	Due to credit institutions and central banks			Loans and other amounts due at AMC			Loan commitments and guarantees			Total
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
ECL allowance account as at 1 January 2020	9	2	2	376	3,747	11,083	565	949	550	17,283
Transferred to stage 1 during the period	-1	1	-	500	-480	-21	138	-136	-2	-
Transferred to stage 2 during the period	-	-	-	-54	336	-282	-9	234	-225	-
Transferred to stage 3 during the period	-	-	-	-7	-778	785	-1	-48	49	-
ECL on new assets	3	2	-	244	1,172	1,966	130	384	142	4,044
ECL on assets derecognised	-3	-3	-	-138	-870	-2,875	-59	-154	-299	-4,401
Impact of net remeasurement of ECL (incl. changes in models)	1	1	-	-98	1,447	1,727	-193	409	314	3,606
Write offs debited to the allowance account	-	-	-	-	11	-968	-	-	-	-957
Foreign exchange adjustments	-1	-1	-	-10	5	-421	-4	-1	-14	-449
Other changes	-2	2	-	-34	-63	-316	-29	-121	529	-35
ECL allowance account as at 31 December 2020	**7**	**3**	**2**	**778**	**4,528**	**10,678**	**537**	**1,514**	**1,043**	**19,092**
Transferred to stage 1 during the period	-	-	-	1,030	-876	-153	310	-296	-14	-
Transferred to stage 2 during the period	-	-	-	-74	257	-183	-16	57	-41	-
Transferred to stage 3 during the period	-	-	-	-5	-537	542	-	-133	133	-
ECL on new assets	12	8	-	384	873	1,490	103	182	67	3,119
ECL on assets derecognised	-3	-3	-	-308	-1,018	-3,968	-134	-253	-233	-5,920
Impact of net remeasurement of ECL (incl. changes in models)	1	1	-	-388	819	913	-193	-155	26	1,026
Write offs debited to the allowance account	-	-	-	-	-	-	-	-	-	-
Foreign exchange adjustments	-	-	-	7	19	255	2	18	31	332
Other changes	-	-	-	-171	187	703	-20	1	19	719
ECL allowance account as at 31 December 2021	**17**	**10**	**2**	**1,254**	**4,251**	**10,276**	**589**	**936**	**1,033**	**18,367**

For further information on the decomposition of the allowance account on facilities in stages 1-3 and originated credit-impaired facilities, see the section on credit risk for Danske Bank Group in the risk management notes in the consolidated financial statements of Danske Bank Group.

P13. Bonds at fair value and Bonds at amortised cost

Bonds at fair value

Bonds at fair value consists of bonds at fair value through profit or loss of DKK 247,928 million (2020: DKK 328,982 million) and bonds at fair value through other comprehensive income of DKK 111,250 million (2020: DKK 109,548 million).

Bonds at amortised cost

(DKK millions)	2021	2020
Fair value of held-to-collect bonds	101,452	96,220
Carrying amount of held-to-collect bonds	101,672	94,248

Notes – Danske Bank A/S

P14. Assets under pooled schemes

(DKK millions)	2021	2020
Bonds at fair value	21,693	18,363
Shares	17,557	17,977
Unit trust certificates	16,810	17,278
Cash deposits etc.	75	-239
Total assets before elimination	56,135	53,380
Own shares	138	165
Other internal balances	52	-122
Total	**55,945**	**53,337**

P15. Investment and domicile property

Domicile property includes property owned by Danske Bank A/S and leased properties (Righ-of-use assets). Investment property consists solely of owned properties.

Domicile property (DKK millions)	2021	2020
Domicile property (owned properties)	1	1
Right-of-use-assets (leased properties)	3,207	3,998
Total	**3,208**	**3,998**

The reconciliation of the carrying amount of domicile property, owned by Danske Bank, and investment property is presented be low.

Fair value of investment property and domicile property, owned

	2021		2020	
(DKK millions)	Investment property	Domicile property	Investment property	Domicile property
Fair value/revaluation at 1 January	185	1	217	2
Currency translation	11	-	-12	-
Additions, including property improvement expenditure	-	-	4	-
Disposals	32	-	20	1
Depreciation charges	-	-	3	-
Value adjustment recognised through other comprehensive income	-	-	-	-
Value adjustment recognised through profit or loss	-	-	-	-
Other changes including properties moved to Assets held for sale	-4	-	-1	-
Fair value/revaluation at 31 December	**159**	**1**	**185**	**1**
Required rate of return for calculation of fair value/revaluation (% p.a.)	**5,0 - 6,0**	**5,0 - 8,0**	**5,0 - 6,0**	**5,0 - 8,0**

Fair value and revaluations are assessed by the Group's valuers.

P16. Other tangible assets

Other tangible assets includes assets owned by Danske Bank and leased assets (Right-of-use assets).

(DKK millions)	2021	2020
Other tangible assets (owned assets)	4,424	3,755
Right-of-use-assets	773	881
Other tangible assets, total	**5,197**	**4,636**

Reconciliation of the carrying amout of Other tangible assets, owned by Danske Bank, is presented below.

Notes – Danske Bank A/S

P16. Other tangible assets continued

Other tangible assets, owned

(DKK millions)	2021	2020
Cost at 1 January	9,099	9,040
Foreign currency translation	44	-53
Additions, including leasehold improvements	2,306	1,453
Disposals	1,498	1,340
Cost at 31 December	**9,951**	**9,099**
Depreciation and impairment charges at 1 January	5,345	5,142
Foreign currency translation	19	-22
Depreciation charges	1,074	1,101
Depreciation and impairment charges for assets sold	911	877
Depreciation and impairment charges at 31 December	**5,527**	**5,345**
Carrying amount at 31 December	**4,424**	**3,755**

P17. Change in deferred tax

2021 (DKK millions)	At 1 January	Foreign currency translation	Recognised in profit for the year	Recognised in shareholders' equity	At 31 December
Intangible assets	-99	-8	63	-	-44
Tangible assets	181	13	-41	-	153
Provisions for obligations	15	-4	26	11	48
Tax loss carry forwards	-290	-16	271	-	-35
Other	-771	-2	55	-	-718
Total	**-964**	**-17**	**374**	**11**	**-596**
2020 (DKK millions)					
Intangible assets	-34	4	-69	-	-99
Tangible assets	631	-12	-438	-	181
Securities	-9	1	8	-	-
Provisions for obligations	-192	6	192	9	15
Tax loss carry forwards	-12	-	-278	-	-290
Other	-570	2	-100	-103	-771
Total	**-186**	**1**	**-685**	**-94**	**-964**

Unrecognised tax loss carryforwards amounted to DKK 2.7 billion at the end of 2021 (31 December 2020: DKK 2.7 billion).

Deferred tax (DKK millions)	2021	2020
Deferred tax assets	-700	-984
Provisions for deferred tax	104	20
Deferred tax, net	**-596**	**-964**

P18. Assets held for sale and liabilities in disposal groups held for sale

Assets held for sale includes loans of DKK 0 million (2020: DKK 416 million) and tangible assets amounting to DKK 92 million classified as held for sale (2020: DKK 107 million).

Notes – Danske Bank A/S

P19. Other assets

(DKK millions)	2021	2020
Positive fair value of derivatives	272,889	395,211
Other assets	16,777	9,880
Total	**289,666**	**405,091**

P20. Due to credit institutions and central banks

(DKK millions)	2021	2020
On demand	37,232	34,010
Up to 3 months	120,049	159,481
From 3 months to 1 year	314	10,749
From 1 to 5 years	33,266	33,848
Over 5 years	398	1
Total	**191,259**	**238,089**
Reverse transactions included in above item	**90,096**	**113,171**

DKK 91,506 million (2020: DKK 99,618 million) of Due to credit institutions and central banks are designated at fair value through profit or loss. For further information see note G20.

P21. Deposits and other amounts due

(DKK millions)	2021	2020
On demand	966,467	978,689
Term deposits	38,025	48,263
Time deposits	61,019	71,623
Repo deposits	122,201	138,462
Special deposits	16,448	16,863
Total	**1,204,160**	**1,253,900**
On demand	966,467	978,726
Up to 3 months	206,928	240,847
From 3 months to 1 year	11,964	15,447
From 1 to 5 years	9,831	9,509
Over 5 years	8,970	9,372
Total	**1,204,160**	**1,253,900**

DKK 134,332 million (2020: DKK 150,844 million) of deposits are designated at fair value through profit or loss. For further information see note G20.

P22. Issued bonds

(DKK millions)	2021	2020
Up to 3 months	45,898	34,360
From 3 months to 1 year	39,370	41,886
From 1 to 5 years	183,929	173,527
Over 5 years	1,317	26,162
Total	**270,513**	**275,936**

Issued bonds include the line items Issued bonds at fair value and Issued bonds at amortised cost. Issued bonds at fair value consist of certificates of deposits designated at fair value through profit or loss. For further information see note G22.

P23. Other liabilities

(DKK millions)	2021	2020
Negative fair value of derivatives	252,407	385,849
Other liabilities	172,434	166,068
Total	**424,840**	**551,917**

Other liabilities includes an obligation to repurchase securities amounting to DKK 133 billion (2020: DKK 132 billion).

Notes – Danske Bank A/S

P24. Subordinated debt

Subordinated debt consists of liabilities in the form of subordinated loan capital and hybrid capital, which, in the event of Danske Bank's voluntary or compulsory winding-up, will not be repaid until the claims of ordinary creditors have been met. Hybrid capital ranks below subordinated loan capital. Early redemption of subordinated debt must be approved by the Danish FSA.

Subordinated debt is included in the capital base in accordance with section 128 of the Danish Financial Business Act.

Currency	Nominal (millions)	Interest rate	Year of issue	Maturity	Redemption price	2021 (DKK millions)	2020 (DKK millions)
Subordinated debt, excluding liability accounted additional tier 1 capital							
Redeemed loans 2021							3,720
EUR	750	2.50	2019	21.06.2029	100	5,577	5,579
SEK	1,000	var	2019	14.11.2029	100	727	740
EUR	750	1.375	2019	12.02.2030	100	5,577	5,579
EUR	500	1.50	2020	02.09.2030	100	3,718	3,720
EUR	750	1.00	2021	15.05.2031	100	5,577	-
Subordinated debt, excluding liability accounted additional tier 1 capital						**21,177**	**19,338**
Liability accounted additional tier 1 capital							
USD	750	6.125	2017	Perpetual	100	4,918	4,539
USD	750	7.00	2018	Perpetual	100	4,918	4,539
USD	750	4.375	2021	Perpetual	100	4,918	-
Liability accounted additional tier 1 capital						**14,754**	**9,079**
Nominal subordinated debt						35,931	28,417
Fair value hedging of interest rate risk and discount						-118	180
Discount						-171	-152
Own holding of subordinated debt						-172	-66
Total subordinated debt						**35,470**	**28,379**
Portion included in total capital as additional tier 1 or tier 2 capital instruments						**35,931**	**28,417**
Interest on subordinated debt and related items							
Interest						1,186	1,099
Origination and redemption costs						62	15
Extraordinary repayments						3,718	2,180

In addition, total capital includes DKK 5,577 million (2020: DKK 8,579 million) of additional tier 1 capital accounted for as equity.

Note G22 contains additional information about subordinated debt and contractual terms, and note G25 on additional tier 1 capital accounted for as equity.

Notes – Danske Bank A/S

P25. Assets deposited as collateral

At the end of 2021, Danske Bank A/S had deposited DKK 19,791 million worth of securities as collateral with Danish and international clearing centres and other institutions (2020: DKK 28,341 million). In addition, the Group had deposited DKK 22,289 million worth of own bonds (2020: DKK 8,333 million). The amount has been eliminated in the balance sheet.

In repo transactions, which involve selling securities to be repurchased at a later date, the securities remain in the balance sheet, and the amounts received are recognised as deposits. Repo transaction securities are treated as assets provided as collateral for liabilities. Counterparties are entitled to sell the securities or deposit them as collateral for other loans.

Assets sold in repo transactions (DKK millions)	2021	2020
Bonds at fair value	235,331	254,788
Total	**235,331**	**254,788**

In addition, the Group had deposited DKK 34,564 million worth of own bonds as collateral for repo transactions and securities lending (2020: DKK 20,320 million). The amount has been eliminated in the balance sheet.

At the end of 2021, Danske Bank A/S had provided DKK 51,790 million worth of cash and securities as collateral for derivatives transactions (2020: DKK 82,999 million).

Danske Bank A/S had registered DKK 206,623 million worth of loans and advances and DKK 0 million worth of other assets as collateral for covered bonds at the end of 2021 (2020: DKK 206,608 million and DKK 0 million, respectively).

Notes – Danske Bank A/S

P26. Contingent liabilities

The Group uses a variety of loan-related financial instruments to meet the financial requirements of its customers. These include loan offers and other credit facilities, guarantees and instruments that are not recognised in the balance sheet.

(a) Guarantees and other liabilities (DKK millions)	2021	2020
Guarantees		
Financial guarantees	6,896	8,209
Mortgage finance guarantees	48,102	50,118
Registration and remortgaging guarantees	16,148	19,638
Other guarantees	73,959	64,533
Total	**145,104**	**142,497**
Other liabilities		
Loan commitments shorter than 1 year	235,218	232,637
Loan commitments longer than 1 year	192,186	190,691
Other obligations	1,695	1,733
Total	**429,100**	**425,061**

(b) Regulatory and legal procedings

Estonia matter

Danske Bank remains in dialogue with various authorities regarding the terminated non-resident portfolio at the Bank's Estonian branch. This includes criminal and regulatory investigations by authorities in Estonia, Denmark, France and the United States. The Bank continues to cooperate with all authorities.

In 2018, the Estonian Office of the Prosecutor General opened a criminal investigation into former employees of the Estonian branch.

In November 2018, Danske Bank was preliminary charged by the Danish Special Crime Unit ("SCU") (previously part of the Danish State Prosecutor for Serious Economic and International Crime) with violating the Danish AML Act on four counts all relating to the Estonian branch in the period from 1 February 2007 to the end of January 2016. In October 2020, SCU added violation of Section 71 of the Danish Financial Business Act for governance and control failures in the period from 1 February 2006 to the end of 2017 to the preliminary charges.

In February 2019, Danske Bank was placed under formal investigation by an investigating judge of the Tribunal de Grande Instance de Paris in the context of an on-going French criminal investigation and on the grounds of money laundering suspicions relating to certain transactions in the terminated portfolio of non-resident customers of the Bank's Estonian branch, amounting to around DKK 160 million and performed between 2007 and 2014. Th e Bank has posted bail in the amount of DKK 80 million.

In December 2020, Danske Bank was informed by the U.S. Department of Treasury's Office of Foreign Assets Control ("OFAC") that it had decided to close its investigation of Danske Bank in relation to the Estonia case with no action. OFAC is the U.S. authority responsible for civil enforcement of U.S. sanctions. The decision does not preclude OFAC from taking future enforcement action should new or additional information warrant renewe d attention.

The Bank is reporting to, responding to and cooperating with various authorities, including SCU, the U.S. Department of Justice (DOJ) and the U.S. Securities and Exchange Commission (SEC), relating to the Bank's Estonian branch. The internal investigation work that the Bank had planned to complete during 2020 has been finalised and the Bank has reported the findings to relevant authorities. The Bank continues to fully cooperate and will provide the authorities with further information if and when requested. The overall timing of the authorities' investigations remains unknown and is not within the Bank's control. It is not yet possible to reliably estimate the timing, form of resolution, or amount of potential settlement or fines, which could be material.

Based on orders from the Danish FSA, Danske Bank's solvency need has been increased in 2018 by a Pillar II add-on of in total DKK 10 billion to ensure adequate capital coverage of the increased compliance and reputational risks in relation to the Estonian AML matter.

On 9 January 2019, an action was filed in the United States District Court for the Southern District of New York by an alleged holder of Danske Bank's American Depositary Receipts, representing its ordinary shares, against the Bank and certain of its officers and former offic ers and/or directors. That case is now terminated, having been dismissed with prejudice by the district court and affirmed by the US Court of Appeals for the Second Circuit in August 2021.

Notes – Danske Bank A/S

P26. Contingent liabilities continued

On 3 March 2019, a court case was initiated against Danske Bank for approval of a class action lead by a newly formed association with the aim to represent former and current shareholders in a liability action relating to the Estonian AML matter. On 21 January 2021, the court dismissed the case because it did not fulfil the criteria for being approved as a class action. The association has appealed this decision. The appeal will not be decided until Q1 2022 at the earliest. In March 2019, October 2019, January 2020, March 2020, September 2020 and February 2021 a total of 320 separate cases were initiated and are still ongoing against the Bank with a total claim amount of approximately DKK 7.9 billion. On 27 December 2019 and on 4 September 2020, two separate claims were filed by 93 investors against Danske Bank with a total claim amount of approximately DKK 1.6 billion. On 2 September 2020, 20 separate claims were filed by 20 investors against Danske Bank with a total claim amount of approximately DKK 1.1 billion. On 18 September 2020, one case was filed by 201 investors with a total claim value of approximately DKK 2.1 billion. On 18 September 2020, one case was filed against the Bank and Thomas F. Borgen by two investors with a total claim amount of DKK 10 million, which was increased to approximately DKK 147 million on 3 January 2022. These court actions relate to alleged violations in the Bank's branch in Estonia of the rules on prevention of money laundering and/or alleged failure to timely inform the market of such violations (and in one claim, also market manipulation). A total of 200 cases have been referred to the Eastern High Court, while the remaining cases are stayed or pending before the Copenhagen City Court. The Bank intends to defend itself against these claims. The timing of completion of any such lawsuits (pending or threatening) and their outcome are uncertain.

On 20 February 2020 and 12 March 2021, two cases were initiated against Thomas F. Borgen by 76 institutional investors, and funded by the litigation funder Deminor Recovery Services. The total claim amount is approximately DKK 3.2 billion. The main hearing was scheduled to be held in September 2021, but this hearing was cancelled after a default judgement was issued on 14 September 2021. The case was subsequently resumed on 15 September 2021, and the main hearing provisionally scheduled for Q3 2022. Danske Bank has received procedural notifications in respect of both cases. Under Danish law, the purpose of a procedural notification is to make a formal reservation of rights to bring a potential claim against the notified party. On 12 November 2021, the Bank received a joinder statement of claim from the claimants requesting that Danske Bank to be joined to the case initiated on 20 February 2020 against Thomas F. Borgen. The claim amount is currently limited to DKK 10 million with a reservation to increase this to the full amount of the claim against Thomas F. Borge on 20 February 2020. The court has not yet rendered its decision as to whether Danske Bank should be joined to the case.

On 5 August 2021, an action was filed in the United States District Court for the Eastern District of New York by approximately 500 plaintiffs, comprising U.S. military members and U.S. civilians who allegedly were killed or wounded while serving in Afghanistan between 2011 and 2016 and their families, against the Bank and Danske Markets, Inc., as well as various branches of Deutsche Bank and Standard Chartered Bank and two money remitters Placid Express and Wall Street Exchange. Plaintiffs claim that the defendant banks and money remitters allegedly aided and abetted a terrorist syndicate that sponsored violence in Afghanistan, in violation of the Anti-Terrorism Act, through the facilitation of certain transactions that allegedly allowed funds to ultimately be transferred to the terrorist organisations. The complaint seeks unspecified punitive and compensatory damages. The Bank is defending against these claims. The timing of the completion of the lawsuit and the outcome are uncertain.

Other

Owing to its business volume, Danske Bank is continually a party to various other lawsuits and disputes and has an ongoing dialogue with public authorities, such as the Danish FSA on other matters. In general, Danske Bank does not expect the outcomes of any of these other pending lawsuits and disputes or its dialogue with public authorities to have any material effect on its financial position. Provisions for litigations are included in Other liabilities.

(c) Further explanation

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

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

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

Note G27 contains additional information about contingent liabilities.

Notes – Danske Bank A/S

P27. Related parties

(DKK millions)	Parties with significant influence		Associates		Group undertakings*		Board of Directors		Executive Leadership Team	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Loans and loan commitments	4,001	3,360	676	738	39,555	37,542	3	7	11	10
Securities and derivatives	565	538	206	204	106,325	107,054	-	-	-	-
Deposits	7,620	9,017	129	69	25,006	34,048	24	44	15	11
Derivatives	64	475	-	-	8,403	14,220	-	-	-	-
Issued bonds	-	-	-	-	-	-	-	-	-	-
Pension obligation					-	-				
Guarantees issued	127	227	1	1	64,460	74,854	-	30	-	-
Guarantees and collateral received	138	187	286	253	-	-	2	7	8	4
					-	-				
Interest income	54	51	9	10	1,677	1,620	-	-	-	-
Interest expense	4	39	-	-	1,819	1,782	-	-	-	-
Fee income	11	14	1	1	3,914	3,388	-	-	-	-
Fee expense					88	82				
Dividend income	6	4	-	-	4,924	4,705	-	-	-	-
Other income	6	4	-	-	137	132	-	-	-	-
Loan impairment charges	-	-	11	1	-	-	-	-	-	-
Trade in Danske Bank shares					-	-				
Acquisitions	-	-	-	-	-	-	-	2	-	4
Sales	-	-	-	-	-	-	-	-	-	-

* The Bank has improved the method for capturing related party transactions with group undertakings in 2021. The comparative figures for 2020 have been restated to reflect the improved method.

Related parties with significant influence include shareholders with holdings exceeding 20% of Danske Bank A/S's share capital. The A.P. Møller and Chastine Mc-Kinney Møller Foundation and companies of A.P. Møller Holding Group, Copenhagen, hold 21.3% of the share capital. The consolidated financial statements specify significant group holdings and holdings in associates under Group holdings and undertakings. The Board of Directors and Executive Leadership Team columns list the personal facilities, deposits, etc. held by members of the Board of Directors and the Executive Leadership Team and their dependants, and facilities with businesses in which these parties have a controlling or significant influence.

In 2021, the average interest rates on credit facilities granted to members of the Board of Directors and the Executive Leadership Team were 1.4% (2020: 0.9%) and 1.4% (2020: 1.0%), respectively. Notes G36 and G37 of the consolidated financial statements specify the remuneration and shareholdings of management.

Pension funds set up for the purpose of paying out pension benefits to employees of Danske Bank A/S are also considered related parties. In 2021, transactions with these funds comprised loans and advances in the amount of DKK 1 million (2020: DKK 1 million), deposits in the amount of DKK 65 million (2020: DKK 71 million), derivatives with a positive fair value of DKK 0 million (2020: DKK 0 million), derivatives with a negative fair value of DKK 382 million (2020: DKK 301 million), interest expenses of DKK 2 million (2020: DKK 2 million) and pension contributions of DKK 3 million (2020: DKK 25 million).

Danske Bank A/S acts as the bank of a number of its related parties. Payment services, trading in securities and other instruments, depositing of surplus liquidity and provision of short- and long-term financing are the primary services provided by Danske Bank A/S. In addition, Danske Bank A/S and group undertakings receive interest on holdings, if any, of listed bonds issued by Realkredit Danmark A/S. Note G16 of the consolidated financial statements specifies the Group's holdings of own mortgage bonds.

Danske Bank A/S handles a number of administrative functions, such as IT operations and development, HR management, procurement and marketing activities for group undertakings. Danske Bank A/S received a total fee of DKK 1,707 million for services provided in 2021 (2020: DKK 1,725 million).

The figures above do not include debt to related parties in the form of issued notes or bonds. Such notes or bonds are bearer securities, which means that Danske Bank does not know the identity of the holders. Danske Bank shares may be registered by name. Related parties' holdings of Danske Bank shares equalling 5% or more of Danske Bank's share capital are determined on the basis of the most recent reporting of holdings to Danske Bank.

Transactions with related parties are settled on an arm's-length basis, whereas transactions with group undertakings are settled on a cost-reimbursement basis.

Notes – Danske Bank A/S

P28. Hedging of risk

	2021		2020	
(DKK millions)	Carrying amount	Amortised/ notional value	Carrying amount	Amortised/ notional value
Assets				
Due from credit institutions	-	-	308	302
Loans	17,613	16,241	25,529	23,513
Total	**17,613**	**16,241**	**25,837**	**23,814**
Financial instruments hedging interest rate risk				
Derivatives	-1,405	21,778	-2,921	31,499
Liabilities				
Deposits	654	654	1,994	1,994
Due to credit institutions	173	170	5,073	5,065
Issued bonds	197,236	194,993	227,566	219,978
Subordinated debt	20,049	20,167	18,598	18,417
Total	**218,112**	**215,984**	**253,230**	**245,454**
Financial instruments hedging interest rate risk				
Derivatives	5,198	388,421	13,105	323,595

Note G12 includes additional information about hedge accounting.

P29. Group holdings and undertakings

Note G38 and G39 lists the Group's major holdings and undertakings as well as associates.

Notes – Danske Bank A/S

	2021	2020	2019	2018	2017
Highlights					
Net interest and fee income	26,535	26,185	24,656	25,810	24,684
Value adjustments	2,758	1,739	2,623	3,516	5,109
Staff costs and administrative expenses	20,520	21,465	20,368	19,610	15,987
Loan impairment charges etc.	-44	6,319	1,480	-547	-1,447
Income from associates and group undertakings	7,115	6,620	9,525	7,752	9,278
Net profit	12,933	4,511	15,068	14,864	20,829
Loans	1,070,546	1,049,701	1,185,830	1,104,834	1,001,711
Total equity	176,881	168,836	170,741	163,513	168,491
Total assets	2,363,271	2,574,837	2,281,873	2,177,552	2,293,624

Ratios and key figures	2021	2020	2019	2018	2017
Total capital ratio (%)	26.5	26.3	26.4	24.7	25.9
Tier 1 capital ratio (%)	23.6	23.5	23.7	23.3	23.0
Return on equity before tax (%)	8.4	2.6	7.0	10.4	14.2
Return on equity after tax (%)	7.5	2.7	9.0	9.0	12.4
Income/cost ratio (%)	162.0	113.9	144.7	180.5	242.9
Interest rate risk (%)	-0.4	2.5	3.4	3.4	3.2
Foreign exchange position (%)	1.8	23.0	3.8	1.7	0.5
Foreign exchange risk (%)	0.0	0.0	0.0	0.0	-
Loans plus impairment charges as % of deposits	86.2	81.5	106.7	106.8	97.1
Liquidity coverage ratio (90 days) (%)	141.0	144.1	119.8	109.9	154.3
Sum of large exposures as % of CET1 capital	107.2	119.2	125.1	101.8	12.5
Impairment ratio (%)	0.0	0.5	0.1	-0.0	-0.1
Growth in loans (%)	1.3	-2.4	2.8	2.0	11.4
Loans as % of equity	6.1	6.2	6.9	6.8	5.9
Return on assets (%)	0.5	0.2	0.7	0.7	0.9
Earnings per share1	14.6	4.6	16.7	16.2	22.1
Book value per share (DKK)	206.2	196.7	198.9	190.6	188.0
Proposed dividend per share (DKK)[2]	2.0	2.0	8.5	8.5	10.0
Share price end of period/earnings per share (DKK)[1]	7.7	21.7	6.4	8.0	10.9
Share price end of period/book value per share (DKK)	0.55	0.51	0.54	0.68	1.30

[1] After the deduction of interest on equity accounted additional tier 1 capital.

[2] For 2019, no dividends were paid in 2020. See Annual Report 2020, note G1(a,) for further information.

The ratios are defined by the Danish FSA in, for example, the Executive Order on Financial Reports for Credit Institutions and Investment Companies, etc.

Statement by the management

The Board of Directors and the Executive Leadership Team (the management) have considered and approved the annual report of the Danske Bank Group for 2021.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU, and the Parent Company financial statements have been prepared in accordance with the Danish Financial Business Act. Furthermore, the annual report has been prepared in accordance with Danish disclosure requirements for annual reports of listed financial institutions.

In our opinion, the consolidated financial statements and the Parent Company financial statements give a true and fair view of the Group's and the Parent Company's assets, liabilities, shareholders' equity and financial position at 31 December 2021 and of the results of the Group's and the Parent Company's operations and the consolidated cash flows for the financial year 2021.

Moreover, in our opinion, the management's report includes a fair review of developments in the Group's and the Parent Company's operations and financial position and describes the significant risks and uncertainty factors that may affect the Group and the Parent Company.

ESEF-compliant financial reports
In our opinion, the annual report of the Danske Bank Group for 2021 with the file name [danskebank-2021-12-31.zip] has been prepared, in all material respects, in compliance with the ESEF Regulation.

The management will submit the annual report to the general meeting for approval.

Copenhagen, 3 February 2022

Executive Leadership Team

Carsten Rasch Egeriis
CEO

Magnus Agustsson | Berit Behring | Karsten Breum

Stephan Engels | Glenn Söderholm | Philippe Vollot

Frans Woelders

Board of Directors

Karsten Dybvad
Chairman

Carol Sergeant
Vice Chairman

Jan Thorsgaard Nielsen
Vice Chairman

Martin Blessing | Lars-Erik Brenøe | Raija-Leena Hankonen-Nybom

Bente Avnung Landsnes

Bente Bang
Elected by the employees

Kirsten Ebbe Brich
Elected by the employees

Thorbjørn Lundholm Dahl
Elected by the employees

Charlotte Hoffmann
Elected by the employees

Independent auditor's report

To the shareholders of Danske Bank A/S

Opinion
We have audited the consolidated financial statements and the parent financial statements of Danske Bank A/S for the financial year 1 January 2021 to 31 December 2021, pages 58-219, which comprise the income statement, statement of comprehensive income, balance sheet, statement of capital and notes, including the summary of significant accounting policies, for the Group as well as for the Parent, and the cash flow statement of the Group. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed financial companies, and the parent financial statements are prepared in accordance with the Danish Financial Business Act.

In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position at 31 December 2021, and of its financial performance and cash flows for the financial year 1 January 2021 to 31 December 2021 in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed financial companies.

Further, in our opinion, the parent financial statements give a true and fair view of the Parent's financial position at 31 December 2021, and of its financial performance for the financial year 1 January 2021 to 31 December 2021 in accordance with the Danish Financial Business Act.

Our opinion is consistent with our audit book comments issued to the Audit Committee and the Board of Directors.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements section of this auditor's report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

To the best of our knowledge and belief, we have not provided any prohibited non-audit services as referred to in Article 5(1) of Regulation (EU) No 537/2014.

We were appointed auditors of Danske Bank A/S for the first time on 18 March 2015 for the financial year 2015. We have been reappointed annually by decision of the general meeting for a total continuous engagement period of 7 years up to and including the financial year 2021.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements and the parent financial statements for the financial year 1 January 2021 to 31 December 2021. These matters were addressed in the context of our audit of the consolidated financial statements and the parent financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How the matters were addressed in our audit

Regulatory investigations and litigation relating to anti-money laundering ("AML")

Key audit matters

The regulatory investigations and litigation in respect of the non-resident portfolio in the Estonian Branch, and certain potential regulatory action as a result of the need to improve AML controls, are deemed to be a key audit matter as the measurement and disclosure of contingent liabilities require significant judgements by Management.

The significant judgements include considering whether to record a provision for future potential fines or settlements in respect of the non-resident portfolio in the Estonian Branch by assessing whether the criteria for recognition of a liability or provision is met at 31 December 2021 by determining whether:

- it is more likely than not that an economic outflow will occur in relation to the investigations and litigation; and
- the amount of the payment (or other economic outflow) can be reliably estimated.

The timing of the completion of the investigations, the outcome and the subsequent discussions with the authorities continue to be uncertain. At present, Management consider that it is not yet possible to reliably estimate the timing or amount of any potential settlement or fines, which could be material.

Management has provided further information about anti-money laundering including regulatory investigations and litigation in note G27 to the consolidated financial statements.

How the matters were addressed in our audit

We considered management's assessment of the underlying assumptions and whether the criteria for recognition of a liability or provision for future potential fines and settlements or disclosure of a contingent liability had been met.

Our audit procedures included:

- Testing of key controls over the provisioning and disclosures regarding the AML breaches arising from the non-resident portfolio in the Estonian Branch including Management's review of the appropriateness of the provision and disclosure when assessed against IAS 37 Provisions, Contingent Liabilities and Contingent Assets.
- Making enquiries of members of the Executive Leadership Team, the Board of Directors, the Head of Legal and the Group Chief Administrative Officer.
- Inspecting and assessing correspondence from the regulatory authorities.
- Inspecting and assessing Management's assessment on legal claims made against the Group.
- Making enquiries of the Group's third party legal advisers and reviewing relevant correspondence between the legal advisers and the Group.
- Attending relevant meetings with the Bank including those conducted with the Group's third party legal advisers.

Impairment charges for loans and provisions for guarantees

Key audit matters

Loans for the Group amounted to DKK 2,051,903 million at 31 December 2021 (DKK 2,047,930 million at 31 December 2020), and the total allowance account for the Group amounted to DKK 22,746 million at 31 December 2021 (DKK 23,342 million at 31 December 2020).

Measurement of loan impairment charges for loans and provisions for guarantees is deemed a key audit matter as the determination of assumptions for expected credit losses is highly subjective due to the level of judgement applied by Management.

The most significant judgements are:

- Assumptions used in the expected credit loss models to assess the credit risk related to the exposure and the expected future cash flows of the customer.
- Timely identification of exposures with significant increase in credit risk and credit impaired exposures.
- Valuation of collateral and assumptions of future cash flows on manually assessed credit-impaired exposures.
- Post-model adjustments for particular high-risk portfolios, which are not appropriately captured in the expected credit loss model.
- Effects of corona crisis in relation to the significant judgements listed above.

Management has provided further information about the loan impairment charges and provisions for guarantees in notes G1(b), G11, G15, G16 to the consolidated financial statements.

How the matters were addressed in our audit

Based on our risk assessment and industry knowledge, we have examined the impairment charges for loans and provisions for guarantees and evaluated the methodology applied as well as the assumptions made according to the description of the key audit matter.

Our examination included the following elements:

- Testing of key controls over assumptions used in the expected credit loss models to assess the credit risk related to the exposure and the expected future cash flows of the customer.
- Obtaining and substantively testing evidence to support the assumptions used in the expected credit loss models concerning methods applied to derive loss given default.
- Testing of key controls over timely identification of exposures with significant increase in credit risk and timely identification of credit impaired exposures.
- Obtaining and substantively testing evidence of timely identification of exposures with significant increase in credit risk and timely identification of credit impaired exposures.
- Testing of key controls over models and manual processes for valuation of collateral and assumptions of future cash flows.
- Obtaining and substantively testing evidence to support appropriate determination of assumptions for loan impairment charges and provisions for guarantees including valuation of collateral and assumptions of future cash flows on manually assessed credit impaired exposures.
- Testing of key controls over post-model adjustments applied to manage non-linearity that are not included in the modelled expected credit losses
- Obtaining and substantively testing evidence of post-model adjustments for high-risk portfolios including COVID19-affected industries with particular focus on the methodology applied, evidence of assumptions-setting processes and the consistency thereof by:
  - Assessing the key developments since last year against industry standards and historical data.
  - Assessing the appropriateness of the different identified post-model adjustments compared with the embedded macro forecasts applied in the expected credit loss models.
  - Challenging the methodologies applied by using our industry knowledge and experience.
  - Challenging assumptions implemented due to expected COVID-19 aftereffects

Key audit matters	How the matters were addressed in our audit
Measurement of liabilities under insurance contracts	
Liabilities under insurance contracts for the Group amounted to DKK 588,736 million at 31 December 2021 (DKK 591,930 million at 31 December 2020). Measurement of liabilities under insurance contracts is deemed a key audit matter as the determination of assumptions for the measurement of insurance contract liabilities requires Management to apply judgements about future events. Changes in assumptions and the methodology applied may have a material impact on the measurement of liabilities under insurance contracts. The most significant judgements are: • Determining disability rates, reactivation rates, mortality rates, surrender probabilities and provisions for unearned premiums • Assumptions related to regulatory and reporting requirements, including risk and interest. Management has provided further information about liabilities under insurance contracts in notes G1(b) and G18 to the consolidated financial statements.	Based on our risk assessment, we have examined the valuation of liabilities under insurance contracts and evaluated the methodology applied and the assumptions made. Our examination included the following elements, where we also made use of our internationally qualified actuaries: • Testing of key controls over the actuarial models, data collection and analysis and the assumptions-setting processes. • Assessing methods, models and data used against market practice, historical development and trends. • Evaluating the disability and mortality rates and surrender probabilities used in the calculation against historical data and market practice. • Evaluating revised principles and assumptions applied to calculate provisions for unearned premiums. • Assessing the key changes in the assumptions against regulatory and reporting requirements and industry standards. • Analysing developments, particularly within risk, interest and cost results by using our industry knowledge and experience.

Statement on the Management's report
Management is responsible for the Management's report.

Our opinion on the consolidated financial statements and the parent financial statements does not cover the Management's report, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the parent financial statements, our responsibility is to read the Management's report and, in doing so, consider whether the Management's report is materially inconsistent with the consolidated financial statements and the parent financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's report provides the information required under the Danish Financial Business Act.

Based on the work we have performed, we conclude that the Management's report is in accordance with the consolidated financial statements and the parent financial statements and has been prepared in accordance with the requirements of the Danish Financial Business Act. We did not identify any material misstatement of the Management's report.

Management's responsibilities for the consolidated financial statements and the parent financial statements
Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed financial companies, as well as for the preparation of parent financial statements that give a true and fair view in accordance with the Danish Financial Business Act, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements and parent financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the parent financial statements, Management is responsible for assessing the Group's and the Parent's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in the preparation of the consolidated financial statements and the parent financial statements unless Management either intends to liquidate the Group or the Parent or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and these parent financial statements.

As part of an audit in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:
- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the parent financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the parent financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and, where applicable, safeguards put in place and measures taken to eliminate threats.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements and the parent financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on compliance with the ESEF Regulation
As part of our audit of the consolidated financial statements and the parent financial statements of Danske Bank A/S we performed procedures to express an opinion on whether the annual report of Danske Bank A/S for the financial year 1 January 2021 to 31 December 2021 with the file name [danskebank-2021-12-31.zip] is prepared, in all material respects, in compliance with the Commission Delegated Regulation (EU) 2019/815 on the European Single Electronic Format (ESEF Regulation) which includes requirements related to the preparation of the annual report in XHTML format and iXBRL tagging of the consolidated financial statements.

Management is responsible for preparing an annual report that complies with the ESEF Regulation. This responsibility includes:
- The preparing of the annual report in XHTML format;
- The selection and application of appropriate iXBRL tags, including extensions to the ESEF taxonomy and the anchoring thereof to elements in the taxonomy, for financial information required to be tagged using judgement where necessary;
- Ensuring consistency between iXBRL tagged data and the Consolidated Financial Statements presented in human readable format; and
- For such internal control as Management determines necessary to enable the preparation of an annual report that is compliant with the ESEF Regulation.

Our responsibility is to obtain reasonable assurance on whether the annual report is prepared, in all material respects, in compliance with the ESEF Regulation based on the evidence we have obtained, and to issue a report that includes our opinion. The nature, timing and extent of procedures selected depend on the auditor's judgement, including the assessment of the risks of material departures from the requirements set out in the ESEF Regulation, whether due to fraud or error. The procedures include:
- Testing whether the annual report is prepared in XHTML format;
- Obtaining an understanding of the company's iXBRL tagging process and of internal control over the tagging process;
- Evaluating the completeness of the iXBRL tagging of the Consolidated Financial Statements;
- Evaluating the appropriateness of the company's use of iXBRL elements selected from the ESEF taxonomy and the creation of extension elements where no suitable element in the ESEF taxonomy has been identified;
- Evaluating the use of anchoring of extension elements to elements in the ESEF taxonomy; and
- Reconciling the iXBRL tagged data with the audited Consolidated Financial Statements.

In our opinion, the annual report of Danske Bank A/S for the financial year 1 January 2021 to 31 December 2021 with the file name [danskebank-2021-12-31.zip] is prepared, in all material respects, in compliance with the ESEF Regulation.

Copenhagen, 3 February 2022

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Kasper Bruhn Udam	Jens Ringbæk
State-Authorised	State-Authorised
Public Accountant	Public Accountant
MNE no 29421	MNE no 27735

Management and directorships – Board of Directors

Karsten Dybvad
Chairman
Elected by the General Meeting

Born on 5 November 1956
Nationality: Danish
Gender: Male
Joined the Board on 7 December 2018
Appointed Chairman on 7 December 2018
Most recently re-elected in 2021
Term expires in 2022
Independent

Chairman of the Conduct & Compliance Committee and the Remuneration Committee and member of the Nomination Committee and the Risk Committee

Competencies:
- Broad experience with community and authority relationships, financial and regulatory competencies with extensive knowledge about the framework conditions of financial institutions
- Broad experience with board work as both member and chairman in various lines of business

Directorships and other offices:
None

Jan Thorsgaard Nielsen
Vice Chairman
Elected by the General Meeting

Chief Investment Officer, A.P. Møller Holding A/S

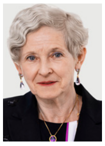
Born on 6 June 1974
Nationality: Danish
Gender: Male
Joined the Board on 7 December 2018
Most recently re-elected in 2021
Term expires in 2022
Non-independent

Member of the Audit Committee and the Conduct & Compliance Committee

Competencies:
- Several years of experience from the global financial sector and broad experience with board work in different lines of business
- Major experience with business development and change management with a strong profile within building talent

Directorships and other offices:
Private-sector directorships:
APMH Invest A/S (chairman or member of the board of directors in this and 22 affiliated undertakings)
LEGO A/S (member of the board of directors)
Thorsgaard Holding ApS (executive officer)

Carol Sergeant
Vice Chairman
Elected by the General Meeting



Born on 7 August 1952
Nationality: British
Gender: Female
Joined the Board on 18 March 2013
Most recently re-elected in 2021
Term expires in 2022
Independent

Member of the Conduct & Compliance Committee and the Risk Committee

Competencies:

- Senior management and board experience in the public, private and charity sectors
- Broad and in-depth knowledge of financial services business, credit and risk management and regulatory issues in the UK and Europe
- Significant change management experience

Directorships and other offices:
Private-sector directorships:
Belmont Green Finance Limited (member of the board of directors)
Threadneedle Solutions Ltd. (company director)

Entities which do not pursue predominantly commercial objectives:
Bayes Business School, UK (member of the advisory board and chair of the Global Women's Leadership Council)
Lloyds Register Foundation (trustee and member of the audit and investment committee)
Money Advice Trust, UK (ambassador/representative)

Martin Blessing
Elected by the General Meeting

Born on 6 July 1963
Nationality: German
Gender: Male
Joined the Board on 9 June 2020
Most recently re-elected in 2021
Term expires in 2022
Independent

Chairman of the Risk Committee

Competencies:

- Universal banking experience as senior executive and CEO of major, primarily ECB-regulated banks
- Solid, all-around experience from leading positions in private banking, corporate banking, direct banking, IT and wealth management
- Strong customer and digital focus and considerable experience with digital transformation
- Extensive experience with P&L leadership
- Board experience from large and diverse companies and bank subsidiaries
- Experience in operating within a complex regulatory framework

Directorships and other offices:
Private-sector directorships:
Cembra Money Bank AG (member of the board of directors)
European FinTec IPO Company (executive officer)*
MB-Ventures GmbH (executive officer)

**Stepped down as Executive Officer on 1 February 2022*

Lars-Erik Brenøe
Elected by the General Meeting

Executive Vice President, Head of Chairman's Office, A.P. Møller-Mærsk A/S

Born on 22 March 1961
Nationality: Danish
Gender: Male
Joined the Board on 17 March 2016
Most recently re-elected in 2021
Term expires in 2022
Non-independent

Chairman of the Nomination Committee and member of the Remuneration Committee

Competencies:
- Broad and in-depth experience with board work and corporate governance
- Financially literate
- Knowledge of relevant legal/regulatory issues
- Knowledge of stakeholder management
- Experience with international business and the markets/regions in which Danske Bank operates

Directorships and other offices:
Private-sector directorships:
The A.P. Møller and Chastine Mc-Kinney Møller Foundation (member of the boards of directors or the executive boards of four affiliated undertakings)
Maersk Broker K/S (chairman or vice chairman of the boards of directors of six affiliated undertakings)
Navigare Capital Partners A/S (chairman)
LINDØ port of Odense A/S (member of the board of directors)

Entities which do not pursue predominantly commercial objectives:
The Danish Committee on Foundation Governance (vice chairman)
A.P. Møller og Hustru Chastine Mc-Kinney Møllers Familie-fond (The A.P. Moller Family Foundation) (member of the board of directors)
The Confederation of Danish Industry (DI) (member of the central board)

Raija-Leena Hankonen-Nybom
Elected by the General Meeting

Born on 29 August 1960
Nationality: Finnish
Gender: Female
Joined the Board on 9 June 2020
Most recently re-elected in 2021
Term expires in 2022
Independent

Chairman of the Audit Committee and member of the Remuneration Committee

Competencies:
- Universal banking experience as leading auditor of major, primarily ECB-regulated banks
- Long experience with regulatory implications for ECB-regulated banks and with financial regulation for businesses in general
- Considerable knowledge of financial reporting, risk management and corporate governance in the financial services sector and at listed companies
- Thorough understanding of the financial services sector and experience in financial services, in particular core banking
- Board experience from major organisations including experience with audit committee work

Directorships and other offices:
Private-sector directorships:
Brigadeiro Holding Oy (chairman)
Helsinki Deaconess Foundation sr (member of the board of directors and chairman of the audit committee)
Metsä Board Oyj (member of the board of directors and chairman of the audit committee)
Posti Group Oyj (member of the board of directors and chairman of the audit committee)

Entities which do not pursue predominantly commercial objectives:
Jalmari and Rauha Ahokas Medical Foundation (chairman)
Directors' Institute Finland (member of the board of directors)
Savonlinna Opera Festival (member of the board of directors)

Bente Avnung Landsnes
Elected by the General Meeting

Born on 8 August 1957
Nationality: Norwegian
Gender: Female
Joined the Board on 18 March 2019
Most recently re-elected in 2021
Term expires in 2022
Independent

Member of the Audit Committee and the Nomination Committee

Competencies:
- Long track record in financial services, including core banking, settlement, risk management and capital markets
- In-depth experience with change and reputation management, financial reporting, investor relations, corporate governance, operations, infrastructure, regulatory issues, risk management and digital transformation
- Experience with licensed financial operations and regulatory implementation as well as significant experience from managing an exchange and securities services group and from various board roles

Directorships and other offices:
Private-sector directorships
NORBIT ASA (deputy chairman)
Heimstaden Bostad AB (member of the board of directors)

Entities which do not pursue predominantly commercial objectives:
Boards Impact Forum (member of the Strategic Advisory Board)
The Storting (the Norwegian Parliament) (member of the remuneration committee)

Bente Bang
Elected by the employees

Vice Chairman of Finansforbundet i Danske Bank

Born on 22 January 1963
Nationality: Danish
Gender: Female
Joined the Board on 15 March 2018
Term expires in 2022

Competencies:
- In-depth understanding of banking
- Specialist within the field of pensions
- Trained adviser with strong customer-oriented focus
- Experienced in communicating financial solutions to customers and employees

Directorships and other offices:
Bikubens Personaleforening (chairman)

Kirsten Ebbe Brich

Elected by the employees

Chairman of Finansforbundet i Danske Bank

Born on 15 July 1973
Nationality: Danish
Gender: Female
Joined the Board on 18 March 2014
Most recently re-elected in 2018
Term expires in 2022

Member of the Conduct & Compliance Committee

Competencies:
- Extensive experience with collective bargaining agreements and political management
- Broad knowledge of sector and labour market relationships
- Extensive experience with change management and processes
- Experience within and knowledge of digitalisation and IT

Directorships and other offices:
Finansforbundet i Danske Banks Jubilæumsfond (chairman)
Danske Unions (transnational association of local Danske Bank Group staff unions) (member of the board of directors)
Danske Banks Pensionskasse for Førtidspensionister (member of the board of directors)
Danske Banks Velfærdsfond af 1993 (member of the board of directors)
Finansforbundet (the Financial Services Union in Denmark) (member of the executive committee)

Thorbjørn Lundholm Dahl

Elected by the employees

Head of Financial Crime Governance and FI EDD, Compliance

Born on 4 May 1978
Nationality: Danish
Gender: Male
Joined the Board on 15 March 2018
Term expires in 2022

Competencies:
- Governance, fighting financial crime and compliance
- Finance capital planning and liquidity management
- Strategy, business development and cross-functional programme execution

Directorships and other offices:
None

Charlotte Hoffmann
Elected by the employees

Personal Adviser

Born on 8 October 1966
Nationality: Danish
Gender: Female
Joined the Board on 14 March 2006
Most recently re-elected in 2018
Term expires in 2022

Member of the Remuneration Committee

Competencies:
- Advising personal customers on housing
- Customer satisfaction, customer development, customer focus and all-round advisory services

Directorships and other offices:
None

Management and directorships – Executive Leadership Team (ELT)

Carsten Rasch Egeriis
Chief Executive Officer

Born on 18 June 1976
Nationality: Danish
Gender: Male
Joined the ELT on 1 August 2017

Directorships and other offices:
Finans Danmark (chairman)
FRI af 16 September 2015 A/S (chairman)

Berit Behring
Head of Large Corporates & Institutions

Born on 18 October 1966
Nationality: Swedish
Gender: Female
Joined the ELT on 5 September 2019

Directorships and other offices:
Danske Bank, Belfast (Northern Bank Limited),
Northern Ireland (member of the board of directors)

Magnus Agustsson
Chief Risk Officer

Born on 6 January 1973
Nationality: Icelandic
Gender: Male
Joined the ELT on 22 November 2021

Directorships and other offices:
None

Karsten Breum
Chief People Officer

Born on 23 November 1972
Nationality: Danish
Gender: Male
Joined the ELT on 25 August 2020

Directorships and other offices:
Bikubens Pensionsfond (chairman)
Finanssektorens Arbejdsgiverforening (FA) (The employer association for the finance sector) (vice chairman)
Digital Dogme (member of the board of directors)
Finanskompetencepuljen (member of the board of directors)
Grænsefonden (member of the board of directors)

Stephan Engels
Chief Financial Officer

Born on 9 March 1962
Nationality: German
Gender: Male
Joined the ELT on 1 April 2020

Directorships and other offices:
Danske Bank, Belfast (Northern Bank Limited) Northern Ireland (member of the board of directors)

Philippe Vollot
Chief Administrative Officer

Born on 5 February 1967
Nationality: French
Gender: Male
Joined the ELT on 26 November 2018

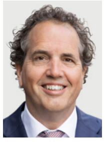
Directorships and other offices:
Association of Certified Anti-Money Laundering Specialists (ACAMS) (member of the advisory board)
French Foreign Trade Advisor, Denmark Committee (member)

Glenn Söderholm
Head of Personal & Business Customers

Born on 26 July 1964
Nationality: Swedish
Gender: Male
Joined the ELT on 1 November 2013

Directorships and other offices:
Danske Leasing A/S (chairman)
Danica Pension, Livsforsikringsaktieselskab (chairman)
Finans Danmark (personal substitute to the chairman of the board of directors)
Fri af 16 September 2015 A/S (personal substitute to the chairman of the board of directors)
Realkredit Danmark A/S (chairman)
NASDAQ Advisory Committee for European Markets (member)

Frans Woelders
Chief Operating Officer



Born on 5 August 1965
Nationality: Dutch
Gender: Male
Joined the ELT on 18 March 2020

Directorships and other offices:
None

Supplementary information

Financial calendar	
17 March 2022	Annual general meeting
29 April 2022	Interim report – first quarter 2022
22 July 2022	Interim report – first half 2022
28 October 2022	Interim report – first nine months 2022

Contacts	
Stephan Engels Chief Financial Officer	+45 20 86 98 11
Claus Ingar Jensen Head of Investor Relations	+45 45 12 84 83

Links	
Danske Bank	danskebank.com
Denmark	danskebank.dk
Finland	danskebank.fi
Sweden	danskebank.se
Norway	danskebank.no
Northern Ireland	danskebank.co.uk
Ireland	danskebank.ie
Realkredit Danmark	rd.dk
Danske Capital	danskecapital.com
Danica Pension	danicapension.dk

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

ESEF data	
Domicile of entity	Denmark
Description of nature of entity's operations and principal activities	Banking business
Country of incorporation	Denmark
Principal place of business	Denmark
Legal form of entity	A/S
Name of reporting entity or other names of identification	Danske Bank Group
Name of parent	Danske Bank A/S
Name of ultimate parent of group	Danske Bank A/S
Address of entity's registered office	Holmens Kanal 2-12, DK-1092 København K

Other Danske Bank Group publications, available at danskebank.com/reports:

Sustainability Report 2021

Risk Management 2021

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