Risk Management 2021

Danske Bank Group

Danske Bank

Contents

The objective of Risk Management 2021 is to inform Danske Bank's shareholders and other stakeholders of the Group's risk management, including policies, methodologies and practices.

Additional Pillar III disclosures required under the Capital Requirements Regulation and the Danish Executive Order on Calculation of Risk Exposure, Own Funds and Solvency Need can be downloaded from www.danskebank.com/investor-relations.

2021 in brief

1.

1.1 Organisation in 2021

In February 2021, the new organisational landscape was completed across the Danske Bank Group. The objective of the organisational change was to promote an agile way of working by consolidating expertise in the development process across business and IT, streamline processes and facilitate collaboration. The organisational change was driven by the Better Bank strategy and was a milestone in the Group's transformation towards becoming a better bank. The change also affected the risk and compliance areas in terms of increasingly embedding the value chain into processes with new ways of working, thus increasing agility and delegating tasks to tribes. See section 1.7 for more information about the Better Bank strategy from a risk perspective.

In 2021, the Group made changes to the risk organisation by appointing Magnus Agustsson as Chief Risk Officer (CRO) and a member of the Executive Leadership Team. The CRO is the head of Group Risk Management, which has the following units: Retail Credit Risk Management, Wholesale Credit Risk Management, Market & Liquidity Risk, Group Non-Financial Risk, Risk Analytics and Enterprise Risk Management.

The Group also adjusted its organisation to further strengthen its ability to combat financial crime by appointing Philippe Vollot as Chief Administrative Officer (CAO) with an end-to-end ownership across both the first and second lines of defence. The CAO is a member of the Executive Leadership team. The appointment of the CAO meant that Satnam Lehal was appointed Chief Compliance Officer with a direct reporting line to the CAO and to the Board of Directors. These changes took place in November 2021.

1.2 Impact from COVID-19

The year of 2021 continued to be rather unpredictable as a result of the COVID-19 pandemic, which affected both customers and employees of Danske Bank. New coronavirus variants were found during 2021 and led to uncertainty, disturbances and governmental restrictions. However, the Group maintained its operational resilience capabilities to serve customers and society and to protect its workforce in the face of the operational stress resulting from COVID-19. In this process, the Group benefited from effective risk management frameworks combined with sufficient resources to manage and learn from disruptions and to adapt to changing conditions.

For credit matters, the credit quality of the Group's customer portfolios remained strong in 2021, supported by a positive trend in classifications that was reflected in a lower exposure-weighted probability of default and a noticeable decrease in non-performing loans (NPL) from the level at the end of 2020. As in 2020, the Group continued to remediate some of the effects of COVID-19 by supporting selected state initiatives by national governments in order to provide business customers with advice and solutions. On the basis of timely estimates in the Group's impairment model, loan impairments charges of DKK 2.2 billion remained in place to cover the effects of the COVID-19 crisis.

The Group (the Large Corporates & Institutions unit) reported loan impairment charges primarily against single-name exposures, mainly in the oil and gas industry and, to a smaller extent, in the retailing industry. For personal and business customers, impairment charges were driven by the continued limited clarity relating to COVID-19 effects, but little actual credit deterioration was observed.

1.3 Continued focus on compliance culture and remediation of legacy issues

In recent years, Danske Bank has systematically improved compliance, risk and control capabilities as well as processes and sought to foster a culture that allows potential issues to be raised and addressed and employees to speak up. As a result, the Group has identified a number of legacy issues in which errors may have led to poor outcomes or losses for customers.

In October 2020, the Group established a central unit, Remediation Office, to handle these legacy issues in a timely, decisive and proactive manner. The Remediation Office oversees the remediation of the legacy issues, and the unit reports directly to the Executive Leadership Team.

Since the establishment of the unit, the Group has seen significant progress across the identified legacy issues. The Group has the ambition of communicating directly to the affected customers as quickly as possible and continues to keep relevant authorities, including the Danish Financial Supervisory Authority (the Danish FSA) and other stakeholders, informed on an ongoing basis.

The Group has invested heavily in improving controls and has encouraged the reporting of cases and issues, while making sure that the lessons learned from legacy issues are proactively applied across the organisation in order to minimise the risk of future issues.

For more information about the Group's progress in remediating legacy issues, see the remediation section at www.danskebank.com.

1.4 Sustainability risk

Sustainability risk management remains a fast evolving space, and the Group continued its efforts to strengthen internal governance frameworks and risk assessments related to sustainability in 2021. This included establishing a sustainability risk inventory and identifying necessary process enhancements across risk types, designing a climate risk heat map to identify relevant sectoral risks, and tightening the Group's risk appetite for 2022 because of identified climate risks.

The rollout of the digital system to manage the ESG risk assessment of individual credit customers is progressing according to plan, with new features and data points being added on an ongoing basis. The ESG risk assessments allowed for additional risk reporting and monitoring of high-risk customers to be implemented in 2021. Furthermore, the Group continued to focus on testing and applying a variety of standardised climate scenarios and on developing methodologies for using longer-time horizons, including those that examine how climate stress testing can be further advanced.

The aim of ensuring increased data-driven risk management of climate risk in particular was also given high priority in 2021. This process is driven not only by many of the regulatory changes being initiated and implemented but also by a greater understanding of the risks in the portfolios and the type of data needed to allow for forward-looking risk management. As part of its data enhancement initiatives, Group Risk Management scaled up support by setting the Group's climate strategies and targets to further help the Nordic economies in their transition efforts. As methodologies continue to advance within climate risk, the focus on data collection will be a priority for the years to come.

1.5 Financial risks

In general, financial markets were less turbulent in 2021 than in 2020. In relation to the Group's main market risks, interest rates increased especially during the second half of the year, primarily driven by fears of higher inflation. Furthermore, spreads on Danish callable mortgage bonds widened substantially throughout the year due to high issuance activity, among other things. Under these conditions, the Group's day-to-day trading income from trading operations saw stable development through the year, which was commensurate with the market risks taken. Additionally, the overall level of market risk in the Group's trading operations was more or less unchanged from 2020. The market risk in relation to fair value adjustments (xVA-related market risk) decreased due to increased hedging efforts. In the non-trading portfolio, the sensitivity to interest rates (IRRBB) changed, mainly driven by a lowering of the threshold for negative rates on demand deposits in Denmark.

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 somewhat 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 remained higher than pre-COVID-19 levels (2019).

At the end of 2021, the Group continued to have a strong capital position, with a CET1 capital ratio of 17.7% and a total capital ratio of 22.4%. During 2021, the Group's risk exposure amount (REA) increased significantly due to the implementation of new regulatory requirements from the EBA. The REA increase did not reflect any additional risk-taking by the Group. Part of the increase was mitigated by the removal of Pillar II add-ons related to model risk.

1.6 Non-financial risks

The Group's non-financial risk (NFR) discipline continued to mature and develop in 2021. Activities included maturing the NFR risk tolerances, launching enhanced risk and control self-assessment instructions, implementing the first two modules of a new governance risk and compliance (GRC) tool, strengthening the Group's policies, working with change risk management with respect to major strategic initiatives, and focusing on critical and important outsourcing agreements. The Group's development of its operational resilience strategy continued in 2021.

The Group has a substantial focus on strengthening the control environment across the organisation through a number of programmes to address orders issued by the Danish Financial Supervisory Authority (the Danish FSA). In 2021, the Group continued its work to remediate the gaps identified by the Danish FSA in 2019 in the Group's IT risk framework and control activity.

The Group's non-financial risk awareness and culture are strengthened through continuous education and training. All employees are required to perform mandatory training in key areas, such as Know-Your-Customer processes, information security, fraud prevention, anti-money laundering, and the Group's code of conduct.

Throughout 2021, the Group continued to make progress on its 2023 ambition plan, Better Bank. As part of this plan, the Group ensures that risks related to organisational changes are identified, assessed and managed in line with the Group's standards. This has contributed to an increase in the awareness of change risk and its impact across the Group.

1.7 Better Bank transformation from a risk perspective

Two years ago, the Group embarked on a multi-year transformation towards becoming a better bank by 2023 and formulated strong ambitions for all of its stakeholder groups: customers, employees, society and shareholders. The key focus for the past two years has been to address the challenges facing the Group's core business and to reverse the downward trend seen in 2019.

After the midpoint of the transformation period, the Group continues to be satisfied with the progress made. The structural progress 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, the Group is now well positioned to deliver sustainable value creation, and the transformation achieved in 2021 is evidence of the Group's current progress in fulfilling the 2023 ambitions set out in the Group's Better Bank transformation agenda:

- **Customers:** To be among the top two (on average) for customer satisfaction in everything the Group does
- **Employees:** To have an engaged workforce with a satisfaction and motivation index score of 77
- **Society:** To operate sustainably, ethically and transparently – and have a positive impact on the societies that the Group is part of
- **Shareholders:** To achieve a return on shareholders' equity of 8.5-9%, a cost/income ratio in the mid-50s and an unchanged dividend policy of 40-60%

As part of its transformation programme, the Group has defined and initiated a wide range of initiatives. Four focus areas were identified for 2021: 1) Compliance under Control; 2) Commercial Momentum; 3) Better Ways of Working; and 4) Purpose, Brand, Culture and Engagement.

In 2021, the Group was able to see the first signs of the intended effects of the previous year's investments in the transformation agenda. The different initiatives gained traction and were executed along the ambitions and targets set. Some of the main outcomes of the transformation in the four focus areas for 2021 were as follows:

- **Compliance under Control:** The Group continued to improve compliance processes within surveillance, transaction monitoring and sanctions controls. In addition, the Conduct programme was progressing and maturing, and the code of conduct connected the new Purpose and Culture Commitments with key Group policies. This work was also supported by new training and eLearning courses.
- **Commercial Momentum:** The Group established the Commercial Leadership Team and consequently sharpened commercial priorities to focus on increasing income generation and customer experience. This includes developing new digital solutions to become more proactive towards customers, improving credit processes, introducing a new service model for business customers, and increasing capital efficiency.
- **Better Ways of Working:** The Group launched an agile development organisation with increased empowerment and greater end-to-end responsibility. Furthermore, the Group focused on establishing a hybrid, flexible working environment and provided approximately 18,000 employees with a cash allowance to upgrade home offices.
- **Purpose, Brand, Culture and Engagement:** The Group launched the new Purpose and Culture Commitments, which were well received and have now been brought to life through an organisational process of reflection and interpretation.

The risks related to the Better Bank transformation and the individual initiatives are handled in accordance with the Group's standards. On the basis of risk assessments, changes are embedded into the risk management process, and potential mitigating actions are managed.

For more information about the progress of the Better Bank transformation plan, see the Strategy Execution section of the Group's Annual Report 2021.

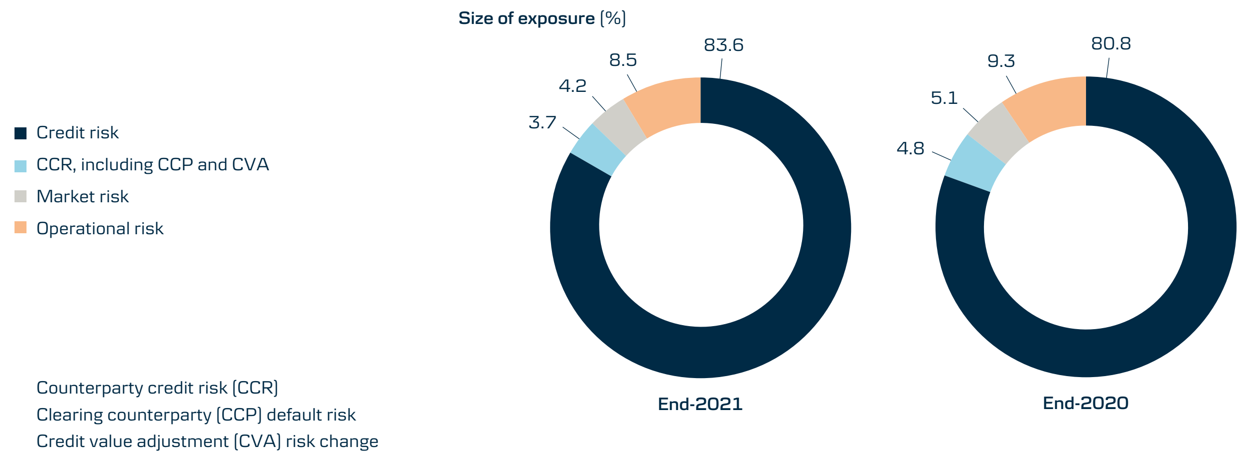
1.8 *Key ratios and risk figures*

Key ratios and risk figures for the Danske Bank Group

(At 31 December)	2021	2020	2019
Capital			
Common equity tier 1 capital ratio (%)	17.7	18.3	17.3
Tier 1 capital ratio (%)	20.0	20.5	20.4
Total capital ratio (%)	22.4	23.0	22.7
Leverage ratio, transitional rules (%)	4.9	4.5	4.7
Leverage ratio, fully phased in (%)	4.8	4.4	4.6
Funding and liquidity			
Liquidity coverage ratio (LCR) (%)	163.7	153.5	140
Asset encumbrance (DKK billions)	1,384	1,376	1,224
Asset encumbrance ratio (%)	40.6	40	40
Issuer rating and outlook – S&P Global	A+/negative	A/stable	A/stable
Issuer rating and outlook – Moody's	A3/stable	A3/stable	A3/stable
Issuer rating and outlook – Fitch Rating	A/stable	A/negative	A/negative
Asset quality			
Risk exposure amount, total (DKK billions)	860.2	784.2	767.2
Expected loss (DKK billions)[1]	11.1	14.5	15.1
Impairment charges, loans, total, full year (DKK millions)[2]	348	7,001	1,516
Loan loss ratio, full year (%)[2]	0.02	0.37	0.08
Non-performing loans, gross exposure (DKK billions)[2]	27.6	31.8	34.7
Non-performing loans, net exposure (DKK billions)[2]	15.7	18.8	21.3
Non-performing loans as % of total gross exposure (%)	1.0	1.2	1.4
Non-performing loans coverage ratio (%)[3]	89.5	75.2	77.6
Loans defaulted on, gross (DKK billions)[2]	12.1	14.6	17.6
Loans defaulted on, net (DKK billions)[2]	5.0	6.7	9.4
Forborne loans (DKK billions)	28.7	37.4	22.4
Other			
Core net credit exposure, lending activities (DKK billions)	2,716	2,728	2,444
Non-core net credit exposure, lending activities (DKK billions)	2.9	4.1	10.4
Exposure at default (DKK billions)[4]	2,918	3,161	2,589
Total assets (DKK billions)	3,936	4,109	3,761

[1] Expected loss figure (downturn-adjusted amount according to regulatory requirements).
[2] At the group level, core portfolios, excluding Non-core.
[3] Accumulated expected credit losses (IFRS 9) as a percentage of gross exposure net of collateral (after haircuts).
[4] Excluding counterparty credit risk.

Risk exposure amount broken down by material risk type



Risk exposure amount figures

In 2021, credit risk was by far the largest risk type among the Group's risk categories, amounting to 83.6% of the Group's total risk exposure amount (REA). Counterparty credit risk, market risk and operational risk constituted the remaining 16.4% of the total REA. The relative proportion for credit risk increased by some three percentage points from the 2020 level following the conversion of Pillar II add-ons to Pillar I REA in connection with the implementation of the EBA guidelines.

Risk strategy and governance

2.

2.1 *Risk strategy*

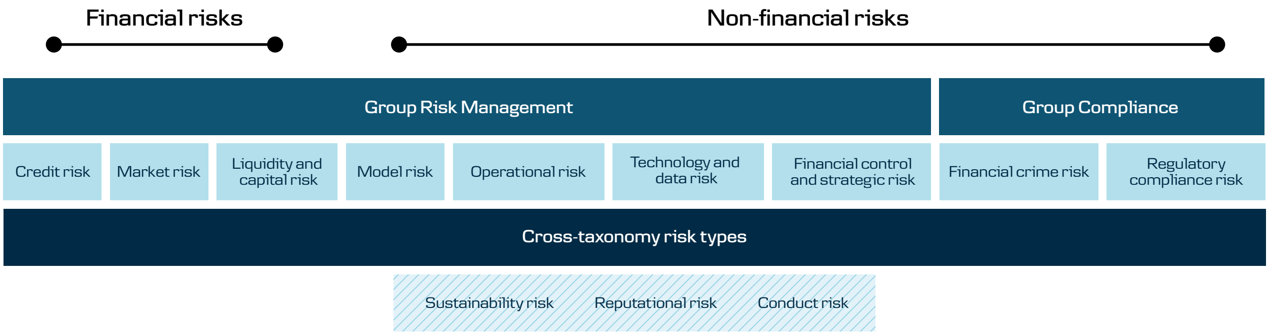
A central objective of the Danske Bank Group is to take on risks to facilitate the activities of the Group's customers. The Group aims to ensure the stability of its financial position to the benefit of shareholders, society, customers and employees.

To meet this objective, the Group applies an enterprise risk management (ERM) framework that sets common standards for how the Group manages risk across all risk types. The framework defines the Group's risk taxonomy, risk roles and responsibilities, risk governance, approach to risk appetite setting and risk culture, and it is supported by policies approved by the Board of Directors. The Group continuously monitors its external environment by adopting a forward-looking approach to identify and manage any emerging risks that could have a material impact on its performance.

In 2021, the Group made noticeable progress in embedding sustainability-related risks into its risk management framework. This is underpinned by an update to the Group's taxonomy and risk appetite as well as new risk monitoring and reporting processes to guarantee board-level visibility. See section 4.1 in this report for more information about sustainability-related risk management.

2.2 *Risk taxonomy*

The risk taxonomy organises and visualises the most material risk types applicable to the Group and is intended to ensure adequate risk identification and ownership across the Group. The risk types cover both financial and non-financial risks, and roles and responsibilities are defined for each identified risk type to ensure continued risk assessment and monitoring. The taxonomy is reviewed on an annual basis to ensure its relevance.



2.3 *Risk management organisation*

The Group's risk management practices are organised in line with the principles of the three-lines-of-defence model. The three lines of defence segregate duties between 1) units that enter into business transactions with customers or otherwise expose the Group to risk (risk ownership), 2) units in charge of risk oversight and challenge in respect of risk owners (risk oversight), and 3) Group Internal Audit (risk assurance).

2.3.1 Three lines of defence

The first line of defence owns and manages the business activities and related risks. It consists of frontline and direct support functions and the following entities: Personal & Business Customers; Large Corporates & Institutions; Technology & Services; CFO Area; Group HR; Group Legal; Group Sustainability; and Group Communications, Brand & Marketing. These entities are responsible for identifying and managing risks across national borders, including designing, implementing and operating effective controls.

Risks must be managed in line with delegated responsibilities and policies as set by the second line of defence and approved by the Board of Directors. The mandate of the business units is governed by risk policies, instructions, risk committees, risk appetite targets and limits.

The second line of defence consists of Group Risk Management and Group Compliance. These units provide the risk management framework and are responsible for setting standards, policies and methods. The second line of defence supports, challenges and is responsible for the risk oversight of the first line of defence and operates independently of the first line of defence.

The chief risk officer (CRO) as head of Group Risk Management and the chief administrative officer (CAO) with overall responsibility for Group Compliance are both members of the Executive Leadership Team. In cooperation with and under the responsibility of the chief executive officer (CEO) of Danske Bank, the CRO and the CAO report to the Board of Directors. The CRO and the CAO may file reports to and contact the Board of Directors directly. The second line of defence has the authority to veto any decisions proposed by the first line of defence that fall outside the set risk appetite or are not aligned with agreed policies.

Group Risk Management is organised in a matrix structure in which risk functions have group-wide risk type oversight responsibility. The following units form part of Group Risk Management: Retail Credit Risk Management, Wholesale Credit Risk Management, Market & Liquidity Risk, Group Non-Financial Risk, Risk Analytics, and Enterprise Risk Management. Each business unit has been assigned a separate CRO who has oversight responsibility across all risk types for the unit in question. Business unit CROs also head risk functions at Group Risk Management and have group-wide responsibility for specific risk types. Finally, country CROs in Norway, Sweden, Finland and Northern Ireland are responsible for overseeing all types of risk in the respective countries.

Group Compliance has independent oversight responsibility for regulatory compliance risk, conduct risk and financial crime risk management and maintains the Group's framework in this regard. The following units form part of Group Compliance: Regulatory Compliance, Financial Crime Compliance, Regulatory Affairs & Compliance Governance, and Central Compliance.

Group Compliance supports the Group by designing and owning the overall frameworks for the above-mentioned key risk types, with a split of tasks and responsibilities in relation to risk assessments, monitoring, reporting and advisory services.

In addition, Group Compliance

- undertakes specific Compliance Oversight Assessments to evaluate the adequacy and effectiveness of other risk frameworks
- performs limited oversight and advisory services and provides challenge in respect of IT Security (Group Non-Financial Risk is the primary second-line oversight function)
- owns and maintains the Group's whistleblowing system

In addition, country compliance officers in Norway, Sweden, Finland and Northern Ireland are responsible for all compliance-specific risk types in the respective countries.

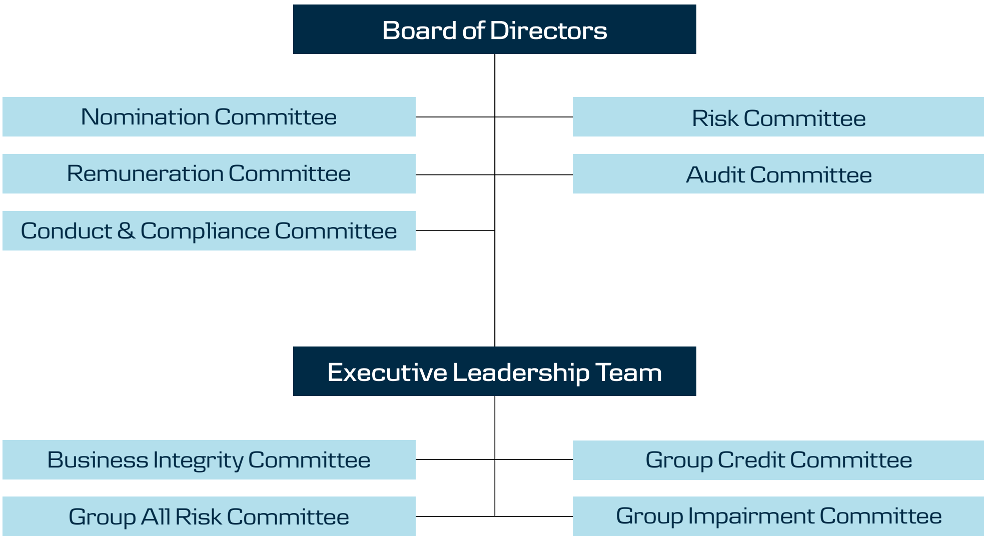
In 2021, the deputy chief compliance officer and head of Financial Crime Compliance was appointed chief compliance officer (CCO) with a direct reporting line to the CAO and to the Board of Directors.

The third line of defence consists of the Group Internal Audit (GIA) function. GIA is an independent and objective assurance entity that assists the Board of Directors and the Executive Leadership Team in protecting the assets, reputation and sustainability of the Group by evaluating the effectiveness of risk management, controls and governance processes in relation to the control environments of the first and second lines of defence. GIA is headed by the chief audit executive (CAE), who reports directly to the Board of Directors.

2.4 *Risk governance*

The Group has a structure of decision-making bodies that cover all significant risks and perform control and oversight of the Group's risk exposure. The committee structure is designed to support effective information, discussion and escalation paths to the Group's senior management and to provide a consistent approach to risk management and decision-making.

Risk governance: two-tier management and committee structures



The Group's Escalation Policy constitutes an overall framework for internal escalations. The policy lays down the general principles and standards for timing, responsibility, processes, etc. in relation to escalating matters to the Executive Leadership Team and the Board of Directors.

2.4.1 Board of Directors and Executive Leadership Team

The Group's rules of procedure for the Board of Directors and the Executive Leadership Team specify the responsibilities of the two bodies and the division of responsibilities between them. The two-tier management structure and the rules of procedure developed in accordance with Danish law, regulations and relevant corporate governance recommendations are central to the organisation of risk management and the delegation of authorities throughout the Group.

The Board of Directors appoints members to the Executive Leadership Team, the CAE and the secretary to the Board of Directors. In accordance with the rules of procedure, the Board of Directors approves the Group's overall business model, strategy, risk appetite, risk profile, policies and instructions, including mandates to the Executive Leadership Team. In addition, the Board of Directors receives regular reports, monitors the main risks, and reviews the largest credit exposures.

The Executive Leadership Team is responsible for the Group's day-to-day management. It supervises the Group's risk management practices, oversees developments in Group Compliance's methods (such as for anti-money laundering), approves credit applications up to a defined limit and ensures that bookkeeping and asset management are sound, consistent with the Group's strategy, and in compliance with applicable legislation. The Executive Leadership Team consists of the CEO, the CAO, the heads of the business units, and the heads of CFO Area, Technology & Services, Group Risk Management, and Group HR.

2.4.2 Board of Directors and Executive Leadership Team committees

The Board of Directors has established five committees to provide effective oversight of risks and prepare matters for consideration by the Board.

Committees established by the Board of Directors

Audit Committee Convenes at least four times a year Number of meetings in 2021: 5	The Audit Committee operates as a preparatory committee for the Board of Directors with respect to accounting and auditing matters, including relevant risk matters. The Audit Committee considers Internal Audit (the third line of defence) and external audit matters.
Conduct & Compliance Committee Convenes at least four times a year Number of meetings in 2021: 7	The Conduct & Compliance Committee operates as a preparatory committee for the Board of Directors with respect to conduct and reputational risk, compliance and financial crime. The committee oversees the Group's conduct in relation to its corporate and societal obligations and monitors its systems and processes to ensure compliance with rules and regulations applicable to the Group.
Nomination Committee Convenes at least twice a year Number of meetings in 2021: 3	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 and with respect to the evaluation of the work and performance of the Executive Leadership Team and the Board of Directors, including the individual evaluation of each member of the Board of Directors. The committee also submits proposals to the Board of Directors on policies for succession planning as well as diversity and inclusion.
Remuneration Committee Convenes at least twice a year Number of meetings in 2021: 4	The Remuneration Committee operates as a preparatory committee for the Board of Directors with respect to remuneration matters. Its main focus is on the remuneration of the members of the Board of Directors and the Executive Leadership Team, material risk takers, key employees and executives in charge of control and internal audit functions. Another focus area is incentive programmes. The committee monitors trends in the Group's salary and bonus policies and practices. It also monitors the incentive programmes to ensure that they promote ongoing, long-term shareholder value creation and are in compliance with the Remuneration Policy.
Risk Committee Convenes at least six times a year Number of meetings in 2021: 8	The Risk Committee operates as a preparatory committee for the Board of Directors with respect to risk management and related matters. The committee advises the Board of Directors on the Group's risk profile, risk culture, risk appetite, risk strategy and risk management framework.

The Executive Leadership Team has established four committees that act on behalf of the Executive Leadership Team with respect to risk monitoring and decision-making in certain areas.

Committees established by the Executive Leadership Team

Group All Risk Committee Convenes at least nine times a year	The Group All Risk Committee acts on behalf of the Executive Leadership Team with respect to the Group's risk management practices. The committee makes decisions on and monitors all material risks associated with the Group's business model and activities. It covers all risks across risk categories, business units, functions and geographical regions in alignment with the Group's ERM framework. Specific reviews on compliance-related risks are managed directly by the Executive Leadership Team and not by the Group All Risk Committee. All members of the Executive Leadership Team are permanent members of the Group All Risk Committee. The Group All Risk Committee has established and delegated parts of its responsibilities to a number of sub-committees. Each sub-committee oversees a specific risk category or all risks related to a specific business area. Delegation of responsibilities does not relieve the Group All Risk Committee of its responsibilities, and the sub-committees must report any decisions and issues to the Group All Risk Committee.
Group Credit Committee Convenes with the aim of meeting twice a week	The Group Credit Committee reviews and decides on individual credit applications on behalf of the Executive Leadership Team. The CEO, the CRO, the CFO and the heads of the business units are permanent members of the Group Credit Committee.
Business Integrity Committee Convenes at least four times a year	On behalf of the Executive Leadership Team, the Business Integrity Committee decides on ambition levels and develops and oversees the implementation of the Societal Impact and Sustainability strategy and related Group policies. All members of the Executive Leadership Team are permanent members of the Business Integrity Committee.
Group Impairment Committee Convenes at least four times a year	On behalf of the Executive Leadership Team, the Group Impairment Committee oversees the implementation and maintenance of the group-wide framework for assessing the Group's credit impairment charges. The CEO, the CRO, the CFO and the heads of the business units are permanent members of the Group Impairment Committee.

2.5 Group risk appetite

The Group Risk Appetite specifies the overall type and level of risks that the Group is willing to assume, or avoid, in order to ensure its long term strategic ambitions and stability of its financial position. This includes serving customers through the economic cycle and at all times in support of the Group's performance, including in economic downturns.

The Group's risk appetite is owned by the Board of Directors and sets the direction for the Group's overall risk-taking by formulating group-wide qualitative and quantitative statements while taking aggregated financial, non-financial and sustainability risk impacts into consideration. The Group's risk appetite forms an integral part of its financial and strategic planning processes for the purpose of ensuring that both risks and opportunities are considered during the strategic decision-making processes. In addition, group-wide limits or tolerance levels exist for credit, market, liquidity and non-financial risks, all of which are specified in related documents, policies and instructions.

2.6 Risk culture

The Group recognises the importance of building and maintaining a strong risk and compliance culture in day-to-day activities to ensure that Danske Bank creates value for all of its stakeholders and lives up to its societal responsibilities as one of the leading financial institutions in the Nordic region. This includes ensuring a high level of risk awareness and making sure that risk-taking is aligned with the risk appetite. Every employee plays a vital role in maintaining a strong risk culture while the Board of Directors and the Executive Leadership Team act as role models to set the tone from the top. This work is underpinned by the Group's purpose and culture commitments and by governing documents, communications, the remuneration structure and staff training.

The performance agreements of Executive Leadership Team and senior management members two levels below the Executive Leadership Team include risk/compliance performance targets. The Group develops and maintains risk management skills and a risk understanding through tailored training to ensure that risk management is embedded in daily routines. All employees, including the members of the Executive Leadership Team, maintain their competencies through participation in annual compulsory eLearning courses on competition law, anti-money laundering, whistleblowing, GDPR, information security awareness, and other group and role-specific training to make informed, risk-based decisions and exercise due care in their day-to-day responsibilities.

2.7 Risk monitoring and reporting

The Group has an enterprise-wide approach to risk reporting. This approach is supported by a wide range of reporting that covers analyses across risk types, core geographical regions and key subsidiaries.

Risk reporting	Content	Frequency	Sent to
Capital and REA report	An assessment of developments in the underlying parameters affecting the Group's overall capital position, including an analysis of the risk exposure amount (REA).	Monthly	Chief financial officer Chief risk officer
CRO letter	A comprehensive overview of the Group's risk profile across risk types, core geographical regions and key subsidiaries.	Monthly (quarterly in respect of the Board of Directors; the Board of Directors receives verbal reports between the quarterly written reports)	Group All Risk Committee Risk Committee (Board of Directors) Board of Directors
Group compliance quarterly report	An overall assessment of the Group's compliance risk management and control environment.	Quarterly	Executive Leadership Team Conduct & Compliance Committee (Board of Directors) Board of Directors

ICAAP report	An assessment of the adequacy of the Group's short-term and long-term capital levels as measured against its risks and business strategy. The assessment includes upcoming regulatory changes and stress testing results.	Quarterly	Group All Risk Committee Risk Committee (Board of Directors) Board of Directors Danish FSA
ILAAP report	A description of the Group's liquidity situation and liquidity management, including its funding profile and plan. The report assesses liquidity risk indicated by liquidity stress tests and similar analyses and also describes the minimum amount of liquidity reserves required by the Group.	Annually (reports on liquidity are regularly issued outside the ILAAP reporting cycle)	Group All Risk Committee Risk Committee (Board of Directors) Board of Directors Danish FSA
Impairment report	An overview of detailed developments in the Group's impairment charges.	Quarterly	Group Impairment Committee Audit Committee (Board of Directors) Risk Committee (Board of Directors) Board of Directors
Industry reviews	Reviews based on a risk-based approach; they cover specific risks related to selected portfolios and all material portfolios. Ad hoc reports are prepared when relevant.	At varying intervals; high-risk portfolios are reported more frequently	Group All Risk Committee
Risk management report	A description of the Group's risk strategies and profile, capital management, risk management organisation and risk frameworks and policies. The report is prepared annually and published on Danske Bank's website along with the Additional Pillar III Disclosures spreadsheet.	Annually	Risk Committee (Board of Directors) Board of Directors Public
Risk profiles	Detailed portfolio and industry analyses focusing on exposure, risk factors, structural trends, performance and forward-looking developments, including portfolio stress tests. Risk profiles cover all material portfolios.	At varying intervals; high-risk portfolios are reported more frequently	Group All Risk Committee Risk Committee (Board of Directors) Board of Directors

Credit risk

3.

3.1 Credit risk management

Credit risk is the risk of losses because debtors fail to meet all or part of their payment obligations to the Danske Bank Group. Credit risk includes counterparty credit risk.

The Group manages credit risk in accordance with its Credit Policy, Credit Risk Appetite and related governing documents. The purpose of these elements is twofold: 1) to ensure a consistent approach to credit risk management as well as clear roles and responsibilities across markets and business units and 2) to make sure that risk-taking remains supportive of the Group's business strategy, including sustainable finance.

3.1.1 Governance and responsibilities

Credit risk is managed in line with the principles of the three-lines-of-defence model. This means that the first line of defence is responsible for the risks assumed, while the second line of defence is responsible for risk oversight and risk challenge.

In credit risk management, the frontline functions as well as business risk and control functions at the business units make up the first line of defence, while Group Risk Management serves as the second line of defence. In particular, Retail Credit Risk and Wholesale Credit Risk facilitate the implementation of sound credit risk management throughout the Group and are responsible from an oversight and challenge perspective for identifying, monitoring, analysing, measuring, managing and reporting on risks and forming a holistic understanding of risks on an individual and consolidated basis.

The Group ensures compliance with the Credit Policy and related governing documents through the credit control environment, while portfolio monitoring ensures alignment with the Credit Risk Appetite. Credit exposures are monitored so that credit action plans can proactively be made and/or forbearance measures be taken for distressed loans and impairment charges be calculated for non-performing loans.

Delegated lending authorities

The mandate for approving credit risk is cascaded from the Board of Directors to the Executive Leadership Team (via the Group Credit Committee) and further down the organisation via delegated lending authorities. The authorities are delegated on the basis of powers and at levels appropriate for the risk profile and nature of the exposures considered by the mandate giver/holder. If a credit application exceeds the delegated lending authority of the individual mandate giver/holder, the application is submitted to a lending officer with the necessary authority. The second line of defence must be involved in the credit sanctioning process for credit applications and renewals above a certain materiality threshold, while both the Executive Leadership Team and the Board of Directors are involved in the approval process for credit applications of a reputational or material financial nature.

The Delegated Lending Authorities System handles the administration and control of lending authorities.

3.1.2 Monitoring and reporting

At the group level, Group Risk Management oversees the Group's credit activities and reports on developments in the credit portfolios. Portfolio reports are presented to the Executive Leadership Team (via the Group All Risk Committee) on a monthly basis and to the Board of Directors (via the Board of Directors' Risk Committee) on a quarterly basis through the CRO letter.

3.1.3 Credit risk appetite and concentration frameworks

The Group's credit risk appetite is set to support the Group's ambition of limiting impairment volatility through the business cycle and managing credit concentrations (including single names, assets and/or credit type concentrations). The appetite allows the Group to take on credit risk in areas that are within its strategic core.

The credit risk appetite applies at business unit, country and product levels. Supporting risk limits and risk metrics are in place at various levels to help measure credit risk further.

Subsidiaries and legal entities owned by the Group set independent credit risk appetites in alignment with Group principles.

Monthly and quarterly risk reporting enables ongoing monitoring of the Group's credit risk profile to ensure that it is in line with its credit risk appetite.

Limiting impairment volatility

The Group has set maximum loss limits to enable it to manage the risk of credit losses in times of economic stress. The maximum loss limits also make it possible to monitor the credit quality of the portfolio and factor in all key credit quality drivers such as customer ratings/scores, collateral and loan maturity.

Managing credit concentrations

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

- single-name concentrations
- industry concentrations
- geographical concentrations

Single-name concentrations

Single-name concentrations are managed according to two frameworks:

1. Large exposures: This framework is based on the regulatory definition of large exposures in the applicable Capital Requirements Regulation (CRR). The Group has defined stricter internal limits for managing single-name concentrations, including the following:

   - absolute limit on single-name exposures
   - limit for the 20 largest exposures

2. Single-name concentration: The Group has also implemented a risk-sensitive internal framework.[1] In order to limit losses on single names, the framework sets limits on the following:

   - exposure
   - loss given default
   - expected loss

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 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 country. For selected countries, exposures to sovereigns, financial institutions and counterparties in derivatives trading are managed within country limits.

Warehouse risk

During the past seven years, in the large corporate space, the Group has been engaged in loan underwriting activities based on an “underwrite to distribute” approach. The activities relate primarily to M&A transactions with a Nordic footprint. The activities are conducted under a strict governance regime and are subject to a limit. The Group is one of the leading Nordic banks engaged in these activities. The Group expects to increase the underwriting activities going forward in line with international capital efficiency developments in corporate banking.

3.1.4 Risk identification and assessment

The Group’s credit process ensures that loans are granted to customers within their financial capacity and also that distressed and non-performing loans are identified at an early stage and managed proactively. Assessing a customer’s financial capacity is a key element of the credit approval process. The Group pursues a policy of mitigating credit risk by means of guarantees and/or collateralisation.

The Group has a high focus on early collection activities for personal and small business customers, and early signs of inability to repay are addressed by dedicated teams specialised in identifying and mitigating such issues. This allows the Group to work with customers to remediate issues in a timely manner and to reduce the volume of non-performing loans to personal and small business customers.

Similarly, the Group uses early warning indicators for business customers in order to identify behavioural signals that historically have indicated poor performance. This enables relationship managers and credit departments to target activities to a higher extent than previously, including taking forbearance measures where relevant.

The Group engages in work-out processes with customers in order to minimise losses and help healthy customers in financial difficulty. During the work-out process, the Group makes use of forbearance measures to assist non-performing customers. Concessions granted to customers include interest-reduction schedules, interest-only schedules, temporary

[1] The framework is aligned with the large exposure framework and includes the total exposure limit of consolidated entities less senior covered bonds, intraday lines, clearing services and Realkredit Danmark credit lines.

payment holidays, term extensions, cancellation of outstanding fees, waiver of covenant enforcement and settlements. Because of the length of the work-out processes, the Group is likely to maintain impairment charges for these customers for years.

Forbearance plans must comply with the Group's Credit Policy and are used as an instrument to maintain long-term customer relationships during economic downturns if there is a realistic possibility that the customer will be able to meet obligations again. The purpose of the plans is therefore to minimise loss in the event of default and to help customers through a difficult period.

In 2020 and 2021, the Group increased its use of concessions to customers affected by the COVID-19 crisis, and a significant number of the concessions were considered to be forbearance measures (see section 3.2.1 below for figures). If it proves impossible to improve a 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.

3.1.5 Stress testing

When setting the overall credit risk appetite at the group and business unit levels, the Group stress-tests the total portfolio using the severe recession scenario that is also the foundation for the ICAAP stress tests. The credit risk appetite is thus based on forward-looking parameters.

The Group also conducts bottom-up stress tests on selected industries, typically the largest portfolios (reviewed at least once a year). These stress tests form part of extensive sector and portfolio reviews (risk profiles), and they are used for the assessment of specific risk strategies for individual sectors. For relevant sectors, stress tests using climate scenarios are made to assess climate risk exposure at the portfolio level. The bottom-up stress tests help set the risk appetite for industry concentrations and also help validate top-down stress testing.

3.1.6 Rating and scoring processes

Group Risk Management is responsible for the overall rating and scoring processes, including the underlying rating and scoring models.

The ratings of large customers are reassessed periodically on the basis of new information that affects a customer's creditworthiness.

For small customers, such as personal customers and small businesses, the Group uses fully automated and statistically based scoring models. Credit scores are updated monthly in a process subject to automated controls.

Both rating and scoring models are validated annually by an independent unit to assess their performance and highlight any deficiencies that need to be addressed.

Risk classification distribution

Both the scoring and the rating of customers are integral elements of the credit approval and overall credit risk management processes. The Group's internal classifications are based on point-in-time (PIT) parameters and reflect the probability of default within a year.

The Group's classification scale consists of 11 main categories. Categories 1-5 apply to investment grade customers, categories 6-7 apply to non-investment grade customers, and categories 8 and 9 cover vulnerable customers. Rating category 10 represents customers whose loans and facilities are subject to impairment but who are not yet in default while category 11 covers customers in default.

3.1.7 Risk mitigation and collateral management

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 that it reflects current market prices. The Group's Collateral System supports this process by accepting only up-to-date values, thus ensuring that the Group complies with regulatory requirements.

The validity of the internal and external input 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. Hence, the haircut 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. For more information, see section 3.2.2 below.

3.1.8 Support systems

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

- accurate classification of customers and timely default registration based on risk events
- timely registration and accurate valuation of collateral
- granting of credit facilities according to delegated lending authorities
- formalised monitoring and follow-up procedures

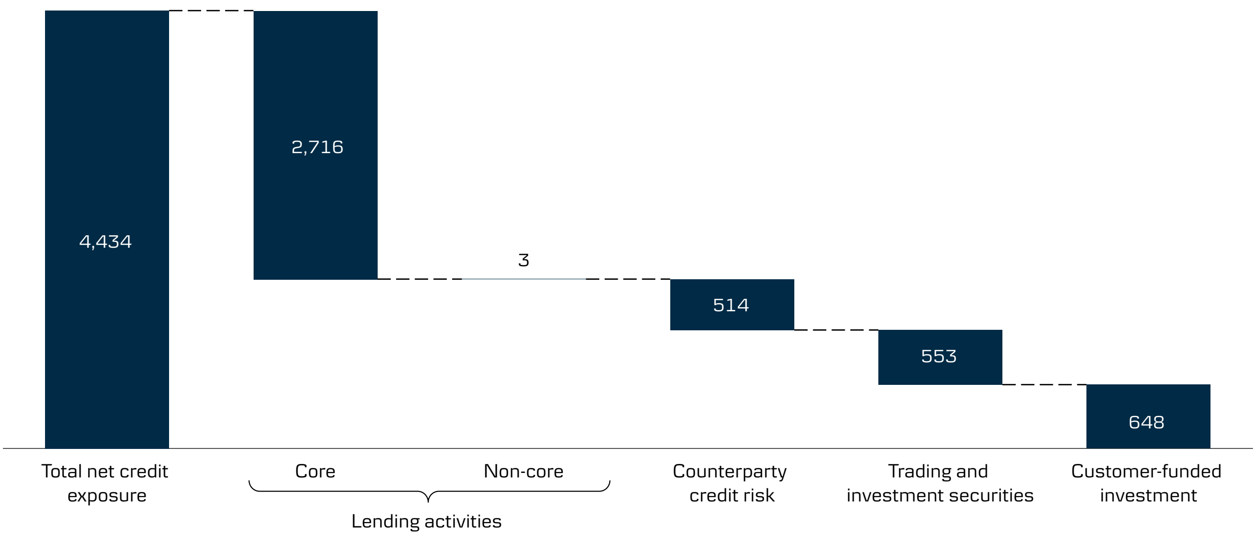
The Credit System is the foundation of the credit process. It contains all relevant details about credit facilities, financial circumstances and customer relations. The system is used for all customer segments and products across all sales channels. It ensures that the basis for decision-making, including file comments and credit exposure, is created and stored properly.

3.2 Credit risk profile

The Danske Bank Group's total net credit exposure is defined as on-balance-sheet and off-balance-sheet items net of impairment charges that carry credit risk. At the end of 2021, the Group's total net credit exposure for accounting purposes was DKK 4,434 billion (2020: DKK 4,600 billion).

Breakdown of net credit risk exposure

(DKK billions)



Net credit exposure from lending activities accounts for most of the Group's net credit exposure, and it is the focus of this section. Counterparty credit risk is explained in sections 3.4 and 3.5, while risk arising from trading and investment securities and customer-funded investment is described in section 5, Market risk. Net credit exposure from lending activities includes amounts due from credit institutions and central banks, loans, guarantees, and irrevocable loan commitments.

At the end of 2021, net credit exposure from core lending activities amounted to DKK 2,716 billion, down DKK 12 billion from the level at the end of 2020 (DKK 2,728 billion). Net credit exposure from Non-core lending activities came to a total of DKK 3 billion, down from DKK 4 billion at the end of 2020.

At the end of 2021, the Group's counterparty credit risk[2] amounted to DKK 514 billion, approximately 19% down from DKK 639 billion at the end of 2020.

[2] In this respect, counterparty credit risk consists of reverse transactions and other loans at fair value (loans at the trading units of Large Corporates & Institutions) as well as derivatives with positive fair value. The figure in section 3.5 below covers only derivatives with positive fair value.

Net credit exposure from trading and investment securities arises from securities positions taken by the Group's trading and investment units, and it also entails credit risk. This risk type is described in the credit risk notes to the Danske Bank Group's financial statements.

The Group's credit risk exposure from assets in customer-funded investment pools, unit-linked investment contracts and insurance contracts (customer-funded investments) increased to DKK 648 billion at the end of 2021 (2020: DKK 600 billion). The risk on assets under pooled schemes and unit-linked investment contracts is assumed solely by customers, while the risk on assets under insurance contracts is assumed primarily by customers. The credit risk on customer-funded investments and insurance contracts is described in the notes on credit risk and insurance contracts to the Danske Bank Group's financial statements.

From section 3.2.1 onwards, net credit exposure from lending activities (referred to as 'net credit exposure') excludes Non-core exposure (unless otherwise stated).

Securitisation activities

The Group's securitisation activities are by nature legacy activities and all originated before 2008. They include no re-securitisation activities or any simple, transparent and standardised (STS) transactions. The objective of the portfolio is to reduce the securitisation transactions and ultimately cease any involvement in third-party securitisation transactions. The Group does not have any outstanding synthetic securitisation risk transfers.

Transactions with super-senior status make up 99% of the total portfolio. These transactions consist of credit facilities provided to support special purpose vehicles (SPVs) financed by rated securitisation bonds. The credit facilities function as committed overdraft facilities and provide liquidity for the ongoing payment of interest, principal and costs. Any drawings under these credit facilities would rank above the most senior ranking tranche in the individual SPV financing structure. In many cases, the original basis of the agreement stipulated a minimum requirement for the Group's rating.

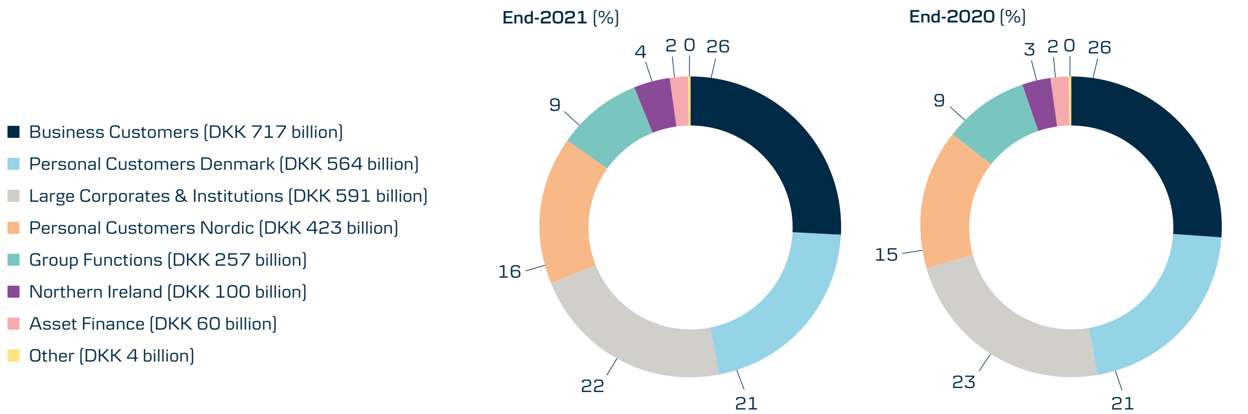
The Group has no risk positions in own-originated transactions.

3.2.1 Net credit exposure from lending activities

Overall net credit exposure from lending activities decreased by DKK 12 billion from the end of 2020. Deposits with central banks and amounts due from central banks and credit institutions declined by DKK 25 billion. At the same time, guarantees increased by DKK 9 billion. Meanwhile, the Group saw a slight increase of DKK 3.5 billion in loans and loan commitments.

At the business unit level, net credit exposure declined most at Large Corporates & Institutions and was down by DKK 29 billion. Most of the decline was driven by public institutions and financials. Personal Customers Denmark saw a decrease of DKK 16 billion due to a lower level of mortgage and bank loans. Net credit exposure, on the other hand, increased at Personal Customers Nordic (up DKK 20 billion mainly as a result of the exposure in Norway) and at Northern Ireland (up DKK 8 billion on account of the exposure to public institutions). Group Functions witnessed a small increase of DKK 4 billion.

Breakdown of net credit exposure by business unit (core lending activities)



Overall, the corporate and sovereign portfolios are well-diversified across various industries with commercial property representing the largest exposure. The credit exposure to personal customers consisted mostly of home financing secured on real property.

For more information about the trends in selected portfolios, see the sections below.

Breakdown of industry credit exposure

	Net credit exposure (DKK billions)		
	End-2021	End-2020	Index
Public institutions	334	364	92
Financials	125	128	98
Agriculture	66	71	93
Automotive	27	31	87
Capital goods	79	76	103
Commercial property	313	329	95
Construction and building materials	51	50	103
Consumer goods	76	68	112
Hotels, restaurants and leisure	15	16	97
Metals and mining	13	13	97
Other commercials	14	23	62
Pharma and medical devices	59	50	117
Private housing co-ops and non-profit associations	212	208	102
Pulp, paper and chemicals	41	40	101
Retailing	31	26	122
Services	61	62	99
Shipping, oil and gas	38	43	89
Social services	27	28	97
Telecom and media	23	21	109
Transportation	16	15	107
Utilities and infrastructure	80	68	118
Personal customers	1,014	999	102
Total	**2,716**	**2,728**	**100**

3.2.2 Credit quality

Net credit exposure broken down by rating category

Credit quality remained strong in 2021, supported by positive trends in classifications. Overall credit quality measured by exposure-weighted PD dropped to 0.57% at the end of 2021, against 0.76% at the end of 2020. However, the Group continues to be vigilant in respect of any possible deterioration since the uncertainty associated with the COVID-19 crisis remains.

Overall lending activities – net credit exposure broken down by rating category

	PD scale (%)		Net credit exposure (DKK billions)		Net credit exposure (% accumulated)	
Rating category	Upper	Lower	End-2021	End-2020	End-2021	End-2020
1	0.00	0.01	265	271	10	10
2	0.01	0.03	208	240	17	19
3	0.03	0.06	574	538	39	38
4	0.06	0.14	642	577	62	60
5	0.14	0.31	491	508	80	78
6	0.31	0.63	293	302	91	89
7	0.63	1.90	148	172	97	96
8	1.90	7.98	53	53	98	98
9	7.98	25.70	5	11	99	98
10	25.70	99.99	29	44	100	100
11	100.0	100.0	7	10	100	100
Total			**2,716**	**2,728**	**100**	**100**

Impairment charges, non-performing loans and forborne exposures
Loan impairment charges in core activities were low in 2021, amounting to DKK 348 million (2020: DKK 7,001 million).

Impairment charges reflected mainly credit deterioration relating to individual customers, primarily in segments hit by the lockdown of societies in parts of 2021. The full effect of the COVID-19 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 coronavirus. Impairment charges were still at a significantly lower level than in 2020.

Personal & Business Customers accounted for the main part of the loan impairment charges in 2021, which were made against individual customer exposures as a result of the COVID-19 crisis, for instance in the hotel, restaurants and leisure segments. The Group continued to see more normalised impairment levels than in 2020, and on a quarterly basis, impairment charges were slightly up 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.

Non-performing loans (NPL) and impairment charges broken down by business unit

	End-2021				End-2020			
(DKK millions)	Gross NPL = a+b	Expected credit loss b	Net NPL exposure a	Net NPL exposure, ex collateral	Gross NPL = a+b	Expected credit loss b	Net NPL exposure a	Net NPL exposure, ex collateral
Personal & Business Customers	16,933	7,541	9,392	1,341	19,171	8,138	11,032	2,679
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
Large Corporates & Institutions	8,743	3,812	4,932	0	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	-0
Total NPL	**27,636**	**11,980**	**15,657**	**1,399**	**31,776**	**12,934**	**18,842**	**4,275**

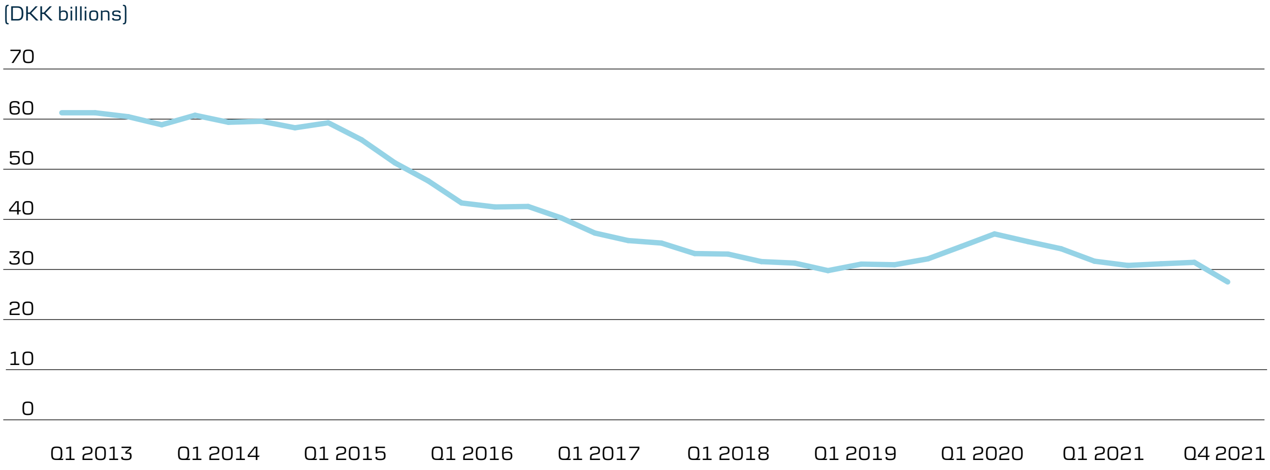
The Group defines non-performing loans as stage 3 exposures as defined in IFRS 9.[3] However, for non-retail exposures with one or more non-performing loans, the entire amount of the customer's exposure is considered to be non-performing. For retail exposures, only impaired facilities are included in non-performing loans. The Group excludes exposures in stage 3 with no impairment charges or if the allowance account is considered immaterial to the gross exposure.

The Group's Annual Report 2021 includes detailed information about definitions, approaches, methods, etc., in respect of expected credit losses (specific and general credit risk adjustments), IFRS 9 staging, past due facilities, etc. The report is available on Danske Bank's website at www.danskebank.com/investor-relations.

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

[3] At 1 January 2018, the Group implemented the expected credit loss impairment model in IFRS 9. 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: 1) If the credit risk has not increased significantly, the exposure remains in stage 1 and the impairment charge equals the expected credit losses resulting from default events that are possible within the next 12 months. 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. 3) If the customer has defaulted on loan repayments or the loan is otherwise credit-impaired, it is transferred to stage 3 and the impairment charge continues to equal the lifetime expected credit losses, but with interest income being recognised in the net carrying amount.

Gross non-performing loans (excluding Non-core)



Non-performing loans and impairment charges broken down by industry

	End-2021				End-2020			
(DKK millions)	Gross NPL = a+b	Expected credit loss b	Net NPL exposure a	Net NPL exposure, ex collateral	Gross NPL = a+b	Acc. individual impairment charges b	Net NPL exposure a	Net NPL exposure, ex collateral
Public institutions	5	0	5	5	0	0	0	0
Financials	521	192	329	0	199	199	0	-0
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	-0	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	0	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	-0	6,509	2,270	4,239	95
Social services	932	343	589	-177	872	323	549	-0
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	0	0
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**

In 2021, the Group continued its use of concessions to customers affected by the COVID-19 crisis. At the end of 2021, the concessions granted by the Group represented an increase in gross exposure of approximately DKK 13 billion, and most of it was considered forbearance measures.[4] The concessions related primarily to personal customers and to following industries: shipping, oil and gas; hotels, restaurants and leisure; consumer goods; and retailing.

Exposures subject to forbearance

	End-2021		End-2020	
(DKK millions)	Performing	Non-performing	Performing	Non-performing
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**

3.2.3 Credit risk mitigation

The main method used by the Group to mitigate credit risk is to obtain collateral with a focus on the customer's ability to repay. The most important types of collateral, measured by volume, are real property, guarantees, vehicles and vessels. Personal customers' real property accounted for 54% of the total collateral base after haircuts and remained stable in relation to 2020. For more information about haircuts, see section 3.1.7 above.

Collateral value broken down by type (after haircuts)

	Total		Portion from							
			Personal & Business Customers		Large Corporates & Institutions		Northern Ireland		Group Functions and Other	
At 31 December (DKK billions)	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Real property	1,372.9	1,357.6	1,295.7	1,282.5	41.0	41.5	35.8	32.9	0.5	0.7
- Personal	818.3	804.0	794.1	781.8	0.0	0.0	23.8	21.5	0.4	0.6
- Commercial	506.7	501.6	457.7	453.1	39.3	39.3	9.7	9.1	0.1	0.0
- Agricultural	47.9	52.0	43.9	47.5	1.7	2.1	2.3	2.4	-	-
Bank accounts	1.3	2.4	1.1	2.0	0.2	0.4	-	-	-	0.0
Custody accounts and securities	17.3	18.3	12.6	11.7	4.8	6.6	-	-	-	-
Vehicles	24.3	24.2	24.2	24.0	0.1	0.1	-	-	0.0	0.0
Equipment	17.1	20.3	10.7	12.6	3.5	4.7	2.9	3.1	0.0	0.0
Vessels	21.0	24.1	1.6	2.0	19.3	22.1	0.0	0.0	-	-
Guarantees	25.9	31.2	6.9	9.4	15.8	18.8	3.3	3.0	0.0	0.0
Amounts due	4.0	4.5	2.7	2.7	0.9	1.5	0.3	0.3	0.0	0.0
Other assets	34.0	37.4	29.0	30.4	3.8	5.7	1.2	1.3	0.0	0.0
Total collateral	**1,517.8**	**1,520.1**	**1,384.5**	**1,377.4**	**89.3**	**101.4**	**43.5**	**40.7**	**0.5**	**0.7**

[4] For a definition of when concessions are considered forbearance measures, see the Group's Annual Report 2021 (note G1.b, the section on 'Accounting treatment of the impacts on expected credit losses from the corona crisis').

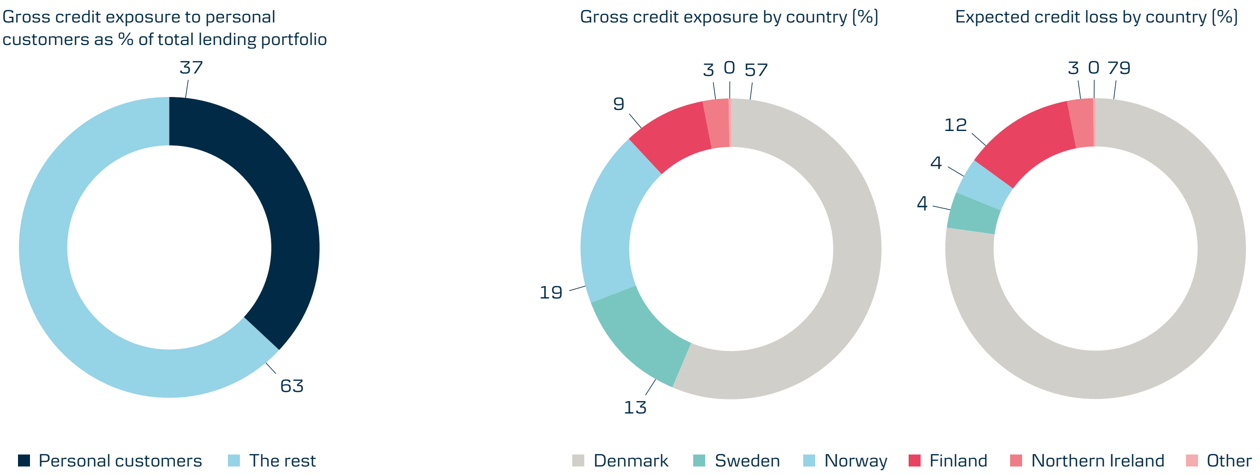
3.2.4 Trends in selected portfolios

The sections below describe the trends in the credit quality of selected lending portfolios. These portfolios either have an elevated credit risk (high cyclicality, for example) or represent a significant portion of the Group's total lending portfolio.

Personal customers

Measured by gross credit exposure, the personal customer portfolio is the Group's largest portfolio. At the end of 2021, gross credit exposure amounted to DKK 1,019 billion at the group level (2020: DKK 1,005 billion), with DKK 447 billion at Realkredit Danmark (2020: DKK 455 billion) reflecting the Group's position as one of the leading mortgage finance providers in Denmark. The exposure to personal customers comprises loans secured on customer assets, consumer loans and fully or partly secured credit facilities. Mortgage loans represented most of the exposure to personal customers at 83% (2020: 85%).

Personal customers



Overall, the personal customer portfolio increased by DKK 4 billion from the end of 2020 to the end of 2021. The increase of DKK 20 billion at Personal Customers Nordic was offset mainly by the decrease at Personal Customers Denmark.

The COVID-19 crisis disrupted the global economy in 2020, but the effects on personal customers have been limited so far and credit quality remains strong. During the crisis, the Group implemented many initiatives to manage risk and help customers, for example by offering payment holidays or interest-only payments. In Finland, opting for short-term temporary interest-only periods has been a market practice for many years. During the pandemic, this led to many forbearance registrations and D3 downgrades, resulting in an increase in expected credit losses. The financial circumstances of a large number of these customers are expected to improve when the forbearance measures end and the loans return to normal terms.

There are still risks related to COVID-19, but with the progress in vaccinations, the recovery is expected to continue, and economies are likely to return to pre-crisis levels in 2022.

The Group continues to be vigilant in respect of any lagged COVID-19 effects on personal customers, such as an increase in delinquencies and defaults linked to payment holidays/interest-only payments expiring. Unemployment decreased significantly in 2021 and now stands at, or below, pre-pandemic levels. The outlook for 2022 is a likely continuation of the increase in the number of jobs and a tighter labour market, but with important differences among industries and regions.

Residential property prices in all Nordic countries have seen sharp increases over the past couple of years. However, price growth moderated in the second half of 2021 following the reopening of societies and a normalisation of consumption patterns. Still, prices have become very high in some urban areas, and government authorities have contemplated initiatives to tighten regulation in an attempt to limit household debt and moderate financial system risk. Generally, customers tend to prefer fixed rate loans to mitigate interest rate vulnerability.

Developments in the personal customer portfolio

	Key figures					Non-performing loans		
(DKK millions)	Gross credit exposure	Expected credit loss	Write-offs	Loan loss ratio (%)	Collateral (after haircuts)	Gross exposure	Share of total segment exposure (%)	Coverage ratio (%)
End-2020	1,004,763	6,203	497	0.07	826,582	5,388	0.54	92
End-2021	1,019,409	5,811	322	-0.05	837,247	5,870	0.58	90

Commercial property

The commercial property portfolio consists primarily of secured property financing to owners of property let to third parties.

At the end of 2021, gross credit exposure amounted to DKK 316 billion. The allowance account for the portfolio, which amounted to DKK 3.2 billion, represented 1% of gross credit exposure.

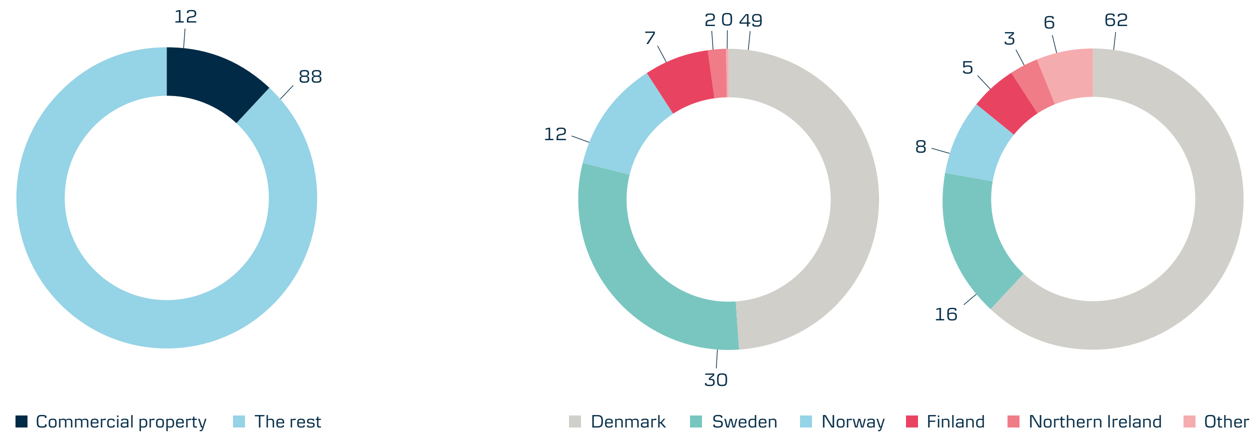
Throughout 2021, the credit quality of the commercial property portfolio remained stable and was generally not affected substantially by the COVID-19 pandemic. However, the consequences of the pandemic were quite different for the individual property segments. While the hotel and retail property segments were most affected by the lockdown of societies, the residential, public and logistics property segments were unaffected. In 2021, the Group maintained conservative underwriting standards for the property segments affected the most.

Commercial property

Gross credit exposure to commercial property as % of total lending portfolio

Gross credit exposure by country (%)

Expected credit loss by country (%)



Developments in the commercial property portfolio

	Key figures					Non-performing loans		
(DKK millions)	Gross credit exposure	Expected credit loss	Write-offs	Loan loss ratio (%)	Collateral (after haircuts)	Gross exposure	Share of total segment exposure (%)	Coverage ratio (%)
End-2020	331,344	2,629	92	0.23	258,791	3,371	1.0	90
End-2021	316,307	3,204	115	0.21	251,359	3,012	1.0	94

Most of the Group's commercial property customers are managed by specialist teams for customer relationships and credit risk management.

Commercial property – net credit exposure broken down by rating category

	PD scale (%)		Net credit exposure (DKK billions)		Net credit exposure (% accumulated)	
Rating category	Upper	Lower	End-2021	End-2020	End-2021	End-2020
1	0.00	0.01	0.2	0.1	0	0
2	0.01	0.03	1.4	2.3	1	1
3	0.03	0.06	5.6	7.2	2	3
4	0.06	0.14	43.5	33.5	16	13
5	0.14	0.31	135.3	144.5	59	57
6	0.31	0.63	85.4	92.5	87	85
7	0.63	1.90	29.4	35.7	96	96
8	1.90	7.98	7.3	6.8	98	98
9	7.98	25.70	0.1	0.5	98	98
10	25.70	99.99	4.2	5.0	100	100
11	100.00	100.00	0.6	0.8	100	100
Total			**313.1**	**328.7**	**100**	**100**

In 2021, the commercial property portfolio saw an overall decrease in net exposure of DKK 16 billion, mainly driven by a fall in the exposure to non-residential customers in Sweden and Denmark. Overall, residential gross exposure grew at the expense of non-residential gross exposure.

Commercial property broken down by property type and geography

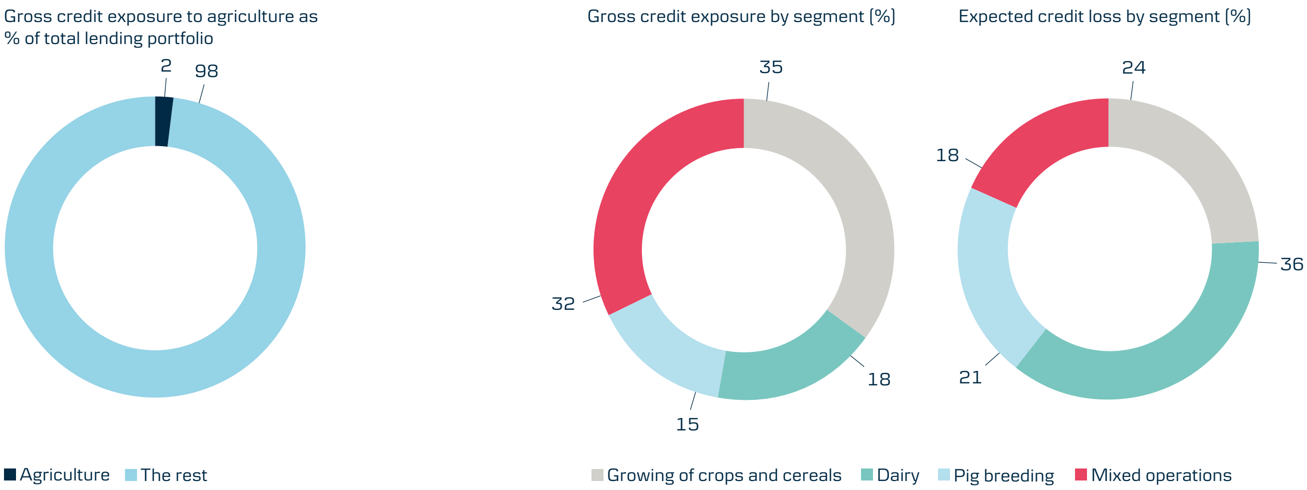
	End-2021			End-2020		
(DKK millions)	Gross credit exposure =a+b	Expected credit loss b	Net credit exposure a	Gross credit exposure =a+b	Expected credit loss b	Net credit exposure a
Non-residential	169,213	2,192	167,021	191,823	1,767	190,056
Denmark	72,740	1,339	71,400	81,541	1,086	80,455
Sweden	51,728	277	51,452	62,065	168	61,896
Norway	29,112	211	28,901	29,757	235	29,522
Finland	12,269	127	12,143	13,452	98	13,354
Northern Ireland	3,186	76	3,109	3,863	64	3,799
Other	178	163	15	1,146	115	1,030
Residential	147,095	1,011	146,083	139,521	861	138,660
Denmark	83,523	650	82,872	70,292	565	69,727
Sweden	42,931	242	42,689	49,188	141	49,047
Norway	9,826	51	9,774	8,652	54	8,598
Finland	8,772	25	8,746	9,018	29	8,989
Northern Ireland	1,332	25	1,307	1,118	49	1,069
Other	711	17	694	1,254	25	1,229
Total	**316,307**	**3,204**	**313,104**	**331,344**	**2,629**	**328,715**

Note: The figures are based on the customers' country of residence and therefore cannot be compared at the country level with those stated in Risk Management 2020.

Agriculture

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

Agriculture



At the end of 2021, gross credit exposure amounted to DKK 68 billion, down from DKK 73 billion at the end of 2020. Business Customers Denmark accounted for 59% of gross credit exposure, with Realkredit Denmark having a share above 84%. At Realkredit Danmark, the LTV limit at origination is 60%. Credit quality was weakest among pig producers and dairy farmers.

Developments in the agriculture portfolio

	Key figures					Non-performing loans		
(DKK millions)	Gross credit exposure	Expected credit loss	Write-offs	Loan loss ratio (%)	Collateral (after haircuts)	Gross exposure	Share of total segment exposure (%)	Coverage ratio (%)
End-2020	73,143	2,447	333	-0.25	56,406	3,156	4.3	76
End-2021	68,038	2,364	112	-0.12	52,529	2,261	3.3	98

The credit quality of the portfolio has improved over the past few years, recovering from legacy exposures from the financial crisis. In 2021, the portfolio was supported by higher-than-average milk and crop prices. Pork prices were beneficial in the years 2019-2020 and in early 2021 as a consequence of the spread of African swine fever (ASF) in Asia and Europe. The Chinese production of pigs was re-established in 2021, and the confirmation of ASF in wild boars within German borders in September 2020 induced many Asian countries to close down imports of all German pork meat. These two factors caused piglet and pork prices to plunge. The expected credit loss figure included a large probability of a spread of ASF to Germany already before the outbreak, and it was further adjusted upwards in 2020 after the outbreak. The Group's gross exposure to mink farmers was DKK 0.5 billion at the end of 2021.

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

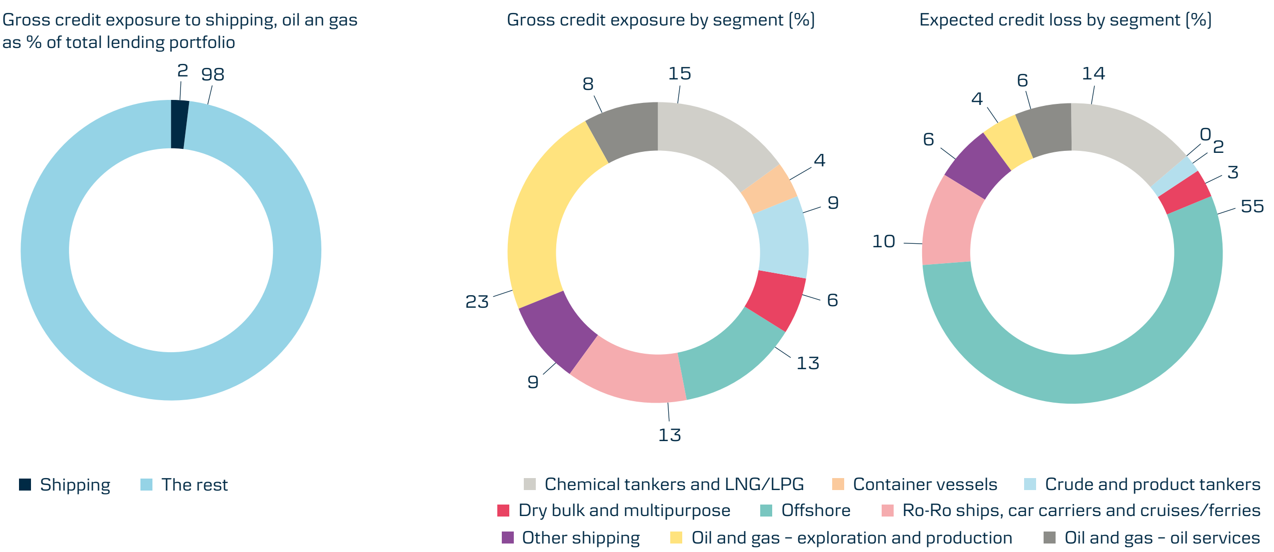
Agriculture portfolio – net credit exposure broken down by rating category

	PD scale (%)		Net credit exposure (DKK billions)		Net credit exposure (% accumulated)	
Rating category	Upper	Lower	End-2021	End-2020	End-2021	End-2020
1	0.00	0.01	0.0	0.0	0	0
2	0.01	0.03	0.9	0.7	1	1
3	0.03	0.06	1.1	1.2	3	3
4	0.06	0.14	5.5	5.9	11	11
5	0.14	0.31	10.7	11.0	28	27
6	0.31	0.63	22.4	22.4	62	58
7	0.63	1.90	16.5	18.4	87	85
8	1.90	7.98	4.3	5.2	94	92
9	7.98	25.70	0.1	0.2	94	92
10	25.70	99.99	2.9	4.0	98	98
11	100.00	100.00	1.2	1.5	100	100
Total			**65.7**	**70.7**	**100**	**100**

Shipping, oil and gas

The shipping, oil and gas portfolio includes customers in standard shipping segments (such as container, tank, bulk, gas freight and offshore-related activities like rigs/FPSO units) and suppliers and customers in the oil and gas segment covering exploration and production and oil services. Exposure to shipping customers relates primarily to vessel financing secured by vessel or fleet mortgages.

Shipping, oil and gas



At the end of 2021, gross credit exposure amounted to DKK 41 billion, down from DKK 46 billion at the end of 2020, driven by a weaker US dollar, loan repayments and write-offs. The shipping sub-segment decreased slightly from DKK 29.5 billion to DKK 28 billion with the largest decreases seen in the following segments: offshore – rigs/FPSO and shipping – gas tankers. The oil and gas sub-segment dropped from DKK 16.5 billion to DKK 13 billion during the same period.

Developments in the shipping, oil and gas portfolio

	Key figures					Non-performing loans		
(DKK millions)	Gross credit exposure	Expected credit loss	Write-offs	Loan loss ratio (%)	Collateral (after haircuts)	Gross exposure	Share of total segment exposure (%)	Coverage ratio (%)
End-2020	46,018	2,942	3,335	9.06	23,408	6,509	14	96
End-2021	41,066	2,830	736	0.89	20,125	5,728	14	100

In 2020, the portfolio was negatively affected by lower and more volatile oil prices, introduced by increased supply that was met by lower demand. Oil prices returned to higher levels during 2021.

Global trade is returning from the COVID-19 lows with both supply and demand pushing up earnings. Trade disruption is effectively lowering vessel supply while the demand for consumer goods, economic stimulus and infrastructure investments are increasing demand in the shipping, oil and gas segment.

Shipping, oil and gas portfolio – net credit exposure broken down by rating category

	PD scale (%)		Net credit exposure (DKK billions)		Net credit exposure (% accumulated)	
Rating category	Upper	Lower	End-2021	End-2020	End-2021	End-2020
1	0.00	0.01	0.0	0.0	0	0
2	0.01	0.03	0.0	0.0	0	0
3	0.03	0.06	1.2	2.7	3	6
4	0.06	0.14	9.0	5.4	27	19
5	0.14	0.31	6.0	11.3	42	45
6	0.31	0.63	9.8	7.2	68	62
7	0.63	1.90	6.6	8.0	85	80
8	1.90	7.98	0.2	0.5	86	82
9	7.98	25.70	0.0	0.0	86	82
10	25.70	99.99	3.4	5.5	95	94
11	100.00	100.00	1.9	2.5	100	100
Total			38.2	43.1	100	100

3.2.5 Lending to small and medium-sized enterprises (SMEs)

The Group's net credit exposure to SMEs amounted to DKK 567 billion at the end of 2021. It decreased by DKK 25 billion from the level at the end of 2020, driven by lower exposure to commercial property and financials. SME lending accounted for 21% of the Group's core lending activities. Mortgage lending to SMEs fell by DKK 9 billion (DKK 271 billion), and loan commitments declined by DKK 13 billion. At the same time, bank lending decreased from DKK 226 billion at the end of 2020 to DKK 214 billion at the end of 2021. Personal & Business Customers accounted for around 92% of the net credit exposure to SMEs, while most of the remaining exposure was shared between Northern Ireland (3.5%) and Large Corporates & Institutions (3.5%).

Net credit exposure to SMEs broken down by industry (core lending activities)

	Net credit exposure (DKK billions)		
	End-2021	End-2020	Index
Financials	21.8	27.1	34
Agriculture	55.2	59.5	86
Automotive	3.9	4.3	78
Capital goods	10.2	9.8	84
Commercial property	175.1	193.3	90
Construction and building materials	13.2	13.1	86
Consumer goods	10.2	9.9	71
Hotels, restaurants and leisure	5.7	5.8	88
Metals and mining	1.5	1.4	95
Other commercials	3.0	0.8	397
Pharma and medical devices	0.8	1.1	38
Private housing co-ops. and non-profit associations	198.4	198.7	98
Pulp, paper and chemicals	7.7	7.7	87
Retailing	5.9	5.6	93
Services	13.3	14.3	86
Shipping, oil and gas	2.7	2.4	79
Social services	13.0	14.6	82
Telecom and media	1.7	2.6	60
Transportation	5.8	6.0	72
Utilities and infrastructure	12.1	7.7	115
Personal customers	5.3	6.3	78
Total	**567**	**592**	**89**

3.3 IRB framework and model development

In 2008, the Danish Financial Supervisory Authority (the Danish FSA) approved the Group's application to use the advanced internal ratings-based (A-IRB) approach for calculating the total risk exposure amount (REA). At the end of December 2021, the Group's exposure at default (EAD) was DKK 2,918 billion, with 65.7% calculated according to the advanced IRB approach, 1.5% according to the foundation IRB approach (F-IRB), and 32.8% according to the standardised approach.

EAD broken down by credit risk measurement approach

Measurement approach	2021	2020	2019
Advanced IRB (%)	65.7	67.5	72.7
Foundation IRB (%)	1.5	1.7	1.9
Standardised (%)	32.8	30.8	25.4

3.3.1 Organisation of the IRB framework
The IRB framework is organised in teams dedicated to specific roles. This means that there are specific teams that consider the following:

- IRB model and framework development encompassing
  - probability of default (PD) model development (for scoring and rating models, respectively)
  - loss given default (LGD) and conversion factor (CF) model development
  - asset valuation model (AVM) development
  - maintenance of models, including data availability and quality
- rating of large customers
- credit REA calculations

These teams are anchored in organisational units that have no direct involvement in credit granting. Control mechanisms are incorporated in their processes. Deep-dive controls are described in section 3.3.4.

3.3.2 IRB exemptions
The Danish FSA has granted the Group exemptions for the following exposure types:

- exposure to the sovereign exposure class
- exposure to local/regional authorities
- exposure to public-sector entities
- exposure to churches and religious communities that raise taxes
- exposure to equities
- exposure to covered bonds in the banking book
- exposure to purchased receivables
- exposure to LR Kredit A/S
- exposure through branches in Estonia, Latvia and Lithuania[5]
- exposure within the Group (internally)
- exposure to the retail exposure class through branches in the Republic of Ireland
- exposures originated by the legal entities Northern Bank Limited (Northern Ireland), Danske Bank International (Luxembourg), and Danske Finance Plc (Finland)
- exposure to housing companies in Finland

3.3.3 Models in the IRB framework
The Group classifies customers by means of PD models and uses LGD models to estimate the loss on facilities in case of default. The CF models express a conservative estimate of EAD.

The Group uses the PD models to assess the probability of default of customers in various segments. Business and financial customers[6] are classified by rating models, while small business customers and personal customers are classified by scoring models. The rating models rely mainly on financial data and qualitative company characteristics. Rating officers may choose to adjust the modelled ratings if they have relevant information that is not covered by the models. In contrast, behavioural data is, to a wider extent, used as input in scoring models, which are therefore updated at a higher frequency than rating models. Most data originates from internal sources, but is sometimes acquired from external vendors. This includes external credit scores used as model input in some models. In general, the PD model framework generates conservative estimates.

The general drivers for differences observed between PD and actual default rates include changes in economic conditions and model drivers, portfolio population changes, and increased uncertainty surrounding low default or low customer count portfolios.

For regulatory purposes in relation to the REA, in the majority of the models, point-in-time (PIT) PDs are converted into through-the-cycle (TTC) PDs by means of a scaling mechanism that ensures fixed-target levels while preserving the customer rankings. TTC PDs take into account regulatory floors where applicable.

[5] Danske Bank's branches in the Baltic states no longer provide customer services.

[6] Customers with facilities exceeding DKK 2 million and customer groups with facilities exceeding DKK 7 million.

IRB PD models by exposure class

Exposure class		Classification process	Key model segmentation
Central governments and central banks		Permanent exemption from IRB	Permanent exemption from IRB
Institutions		1 rating model (hybrid)	Bank
Corporates excluding SMEs		1 scoring and 13 rating models (1 hybrid)	Several sub-segments with different characteristics; e.g. models differentiate between agriculture, non-profit customers, large corporates, insurance and property rental
Corporate SMEs		2 rating models	Sole proprietorships are handled separately from other corporate SME customers
Retail	SMEs Personal	10 scoring models 10 scoring models	Country-specific models for new and existing customers
Equities		Permanent exemption from IRB	Permanent exemption from IRB

Two models use a hybrid PD approach in which PDs are not scaled to fixed-target levels – the hybrid models serve specifically to accommodate the low-default characteristics of banks and large corporates.

The Group's LGD models are primarily statistically driven models, but parameters for low-default portfolios rely to a high degree on benchmarks, external data and expert opinions. CF models are statistically driven for the credit cards and credits portfolios, including the Student Loan product, while other portfolios are based on expert opinions and relevant input. For regulatory purposes, downturn LGDs and CFs are used, and they include regulatory floors and additional prudential margins. The downturn LGD parameter incorporates ongoing adjustments from collateral movements to ensure a stable level that reflects downturn conditions.

For more information about the use of models, see sections 3.1.6 and 3.1.7.

3.3.4 IRB framework monitoring

Group Risk Management reviews and follows up on compliance with the IRB minimum requirements of the Capital Requirements Regulation/Capital Requirements Directive.

The IRB governance structure and the modelling framework are evaluated regularly.

Reports on all changes and ongoing activities as well as reports on model performance and model risk status in relation to the IRB framework are prepared and shared with the committee structure. Several independent units also monitor the IRB framework, as described below.

Validation of credit risk models

Model validation is the main component for identifying model risk in the IRB framework. The Group has an internal framework for validating models. Model Risk Management owns the validation process and methodology and has a reporting line that is separate from the teams that develop, maintain and run IRB models. See section 8.2.5 for more information about model risk management. The validation framework comprises a set of processes and activities intended to verify that the models perform as expected. Model validation includes quantitative and qualitative aspects. Model validation reporting and escalation take place through the model risk committee structure chaired by the Group CRO in the second line of defence.

All new models included in the validation scope are subject to initial validation, while models in the production environment are validated at least once a year, independently of the business units and the team that develops the models. The current validation scope encompasses PD models for the rating and scoring of customers as well as LGD, CF and collateral value models. The validation scope also includes the framework across models, such as TTC calibration and downturn adjustment. As part of the validation, certain models are also assessed for purposes other than the IRB framework where this is relevant, such as expected credit loss and risk appetite calculations.

Changes to the IRB framework and the IRB audit process

The Group has a governance structure for all changes made to the IRB framework to ensure the right level of management attention. Depending on the materiality of the individual changes, a minimum level of evaluation, challenge and signoff is required from management and the relevant control units in the second and third lines of defence. The process involves relevant model owners, Model Risk Management, Group Internal Audit and the committee structure depending on the nature of the changes. Internal approval lies with the model owner.

Group Internal Audit, the Group's third line of defence, performs the independent audit of the IRB framework. The audit scope is determined from a risk- and control-based approach set out by Group Internal Audit. Group Internal Audit reports directly to the Board of Directors' Audit Committee and to the Board of Directors.

The Danish FSA and/or the local supervisory authority must approve material changes to the IRB framework. The Group is required to notify authorities of less material changes.

3.4 Counterparty credit risk management

Counterparty credit risk is the risk that the counterparty to a transaction defaults on obligations before the final settlement of the transaction's cash flows. Counterparty credit risk is a combination of credit risk (a deterioration in the creditworthiness of a counterparty) and market risk (the potential value of derivatives contracts).

The Danske Bank Group takes on counterparty credit risk when it enters into

- over-the-counter (OTC) derivatives
- securities financing transactions (SFTs)
- exchange-traded derivatives

The transaction types listed above derive their value from the performance of an underlying asset and have an associated future market value that may generate an exchange of payments or financial instruments depending on the terms of the transaction. The potential future exposure (PFE) value of those instruments fluctuates since the market value is related to the underlying market factors (such as foreign exchange (FX)/interest rate movements) and may thus shift between positive and negative levels.

The Group mitigates counterparty credit risk through pre-deal controls, post-deal monitoring, clearing, close-out netting agreements and collateral agreements. The Group incurs a financial loss if a counterparty defaults on obligations and the market value of the derivatives transactions is not covered after netting and the realisation of collateral.

At the customer level, counterparty credit risk is managed by means of PFE lines on a set of maturity buckets. Prior to trading, PFE lines are approved by the relevant credit unit. At the portfolio level, the Group uses additional metrics to help set and monitor counterparty credit risk appetite, including current exposure and exposure at default.

The Group has set limitations and introduced portfolio-level monitoring mechanisms. This includes monitoring wrong-way risk (the risk that arises when credit exposure to a counterparty increases while the counterparty's creditworthiness deteriorates), concentration risk and stress tests. The limitations cover the product range, the counterparty rating and the rating of the underlying securities.

The Group also manages its exposure to market risk on fair value adjustments (xVA), including credit value adjustments (CVA), under separate limits in the xVA framework as described in section 5, Market risk.

3.4.1 Governance and responsibilities

The Group organises its counterparty credit risk activities in line with the principles of the three-lines-of-defence model as defined in its enterprise risk management (ERM) framework.

Senior management oversees all financial risks in relation to trading activities and ensures that these risks remain within the Group's appetite. Furthermore, senior management serves as a platform between the first and the second lines of defence to discuss and escalate financial risks if necessary.

3.4.2 Methodologies and models

The Group uses a number of metrics to capture counterparty credit risk, including current exposure (CE), potential future exposure (PFE) value 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.

For risk management purposes, counterparty credit risk is measured as PFE at the 97.5% percentile for a set of future time horizons. All transactions are assumed to be held to contractual maturity.

The Group uses simulation-based models to calculate the potential future counterparty credit risk exposure. The models simulate the potential future market value of each counterparty portfolio of transactions while taking netting and collateral management agreements into account. For transactions not included in the internal simulation model (about 6%), the potential change in market value is determined as a percentage (add-on) of the nominal principal amount. The size of the add-on depends on the transaction type, maturity, currency and collateral coverage and is determined using a conservative approach to ensure estimation adequacy.

The Danish Financial Supervisory Authority (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 tables, which are available on Danske Bank's website at www.danskebank.com/investor-relations.

3.4.3 Monitoring and reporting

The Group carries out daily counterparty credit risk measurement and monitoring as well as intraday line utilisation monitoring. An overview of counterparty credit risk exposure is reported to the Executive Leadership Team and other senior management on a monthly basis.

The internal simulation model is subject to quarterly backtesting of the underlying risk factors and resulting exposures. It is also subject to an annual validation performed by an independent validation team.

3.4.4 Data and systems

The Group has an integrated system covering all aspects of counterparty credit risk management. The system is integrated with all trading systems, the master agreement management system, the collateral management system and market data systems.

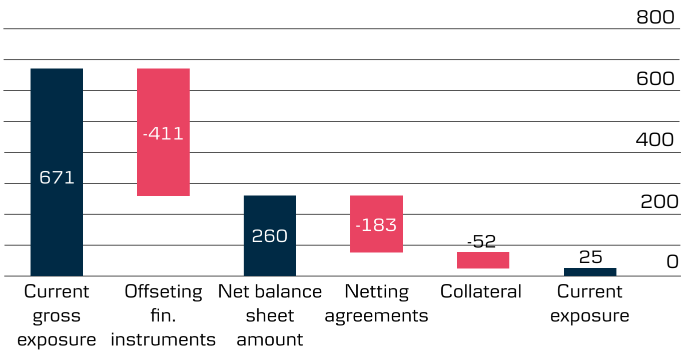
Internal management and monitoring of counterparty credit risk are performed in the Group's line system. The system covers all aspects of the internal counterparty credit risk management process, including the assignment of lines, monitoring and control of line utilisations, registration of master agreements, measurement, and management reporting.

3.5 Counterparty credit risk profile

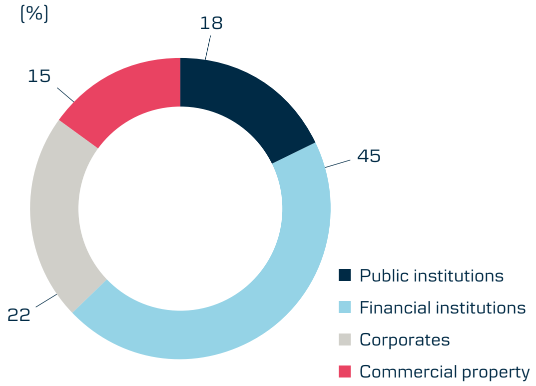
Exposures were lower at the end of 2021 than at the end of 2020. Current gross exposure is the total of all positive market values from transactions made before balance-sheet netting (netting effect) and collateral reduction (collateral effect). It is equivalent to the total amount of derivatives with positive fair value on the balance sheet. At the end of 2021, the Group's current gross exposure to derivatives was DKK 671 billion (end-December 2020: DKK 900 billion). When netting effects and collateral received are taken into account, the current exposure to derivatives was DKK 25 billion at the end of 2021 (end-December 2020: DKK 37 billion). The decrease in the current exposure from 2020 was due mainly to market movements.

Counterparty credit risk, current exposure

Mitigation of counterparty credit risk (derivatives only)
(DKK billions)



Breakdown of current exposure by segment
(%)



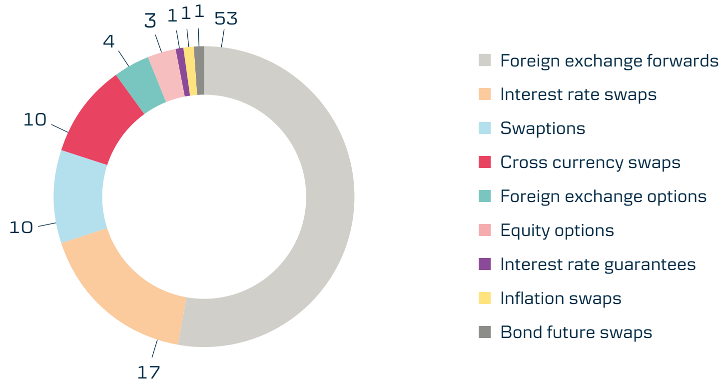
At the end of 2021, the financial institutions segment represented the Group's highest level of exposure (increasing to 45% from 33% in December 2020), while exposures to commercial property companies, corporates and public institutions were lower.

Until the end of 2021, the Group cleared around 68% of the total notional amount of derivatives transactions through central clearing counterparties and used collateral agreements to support around 94% of non-cleared transactions.

At the end of 2021, in trade count terms, the Group's non-cleared OTC derivatives were concentrated in interest rates and foreign exchange contracts, with foreign exchange forwards accounting for just above half of the trade count, cross currency swaps for 10% and interest rate swaps for about 17%. The remainder consisted of a broad range of primarily other plain vanilla products. The distribution was similar to the levels seen at the end of 2020.

The Group's trade count for all non-cleared OTC derivatives at the end of 2021

Breakdown of current exposure by segment
(%)



The following table shows the Group's current exposure to derivatives and SFTs after netting and collateral.

Current gross exposure and current exposure after netting and collateral

	2021			2020		
At 31 December (DKK millions)	Total	Derivatives	SFTs	Total	Derivatives	SFTs
Current gross exposure	676,787	670,662	6,125	905,600	899,739	5,862
Current exposure after netting	81,626	76,829	4,796	114,248	109,601	4,647
Current exposure after netting and collateral	30,586	25,209	5,377	43,430	37,027	6,403

Note: Current exposure figures for SFTs include both assets (reverse repos) and liabilities (repos). Furthermore, the current gross exposure for SFTs is net of the underlying securities. Consequently, the figures are not directly comparable with the exposure figures shown in the Group's Annual Report 2021 and in section 3.2 of this report.

At the end of 2021, some 65% of the Group's collateral agreement holdings consisted of cash. The remainder consisted mainly of Danish mortgage bonds and government bonds issued by Denmark, France and Germany.

The following table breaks down the Group's current exposure after netting and collateral by rating category.

Current exposure by rating category

	2021			2020		
At 31 December (DKK millions)	Total	Derivatives	SFTs	Total	Derivatives	SFTs
1	6,532	4,685	1,848	9,224	7,815	1,408
2	2,967	2,686	281	5,690	3,319	2,371
3	12,666	9,549	3,117	11,376	8,878	2,498
4	2,771	2,695	76	4,975	4,942	33
5	3,673	3,621	52	6,540	6,452	87
6	1,019	1,019	0	3,426	3,421	5
7	688	686	3	1,309	1,309	0
8	84	84	0	409	409	0
9	19	19	0	27	27	0
10	115	115	0	375	375	0
11	51	51	0	81	81	0
Total	**30,586**	**25,209**	**5,377**	**43,430**	**37,027**	**6,403**

At the end of 2021, the credit quality of the Group's counterparty credit risk remained strong with around 94% of the exposure relating to counterparties with a classification comparable to an investment grade rating.

Sustainability risk

4.

4.1 Sustainability risk management

The Group is subject to sustainability-related risks from its own operations and from the activities of its customers and the companies in which it invests on behalf of its customers. Managing sustainability-related risks is therefore key to the Group's risk strategy and purpose, and the Group plays an integral role in society to support and finance the necessary transition towards a low-carbon economy in the Nordic countries.

The Group defines sustainability risk as the risk of a significant negative impact on the Group as a result of current or future environmental, social and governance (ESG) events or conditions. Sustainability risk is considered a cross-cutting risk driver in the Group's risk taxonomy. This means that sustainability may pose an additional source or further intensify the principal risks that the Group is already facing.

In order to determine the areas in which the Group is most materially exposed to sustainability-related risks, the Group uses a sustainability risk inventory to outline the ways in which ESG risks can intensify financial and non-financial risks. Taking a risk-based approach, the Group prioritises its efforts to manage sustainability risks in areas in which financial materiality is deemed to be high. The inventory is reviewed on an ongoing basis due to the fast evolving sustainability space.

The Group's enterprise risk management framework was enhanced in 2021 in order to reflect the cross-cutting management of sustainability and to outline roles and responsibilities in accordance with the principles of the three-lines-of-defence model. The update also led to the initial integration of sustainability into the group-wide risk appetite statements applicable from 1 January 2022 and to the establishment of aggregate reporting on sustainability risk in the monthly CRO Letter to monitor the most material risks on a monthly basis.

4.2 Sustainability risk management in relation to financial risks

From a group perspective, credit risk is deemed to be the risk type most materially affected by sustainability in the long term. Other financial risks are mostly deemed to be of low or medium materiality at the moment. In 2021, the Group conducted initial assessments to determine risk management needs for both market and liquidity risk, including looking into further stress testing needs to be added to existing stress scenarios if required. The Group will continue to monitor risk management enhancements in the coming years across the financial risks.

4.2.1 Sustainability risk management in relation to credit risk

With regard to credit risk, the process of managing sustainability risk is laid out in a number of frameworks and policies. At the core, the Group publishes its viewpoints on a number of sustainability themes in position statements that outline the Group's expectations for the businesses that it grants loans to and invests in. These position statements cover segments that are particularly exposed to ESG risks (agriculture, fossil fuels, mining and metals, and forestry). The outlined restrictions in the position statements are further integrated into the Group's credit risk policy as specific policy requirements to ensure proper governance in the daily credit processes. In order to ensure oversight of the principles specified in the Group's Credit Risk Policy, sustainability-related risks are further identified, assessed and managed through due diligence and relevant risk processes at both the customer and portfolio levels.

At the customer level, relationship managers use a digital system to identify the customers' ESG risk level through a set of environmental, social and governance questions for both new and existing business customers. These questions are tailored to fit sector-specific ESG risks when deemed necessary. Assigning an ESG risk level to all business customers enables the Group to monitor the overall ESG risk level. The customer-level ESG risk assessments serve as an input factor in the overall credit decision process.

In 2021, around 30% of the Group's business exposures (excluding financial and public institutions) were ESG-assessed, and the rollout of the system will continue to ensure full coverage of relevant customer segments. The new features developed in 2021 included a targeted set of questions for commercial property customers and detailed assessment criteria for the fossil fuels sectors as a result of a tightening of the Group's position statement. The ESG assessment system will continuously be developed. The bottom-up customer assessments will increasingly be tied to the top-down portfolio risk management efforts to ensure a consistent feedback loop between strategic and customer considerations, especially with regards to the Group's climate risk management.

At the portfolio level, ESG risks are identified, assessed and monitored through annual industry reviews. Thus, the Group's key portfolios are further assessed in terms of sustainability-related risks. This includes making in-depth assessments at a sub-industry level and screening the largest customers using external data providers and other sources. This enables the Group to map the most material ESG risks facing the individual portfolios, monitor aggregate risk levels on an ongoing basis, and identify further credit risk policy requirements. When deemed necessary, the ESG risk findings are integrated into the credit risk appetite to allow for portfolio management.

In 2021, the portfolio assessments showed that sectors such as construction and building materials; shipping, oil and gas; agriculture; and consumer goods vary in respect of exposure to different environmental, social, and governance risks. For non-climate-related risks, the Group continues to evaluate the exposure strategies for the industries and the need for a potential tightening of assessment criteria in the credit process. For climate-related risks, a tightening of credit risk appetite was approved for the utilities, oil and gas, and agriculture sectors for 2022.

Climate risk management

Of all ESG-related drivers capable of impacting the Group's credit risk, climate risk is currently the most prioritised driver for which risk practices are being further enhanced in accordance with regulatory developments. Climate risk pertains to transition risks, which are risks associated with shifting to a low-carbon economy, and to physical risks arising from projected climate changes such as weather-related hazards. In future, credit risk will be affected by both of these climate-related risks.

While climate risk impacts society and the economy in many ways, the Group takes a risk-based approach in prioritising risk management efforts for sectors that are likely to be most exposed to transition and physical risks. For that purpose, a climate risk heat map has been designed and further refined in order to define the size of the Group's exposure to climate risk from a financial materiality perspective.

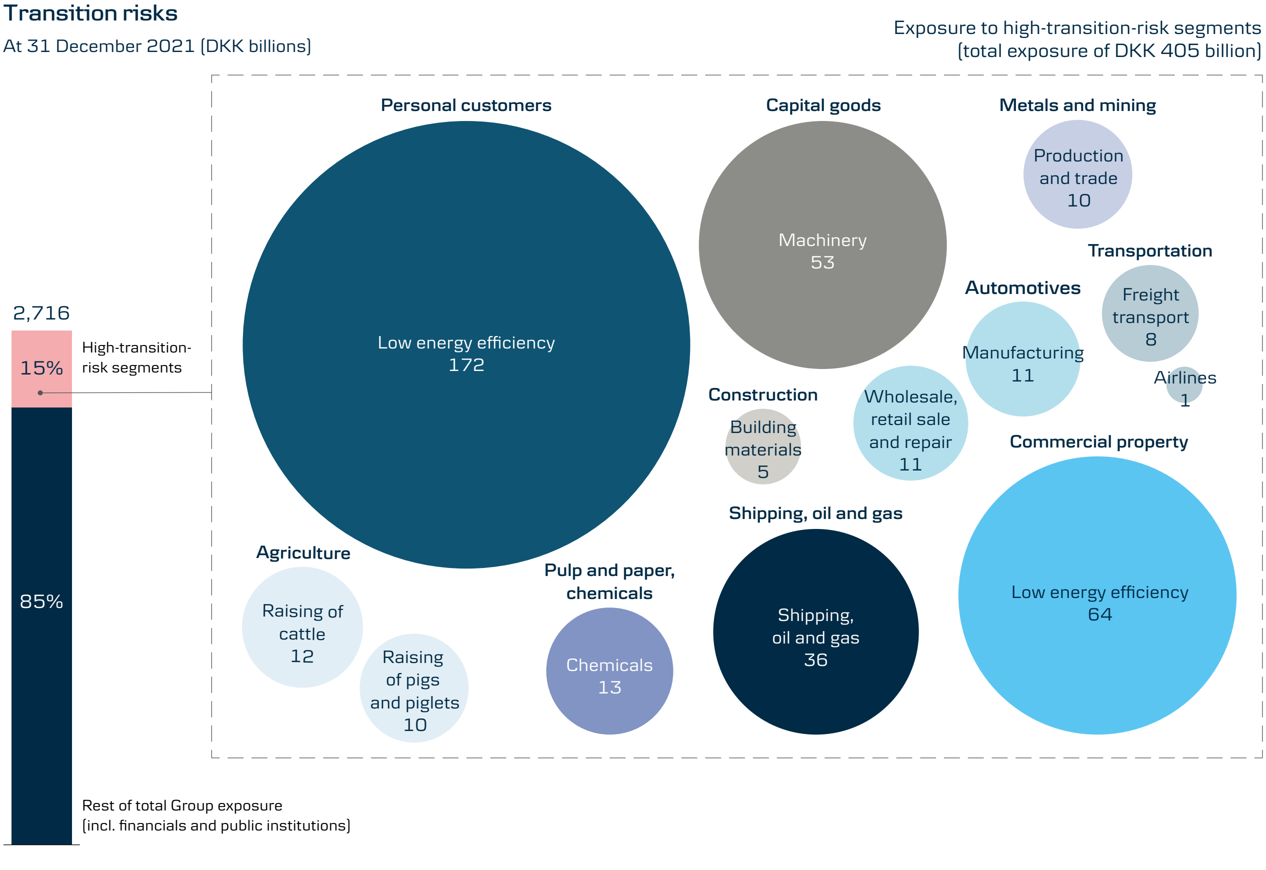
Climate risk heat map

The segments 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 (or 18% of non-financial business and personal customer exposures). Initial assessment of high-risk segments is based on qualitative input and existing carbon footprint estimates. Further refinement to identify high-transition-risk exposure relies on the Group's ongoing project to measure the carbon footprint of the total lending portfolio. In particular, the Group expects to obtain more clarity of customers' transition plans in order to further enhance this process in respect of some of these segments as the performance of customers within their industries becomes clearer. As an overall conclusion, the Group expects the impacts from transition risk to materialise more quickly outside the real estate sector in the longer run. In the real estate segments, most of the risk relates to personal customer mortgages.

As part of the Group's climate efforts to help support the necessary transition in the Nordic countries, the Group will continue to set strategies and targets in order to manage the transition risk associated with the loan portfolio. This includes financing customers that are in the process of preparing for and undertaking the necessary transition as well as identifying customers that need to speed up their transition plans. Managing transition risk is therefore an integral part of the Group's climate efforts. See the Group's Sustainability Report 2021 for more information about the Group's climate transition strategies.

Transition risks

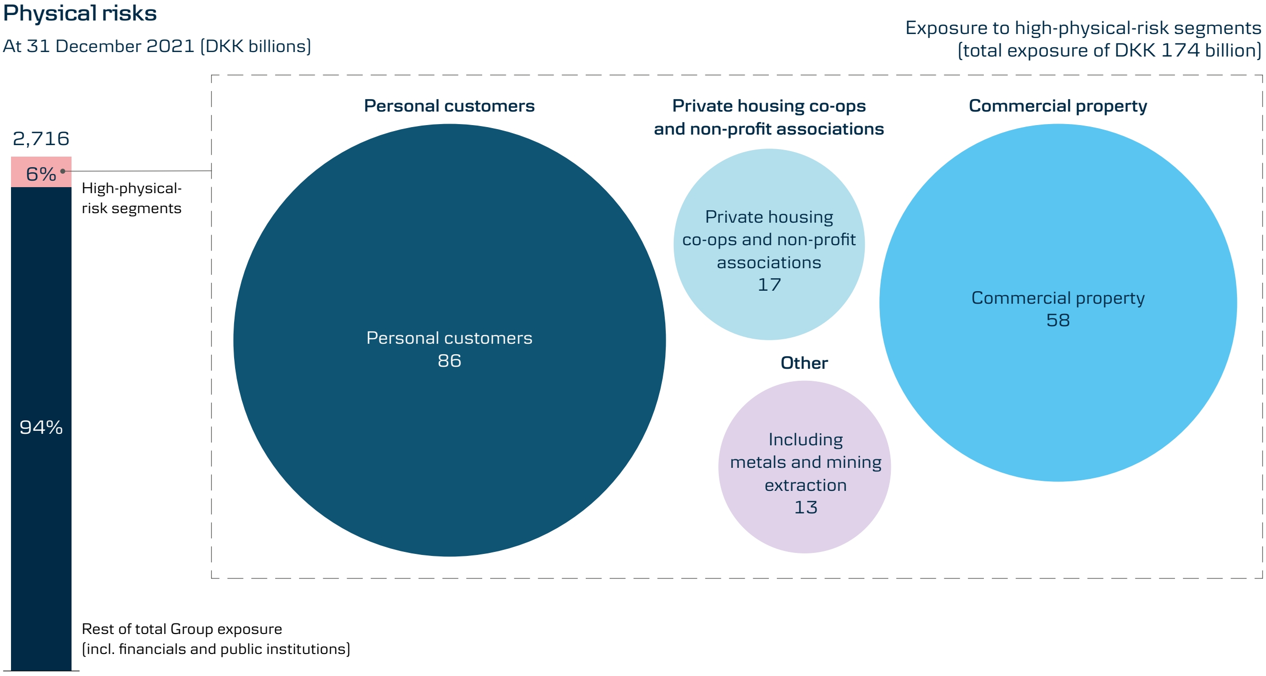
At 31 December 2021 (DKK billions)



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 exposure amounting to around 6% of the Group's total lending activities (or around 8% of non-financial business and personal customer exposures). The exposure related to high physical risks includes non-collateralised exposure only to a limited extent.

Physical risks

At 31 December 2021 (DKK billions)



The Group will continue to refine the heat map as more climate risk data becomes available to support the identification of both transition and physical risks. Therefore, the percentage of high-climate-risk exposure is likely to be adjusted as the Group gains further insights. What is key to note in this respect is that the heat map gives an indication of the size of the exposure at risk and not the expected stress impacts such as impairment charges. Such quantitative measures are to be assessed through scenario analysis and future stress testing.

Climate scenario analysis

Using the climate risk heat map, the Group has started to perform scenario analyses for the sectors most sensitive to climate risk. This is done in order to determine the future resilience of the Group's portfolios and to help identify if risk-mitigating efforts are needed for specific portfolios. It is important to note that scenario analyses rely on forward-looking parameters and longer time horizons, implying a higher level of uncertainty than standard forms of stress testing. In 2021, the oil and gas transition risk analysis from 2020 was expanded with the newest scenarios from the Network for Greening the Financial System (NGFS) and the International Energy Agency (IEA). Given various net zero scenarios, the transition risk is set to increase for this portfolio. Furthermore, a transition risk assessment was also conducted for the commercial property portfolio in Denmark using carbon emission data. This assessment showed that fossil fuel-based heating sources make up a very limited proportion of the exposure. Finally, the transition risk scenario analysis was also updated for the agriculture portfolio using the NGFS scenarios to assess the long-term impact on customers and their probability of default when production demand, product prices and carbon prices are adjusted. Results showed a high sensitivity towards carbon taxes, especially towards livestock. Risk appetite adjustments are in place for 2022. The physical risk assessment of flooding risk in Denmark from 2020 was also expanded to include more of the Nordic market areas, and efforts are currently being made to further enhance the process. In addition, important steps were taken to collect data needed for future physical risk assessments.

The scenario analyses are performed in alignment with the recommendations of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD). The Group endorsed these recommendations in 2018. For more details on the Group's TCFD-related disclosures, see the Climate and TCFD progress update (released in June 2021) and the Group's Sustainability Report 2021.

4.3 Sustainability risk management in relation to non-financial risks

From a group perspective, non-financial risks most materially affected by sustainability drivers relate specifically to practices for products and services. Much of the ongoing work in this area relates to the implementation of new regulatory requirements for investment products and services. This includes taking account of sustainability risks and adverse impacts, categorising Article 8 and 9 investment products (as outlined in the Sustainable Finance Disclosure Regulation) and identifying customers' sustainability preferences (as outlined in MiFID II). A key area identified for further enhancement in relation to sustainability risks is the Group's wider product governance. Relevant policies to incorporate sustainability risk have also been identified for amendment.

Furthermore, recent commercial and regulatory developments have highlighted the need for more focus than before to guide the organisation on how to manage or integrate sustainability risks into current non-financial risk management processes. Given the importance of sustainability risks to the Group's strategy and in light of the regulatory focus, risk management functions are increasingly involved in the Group's overall work on position statements, group-wide commitments and strategic targets. This provides additional oversight to ensure that targets are set on the basis of sound methodologies. Moreover, complexities are understood and addressed from a risk perspective. The expectations for sufficient oversight of non-financial risk management are likely to increase in the coming years and will be assessed through the sustainability risk inventory on an ongoing basis.

Market risk

5.

5.1 Market risk management

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 on 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
- fair value adjustments (xVA) at Large Corporates & Institutions
- 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 relation to the non-trading portfolio is managed by Group Finance.

The market risk at Danica Pension is managed separately. For more detailed information, see section 7, Insurance and pension risk.

5.1.1 Governance and responsibilities

The Market Risk Policy set by the Board of Directors lays out the overall framework for market risk management and identifies the boundaries within which the Group's market risk profile and business strategy are defined. The policy also defines the overall limits for various market risk factors and additional boundaries within which trading activities are performed. Environmental, social and governance (ESG) risks are considered drivers of existing market risk categories and cover company-specific equity risk.

Market risks are managed by Large Corporates & Institutions, Group Treasury and Group Finance (the first line of defence) through implementation of the Market Risk Policy into standard operating procedures and the control environment. Interest rate risks in relation to other business units are transferred to and managed by Group Treasury. The units own, identify and manage the market risks and perform operational and managerial controls in the day-to-day risk management.

Market & Liquidity Risk (the second line of defence) at Group Risk Management owns the market risk framework and is in charge of market risk oversight and control of the first-line-of-defence units. Market & Liquidity Risk is responsible for developing and maintaining the Market Risk Policy and the market risk framework. The Group's market risk appetite is incorporated in the Market Risk Policy.

Oversight and control processes at Market & Liquidity Risk encompass current and emerging risk monitoring, limit control, portfolio analysis, stress testing, reporting to senior management and challenging the risk management practices performed by the first-line-of-defence units. Group Finance is accountable for the independent price verification (IPV) framework, prudent valuation and profit and loss (P/L) control.

5.1.2 Risk identification and assessment

The Group markets, trades in and takes positions in products entailing a variety of market risks. Most of the Group's market risks originate from relatively simple products. The Group does not take on material risk exposure to complex securitisation instruments for which it cannot measure and monitor the embedded market risks.

New initiatives and products are systematically reviewed in relation to the current product and market risk models. New products and business proposals are assessed in relation to current risk management practices and IT systems before final approval.

Furthermore, the Group may identify a need to take into account new risk factors (for example through a review of the Group's business strategy) or financial market developments like the current IBOR reform. Additional metrics and limits may thus be necessary if the Group wants to expand its business into specific products or instruments.

5.1.3 Market risk appetite
The Group has set a risk appetite for its trading portfolio covering trading-related market risk and xVA-related market risk. The trading-related market risk appetite and the xVA-related market risk appetite determine how much the Group is prepared to lose on its exposure over a period of one year in a severely stressed market environment. The risk appetite is based on the Group's business strategy, the expected future market environment and the expected earnings.

The Group's exposure to market risks in the non-trading portfolio is managed according to a set of risk appetites for interest rate risk in the banking book (both economic value and net interest income), credit spread risk in the banking book, structural foreign exchange risk and pension risk.

The market risk appetite is approved by the Board of Directors and reassessed at least once a year. In addition, the Board of Directors has defined limits that support daily market risk management in keeping with the above-mentioned risk appetite.

5.1.4 Limit framework
Market risk limits are set in terms of various metrics so that activities subject to market risk are covered from several perspectives. The Group operates with three levels in the limit hierarchy for market risk (encompassing trading-related, xVA-related and non-trading portfolio market risks):

1. Board limits
2. All Risk Committee limits
3. Detailed operational limits

Board limits are set by the Board of Directors in the Market Risk Policy. This document defines overall limits for material risk factors. The overall limits are supplemented by Value-at-Risk (VaR) and Stressed Value-at-Risk (SVaR) limits for trading-related market risk. The Group All Risk Committee delegates the Board limits to business units and assigns additional limits for less significant risk factors. Detailed operational limits for trading-related market risk are set at business unit and trading section levels for relevant risk categories and metrics. The operational limit structure is sufficiently granular to facilitate effective control of market risk and to provide an overview and understanding of activities undertaken by the various units.

5.1.5 Monitoring and reporting
The Group carries out market risk controlling and reporting on a daily basis. The controlling process involves continuous intraday monitoring of limit utilisations with a full portfolio update every 30 minutes. The monitoring system is linked directly to front-office trading systems and automatically flags any limit breach. The business units and trading sections must comply with limits at all times. If a limit is breached, the unit responsible must document the cause and submit an action plan to rectify the situation. All limit breaches are reported to the relevant authority within the limit structure.

The Group produces a range of internal market risk reports and provides input for other internal and external reports in which market risk monitoring is presented.

The Board of Directors and senior management regularly receive reports that provide an overview of the Group's portfolios, main risk drivers and stress testing results for decision-making purposes. Furthermore, detailed reporting (on a daily and weekly basis) provides granular metrics to senior management at Large Corporates & Institutions and Group Treasury for day-to-day risk management purposes.

5.1.6 Portfolio analysis and stress testing
The Group performs market risk portfolio analyses and stress testing on a regular basis and in relation to specific events in trading and financial markets.

On a monthly basis, the Group analyses the overall relationship between market risk and income for the trading sections at Large Corporates & Institutions. Furthermore, this relationship is analysed in more detail on an ad hoc basis as input for the risk identification process and to obtain a detailed insight into the risk management practices of the trading sections.

The market risk stress testing programme is designed to underpin prudent market risk management. Efforts are made to ensure that the net effect under various stressed conditions is taken into account in the risk assessment and monitoring processes.

The purpose of market risk stress testing is to

- assess the adequacy of the Group's financial resources for periods of severe stress and develop market-risk-related contingency plans for the Group if the need arises
- validate and influence the process of setting the market risk appetite and limits to ensure that the Group's market risk mandate remains viable in a changing business environment
- provide a supplement to the ongoing quality assurance for market risk management practices, including identification of risks that may not be appropriately captured by internal models (that is, model risk)
- provide additional perspectives on and insights into market risk by identifying current and potential vulnerabilities
- instigate discussions on existing and potential risks as well as on possible management actions
- raise awareness of the largest market risk-related exposures

The stress testing programme provides additional perspectives on market risk by applying multiple methodologies with various severities. The complexity of the methodology ranges from simple sensitivity analyses to complex scenario stress testing proportionally suited to the purpose of the individual stress test. In general, the Group's stress testing practices can be divided into the following three categories: 1) scenario analysis, which stresses risk factors on an individual and collective basis without relating the change(s) to a specific event (single-factor and multiple-factor stress tests); 2) scenario stress testing, which assesses the consequences of specific events covering hypothetical and historical shocks to multiple risk factors simultaneously; and 3) reverse stress testing, which identifies extreme but plausible single- or two-factor scenarios that could result in significant adverse outcomes that may potentially threaten the viability of the business model or the set market risk appetite.

5.2 Methodologies and models

The Group uses a range of measures forming a framework that captures the material market risks to which the Group is exposed. Both conventional risk measures, such as sensitivity and market value, and mathematical and statistical measures, such as VaR, are used in day-to-day market risk management.

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

5.2.1 Value-at-Risk

The current internal market risk model was approved by the Danish Financial Supervisory Authority (the Danish FSA) in 2007 and has since then been used for the calculation of regulatory capital for the Danske Bank Group and Danske Bank A/S. The model covers interest rate risk, equity market risk and exchange rate risk. At the end of 2011, the model was approved to cover interest rate basis risk, interest rate volatility risk and inflation risk. In 2015, the model was further approved to include bond-specific risk and equity-specific risk. At the same time, the Group's incremental risk model (see section 5.2.2) was significantly enhanced and subsequently included in the framework. Consequently, the Group's internal model is enhanced on an ongoing basis to cater for new risk factors and products, for example.

VaR is a quantitative measure that shows, with a certain probability, the maximum potential loss that the Group may suffer within a specified holding period.

In the day-to-day risk management of trading-related positions, the internal VaR model estimates the maximum potential loss from changes in market risk factors assuming unchanged positions for one day.

In general, a VaR model estimates a portfolio's aggregate market risk by incorporating a range of risk factors and assets. As a result, the VaR measure takes portfolio diversification or hedging activities into account. VaR has well-known limitations, and the Group has a comprehensive stress testing programme in place to mitigate these limitations.

All figures are calculated and reported internally on a daily basis. Figures are calculated using full revaluations in all their details by using primarily the front-office valuation models.

The VaR used for risk monitoring and capital requirement calculations is based on two-year sliding historical data, and each calculation is based on 1,000 scenarios using bootstrapping of one-day returns. Scenarios are time-weighted – 70% of all scenarios are based on the most recent one-year period.

Risk-factor returns are calculated as absolute returns for spreads and volatilities and as proportional returns for equities and foreign exchange. A mixed approach is used for interest rates.

The SVaR used for risk monitoring and capital requirement calculations is calculated using a holding period and historical data from a continued 12-month period of significant financial stress. Scenarios are equally weighted.

A structured approach is used for identifying the historical period representing a significant stress in relation to capital requirements. The historical period is identified by running the full VaR model over a comprehensive historical period starting in 2008 to identify the 12-month period that produces the highest VaR for the trading book and the current portfolio. On this basis, the periods with the highest level of stress are identified and analysed in more detail in order to validate the period to be used for calculating SVaR for capital requirements.

For most of 2021, the financial crisis period running from September 2008 to September 2009 was used for calculating SVaR for the trading book. However, for two short periods during January and from November to mid-December 2021, the stress period was changed to the COVID-19 crisis period running from February 2020 to February 2021.

In addition to SVaR for capital requirements, the Group also calculates SVaR for internal limit purposes on the basis of the period from September 2008 to September 2009.

The following table provides an overview of the VaR and SVaR measures used for risk monitoring and capital requirement calculations.

Value-at-Risk model

Value-at-Risk	Risk monitoring: VaR limit	Risk monitoring: SVaR limit	Capital requirement: VaR	Capital requirement: SVaR	Backtesting
Percentile	95	95	99	99	99
Holding period	1 day	1 day	10 days	10 days	1 day
Historical data used	2 years	1year	2 years	1 year	1 year
Period	Recent	Financial crisis (2008-2009)	Recent	1-year period of significant financial stress relevant to the Group's trading book	Recent

Backtesting of the internal VaR model

Regulatory backtesting is conducted on a daily basis to document the performance of the internal VaR model. The backtesting procedure compares calculated one-day VaR on trading book positions with actual and hypothetical P/L results.

Definition of actual and hypothetical profit and loss

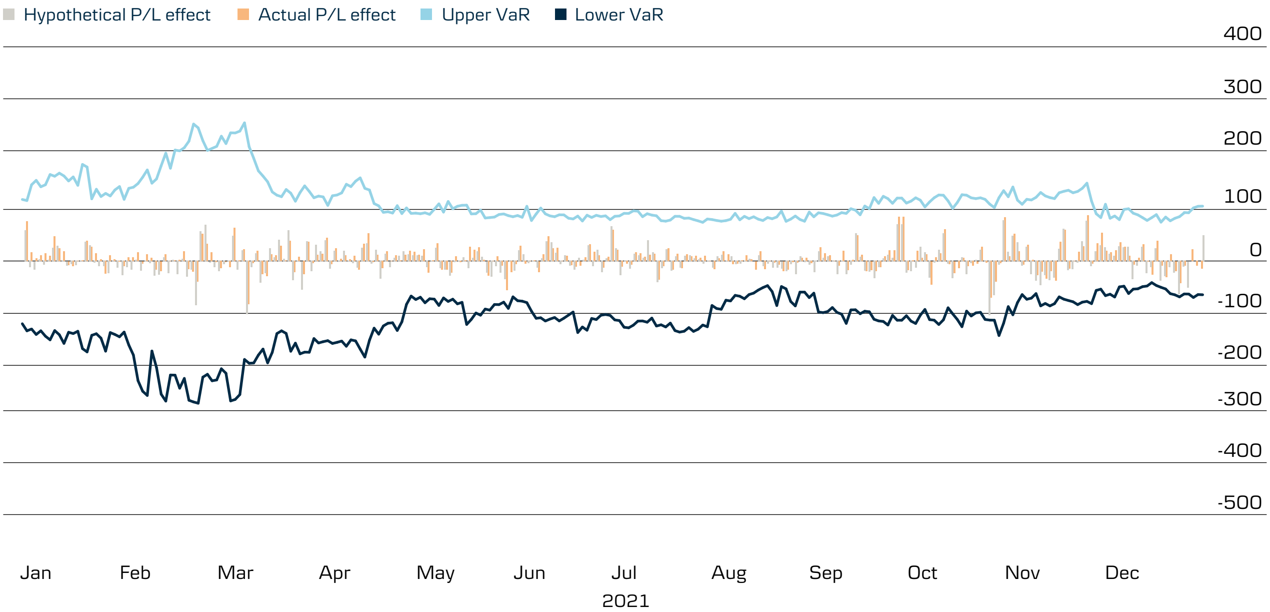
Actual P/L is defined as the loss or gain from actual changes in the market value of the trading book when daily closing values are compared with the subsequent business day's closing values (that is, intraday trades on the subsequent business day are included).

Hypothetical P/L is defined as the loss or gain calculated within the model framework as a result of keeping the portfolio unchanged for one business day (that is, no intraday trades are included although market prices change).

If the hypothetical or actual loss exceeds the predicted possible loss (VaR), an exception has occurred. Since the VaR figures used for backtesting are based on a confidence level of 99% (as in the calculation of regulatory capital), the expected number of exceptions per year is two or three. Backtesting results for 2021 are shown in the chart below.

Backtest results and P/L effect

(DKK millions)



The backtesting of the internal VaR model showed no exceptions in hypothetical P/L and actual P/L in 2021.

5.2.2 Incremental risk

The incremental risk model captures rating migration and default risk on a one-year horizon for all instruments subject to specific interest rate risk: bonds, mortgage-backed securities, bond futures and options, mortgage bond futures and credit default swaps (CDS).

The model estimates a P/L distribution through Monte Carlo simulations of credit events for all issuers based on transition matrices. A total of 200,000 scenarios are used.

The correlation between issuers is captured by using a one-factor Gaussian copula. The correlation parameter is estimated annually on the basis of pairwise correlations of bond and CDS spread time series.

Ratings and transition matrices used in the model are based on information from the major rating agencies. Ratings are updated on an ongoing basis, while transition matrices are updated annually. A constant liquidity horizon of one year is used for all instruments.

A cross-sectional model including factors such as rating, sector, region and maturity is used for the translation of simulated rating migrations to corresponding spread changes. The model is recalibrated annually.

5.2.3 Regulatory capital for market risk

The minimum capital requirement for market risk is measured on the basis of positions in the trading book. Approved by the head of Market & Liquidity Risk and subsequently endorsed by the Group Asset & Liability Committee (Group ALCO), the Regulatory Trading Book Instructions ensures that market risk positions at the Danske Bank Group are labelled and handled either as regulatory trading book positions or as regulatory banking book positions in accordance with regulatory requirements. The trading book covers trading-related market risk at Large Corporates & Institutions and hedging in relation to fair value adjustments of interest rate risk and the part of the CDS spread hedges not included in the risk exposure amount calculations for credit value adjustment (CVA) risk (see below).

The Group uses mainly 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 VaR and SVaR components of the REA are measured as the maximum of the period-end value and the average value of the preceding 60 business days multiplied by a VaR multiplier. The VaR multiplier is dependent on the number of backtesting exceptions in the preceding 250-business-day window. When the number of exceptions is larger than four, the multiplier increases gradually from three to a maximum of four when 10 exceptions occur within the 250-business-day window. At 31 December 2021, the multiplier was three since the Group did not experience any regulatory backtesting exceptions. In addition, the Danish FSA has set a model multiplier of 0.5 that must be added to the VaR multiplier to accommodate any uncertainties or imperfections in the Group's internal VaR model. In total, the multiplier used for the VaR and SVaR capital charges was 3.5 at the end of 2021.

The IRC component is measured as the maximum of the most recent IRC value and the average of the IRC number during the preceding 12 weeks.

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 on the basis of the internal VaR model using 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.

5.2.4 Model validation

The Group conducts a variety of activities to ensure well-performing models in the market, counterparty credit and liquidity risk areas.

A key activity is the validation of new models and annual re-validation of existing models. An independent validation team within Model Risk Management carries out the validation of internal models used for the regulatory capital calculations, including the validation of material changes to existing internal models and recurring validations of major model assumptions. See section 8.2.5 for more information about model risk management.

The validation and ongoing control processes are anchored internally in the Group's Model Risk Policy, which sets out the principles and standards for the Group's model risk management. The purpose of the validation process is to assess, independently of the model owner and developer, whether the accuracy of the model is satisfactory and the model meets relevant regulatory requirements.

Model validation activities can be divided into the following:

- validation of models used for the valuation of over-the-counter products and calculation of market risk sensitivities for fair value positions
- validation of behavioural models used for the calculation of interest rate risk in the banking book, initial margin models and liquidity risk models
- validation of internal models used for the calculation of regulatory capital for market and counterparty credit risks

In addition to model validation, the Group has established an ongoing model monitoring process (such as backtests of the initial margin model and controls of the continued validity of model assumptions) in which the crossing of specific thresholds triggers targeted review activities and escalation. The internal VaR model is also monitored on an ongoing basis. The activities include an annual review of the model in accordance with regulatory requirements, quarterly risk factor reviews, and daily backtesting of the model. The quarterly risk factor reviews include an assessment of the materiality of risk factors that are not included in the model. Currently, the internal VaR model for risk monitoring includes all significant risk factors.

5.3 Data and systems

IT systems pertaining to market risk are highly integrated within the Group. Traders and customers book trades directly in the relevant trade-entry systems. The trade-entry systems are connected to the operational systems and enriched with additional static, market and reference data. The operational systems feed both risk and finance systems. The Group performs an extensive set of regular reconciliations across the system portfolio.

5.3.1 Systems integration

The Group's front-office trade-entry systems are designed to capture all trade types used by the Group. Only necessary trade-related data is entered into the trade-entry systems. Product, customer and other related static data is maintained in the Group's Master Files. Trading data is automatically fed into the Group's operational layers of other related systems (straight-through processing). Since all systems and their processes have been designed to support straight-through processing, only exceptions need to be handled manually.

In addition, trades from systems configured for straight-through processing are regularly monitored in order to identify trades that require manual intervention. Monitoring is part of the back and middle office processes. Extensive reconciliation between the Group's internal systems and external accounts is performed on a regular basis.

5.4 Market risk profile

5.4.1 Trading-related market risk at Large Corporates & Institutions

The activities that involve market risk in the trading portfolio derive mainly from the Group's initiatives to provide investment and hedging products to the full range of customers. In particular, principal risk-taking is a key element in serving the Group's largest corporate and institutional clients. The Group operates mainly in the Nordic markets and in selected international markets in the eurozone.

The strategic focus is to provide global fixed income, currency and capital market products to institutional and corporate clients in the Nordic countries and to offer local Nordic products to global customers. Principal risk-taking takes place mainly in fixed income products. Advanced derivatives are traded mainly with professional customers, while simple products are distributed to retail and commercial customers.

The Group's business activities involve a natural flow of various currencies. These are primarily currencies related to the Group's domestic markets in the Nordic region. They include all major currencies in support of Nordic customers and, to a lesser extent, other currencies requested by customers in these areas. However, taking on foreign exchange risk is limited relative to the market risk derived from interest rates.

One business objective is to provide liquidity and engage in market making etc. in equity-related assets. The objective is to have a leading market position in the Nordic equity market. The Group's equity market risk is limited as compared with the market risk derived from interest rates. The Group is currently winding down a legacy commodity OTC derivatives book. As part of this process, the Group has reduced market risk to an insignificant level since it does not want to take on material commodity market risk. In the long term, the Group wants to assume only very limited market risk in oil futures as a hedging tool for the inflation trading book. The Group is not allowed to take physical positions in any commodity.

The table below lists the Value-at-Risk for trading-related activities at Large Corporates & Institutions.

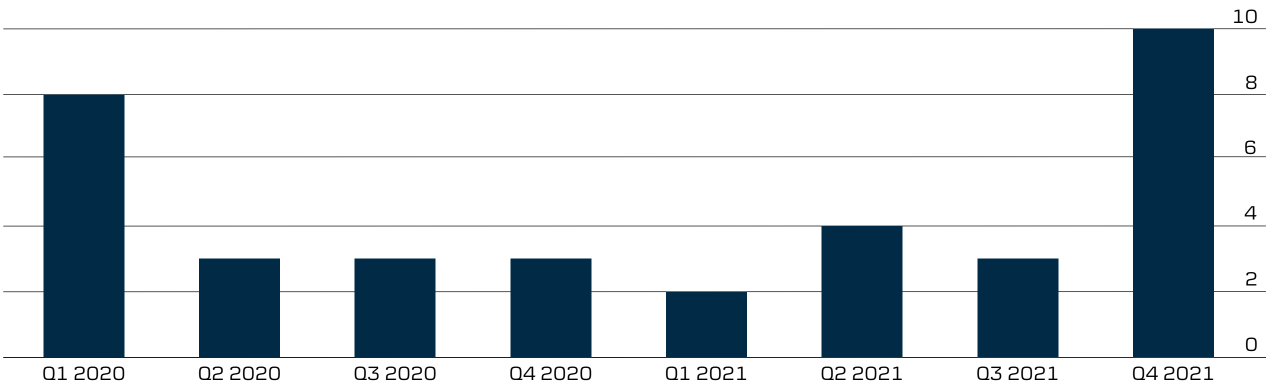
Value-at-Risk for trading-related activities at Large Corporates & Institutions

	2021		2020	
(DKK millions)	Average	31 December	Average	31 December
Bond spread risk	25	20	24	27
Interest rate risk	32	23	26	26
Foreign exchange risk	7	8	3	12
Equity risk	4	1	12	14
Diversification effects	-39	-31	-36	-51
Total VaR	**29**	**21**	**29**	**28**

Note: VaR is calculated at a confidence level of 95% for a one-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.

Days with negative income exceeding EUR 1 million in trading-related activities at Large Corporates & Institutions



Volatility in day-to-day income from trading-related activities at Large Corporates & Institutions was lower for most of 2021 than in 2020. However, the number of days with losses exceeding EUR 1 million in 2021 was slightly higher than in 2020, mainly due to increased market volatility in the fourth quarter of 2021.

5.4.2 Market risk in relation to fair value adjustments

The Group's fair value accounting includes various valuation adjustments (referred to as xVA) inherent in 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.

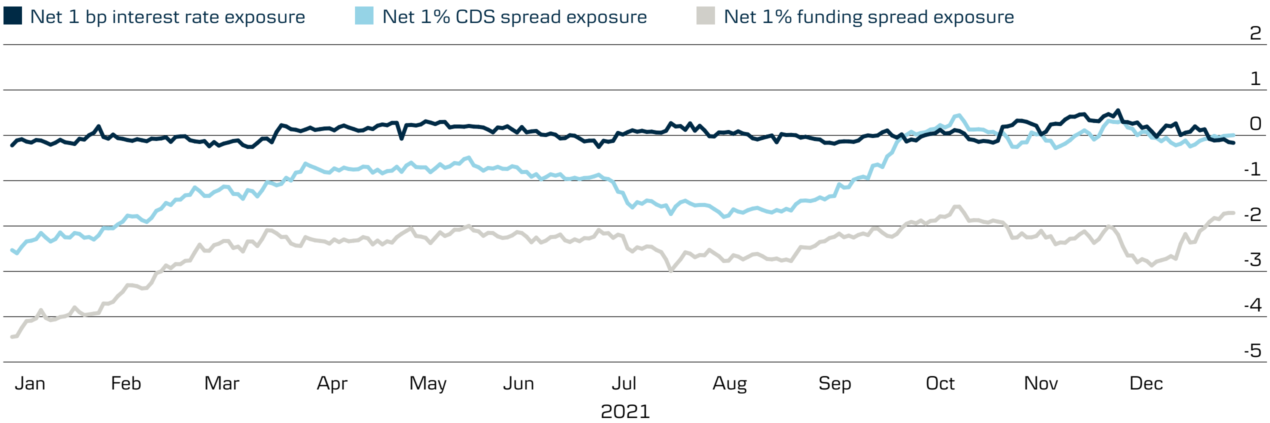
Because of the size and nature of the Group's derivatives portfolio, the credit, funding and collateral valuation adjustments are substantial, and the associated market risks are similarly of a considerable size. The strategy is therefore to hedge large parts of the market risks, while the default risks 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.

The Group manages all xVAs of the derivatives trading books centrally according to a clearly defined hedging strategy for each risk type associated with the xVA portfolio. The credit spread risk of CVA is significantly hedged using credit default swaps based on liquid indices or selected single-name CDS contracts. The funding spread risk is a key risk factor for xVA and has historically been a large P/L driver. In 2021, the hedging strategy was adjusted to reduce the funding spread risk using liquid market instruments. Overall, foreign exchange risks and interest rate risks from the xVA positions are almost fully hedged, with a very limited residual P/L effect.

In 2021, the xVA-related market risk appetite was reduced following increasing hedging efforts during the year. Moreover, the xVA hedging strategy contributed to a 71% reduction in actual daily income volatility as compared with the volatility of an unhedged portfolio.

xVA-related market risk

(DKK millions)



The chart illustrates the sensitivity to credit spread risk, interest rate risk and funding spread risk. The sensitivity to interest rate changes fluctuated around zero for most of 2021 and ended at the same level seen at the end of 2020. The exposure to credit spreads was highly volatile in 2021. It decreased markedly during the first quarter of 2021 as a result of higher interest rates and lower credit spreads. In the second quarter, the credit spread sensitivity was fairly stable, but decreased markedly towards the end of the year because of increased interest rates and added risk hedging following a strategy change. Funding spread sensitivity follows a similar pattern as credit spread sensitivity.

In addition to the fair value adjustment, further adjustments have to be made to ensure that prices are not only fair but also prudent. The applied methodology and the adjustments based on the methodology ensure that positions can be exited at a given price at a confidence level of 90%. Adjustments are made for multiple sources of uncertainty such as market price uncertainty, close-out costs, model risk, unearned credit spreads, concentrated positions, future administrative expenses and operational risk. Whenever possible, the calculation of the adjustments is based entirely on market data, but when such data is insufficient, individual input may be based on expert opinions. When market data is unavailable in their entirety, the application of methodologies such as the costs of hedging and generic haircuts will ensure prudence in prices as well as compliance with regulatory standards.

5.4.3 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.

Interest rate risk in the banking book

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 change the underlying value of Group's assets, liabilities and off-balance sheet items and its economic value.

This means that IRRBB is driven by a number of factors: repricing mismatches between assets and liabilities, client behaviouralisation, optionality within client products booked within the banking book, and interest rate floors and options on assets and liabilities held by the Group. Consequently, IRRBB covers interest rate risk, yield curve risk as well as option risk and behavioural characteristics risk.

Annually, the Board of Directors sets the Group's IRRBB appetites. These appetites are translated into a limit framework used for risk management purposes. The Group Asset & Liability Committee (Group ALCO) has oversight responsibility for the Group's IRRBB exposure. This responsibility includes reviewing the level of utilisation against the set appetites and limits. The Group Balance Sheet Risk Committee discharges the second-line-of-defence obligations in overseeing the implementation and maintenance of the group-wide framework for managing the non-trading portfolio market risk. In the day-to-day management of activities, Group Treasury acts as the first line of defence for IRRBB. This involves managing the actual risk against the limit framework. As the second line of defence, Market & Liquidity Risk maintains the limit framework and monitors adherence to the limits.

The Group hedges its debt issuance programmes back to a short floating rate. For the purpose of preventing accounting mismatches, the hedged positions are treated using fair value hedge accounting. Furthermore, the Group has a hedging strategy in place to reduce the mismatch between DKK-denominated liabilities and EUR-denominated assets. The derivatives used are accounted for on a fair value basis. Moreover, the risk on the following fixed rate items is managed on a daily basis in accordance with the limit framework:

- Fixed rate mortgages in Denmark and fixed rate loans, including operating leases sold by the Group's leasing operations.
- Positions related to asset and liability management, including payments made in advance on Realkredit Danmark loans (monthly payments that are not passed on to bondholders until the end of the quarter or year).
- Bonds held in the hold-to-maturity and available-for-sale portfolios established by the Group in 2013 to stabilise net interest income by hedging its fixed rate liabilities.
- Interest rate risk exposure from non-maturing demand deposits (NMDs).
- Other interest rate risk exposures, i.e. embedded contractual interest rate floors on assets (such as lending contracts) and fluctuations in risk resulting from changes in the core banking balance-sheet composition as well as risk migration resulting from changes in behavioural assumptions.

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 economic value (EV) risk metric is used for measuring the long-term effect of movements in interest rates by discounting future cash flows using relevant interest rate swap curves. In the modelling of future cash flows, an overnight duration is used for own equity, while commercial margins are excluded. Allowance is made for contractual interest rate floors on customer products because a number of the Group's core markets are experiencing negative interest rates. In addition, debt issued by the Group and customer behaviour are taken into consideration when future cash flows are determined. The latter is an important component and encompasses the ongoing assessment of NMDs. The volume of NMDs is recalibrated on a monthly basis, while the duration is reviewed annually. Currently, the EV risk metric applies an average duration of 5.1 years for NMDs, and the longest repricing maturity is 14 years. The Group ALCO approves the assumption made with respect to NMDs and endorses the sensitivity of the duration (any increase or decrease).

For regulatory purposes, the Group calculates EV under six regulatory stress scenarios (Economic Value of Equity or EVE): a short interest rate up shock, a short interest rate down shock, a parallel upward shift in interest rates, a parallel downward shift in interest rates, a non-parallel flattener shift in interest rates and a non-parallel steepener shift in interest rates. In these regulatory EV calculations, the average maturity of NMDs is capped to five years in compliance with regulatory requirements. Furthermore in line with Danish regulatory capital requirements, the Group's Pillar II capital for IRRBB is aligned with the results of the regulatory EV calculations.

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. In the modelling of future cash flows, an overnight duration continues to be used for own equity, while commercial margins are included in the NII calculations. Furthermore, a constant balance-sheet approach is used for creating a base scenario over a 12-month time horizon. This means that maturing and amortising positions within the 12-month time horizon are replaced with new positions that have identical features (such as amount, duration and margins). The average maturity of NMDs is capped to five years, as is the case with the regulatory EV calculations.

The sensitivity in NII is assessed under the six regulatory stress scenarios mentioned above and under two additional scenarios in which interest rates experience an unfloored parallel +/-100 basis point shift, respectively. In the six regulatory scenarios, additional artificial interest rate floors are implemented in the NII calculations so that DKK and EUR rates are floored at -200 basis points, while SEK, NOK, GBP and USD rates are floored at -100 basis points.

In the day-to-day risk management of IRRBB, the Group uses an EV risk metric based on unfloored parallel +/-100 basis point shifts in interest rates. These EV measures are calculated on a daily basis and evaluated against limits on an intraday basis by Group Treasury. On a daily basis, Group Treasury also tracks, comments and reports on the daily, monthly, quarterly and annual changes in EV. This also includes monitoring the development in interest rate floor risk due to instantaneous interest rate shocks. The regulatory EV calculations (EVE) are performed on a daily basis and evaluated on a monthly basis, while NII is calculated and evaluated on a monthly basis.

The Group ALCO reviews IRRBB-related issues and monitors the development in EV and NII on a monthly basis. Any strategies proposed will be submitted to the Group ALCO for approval. The Group's total interest rate sensitivity in the banking book (EV measure) is shown below.

Interest rate risk in the banking book (a parallel yield curve shift of 100 basis points)

	2021		2020	
At last business day (DKK millions)	+100 bp	-100 bp	+100 bp	-100 bp
DKK	691	-2,284	4,055	-6,456
EUR	-1,548	4,411	-1,356	4,228
SEK	-780	1,408	-677	1,499
NOK	302	-387	331	-506
GBP	-77	90	-28	108
USD	-42	45	-52	59
Other	-4	4	-3	3
Total	**-1,458**	**3,287**	**2,269**	**-1,064**

The sensitivity to falling interest rates decreased 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 decreased from a gain of DKK 2.3 billion in 2020 to a loss of DKK 1.5 billion at the end of 2021.

In addition, assuming a parallel downward yield curve shift of 1%, the Group's NII would be DKK 703 million higher than a base scenario calculation at the end of December 2021 (end-2020: DKK 1,593 million).

The change in both the EV IRRBB measure and the NII sensitivity was affected mainly by a lowering of the threshold for negative interest rates on demand deposits in Denmark, increased interest rates and an update of the NMD model.

Credit spread risk in the banking book
Credit spread risk in the banking book (CSRBB) derives from bond positions related primarily to the Group's funding and liquidity management activities at Group Treasury. The day-to-day management of the credit spread risk associated with the Group's banking book activities is overseen by Group Treasury. The Group ALCO reviews CSRBB-related issues and monitors the levels of risk utilisation against the set appetite. As the second line of defence, Market & Liquidity Risk monitors adherence to the appetite and associated limits.

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.

Equity investments
The equity investments are divided into core and non-core investments. Core investments comprise investments that are of strategic value to the Group. That is, the Group is often a shareholder, and the target companies provide services to the Group that are needed for operational purposes. Non-core investments are investments of a non-strategic nature,

and the Group is actively seeking to divest such investments. The non-core investment portfolio comprises the following instruments:

- equity for debt-converted credit cases
- remaining private equity fund investments
- small equity stakes and stakes in insolvent companies (minor and insolvent companies)

At the end of 2021, the total value of the non-trading-related equity investments was reduced to DKK 0.8 billion from about DKK 1.3 billion 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. This risk is labelled structural foreign exchange risk.

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.

5.5 Internal pension risk management

Internal pension risk arises from the Danske Bank Group's liability for defined benefit pension plans established for current and former employees. For accounting purposes, defined benefit pension plans are valued in accordance with IFRSs (IAS 19).

The Group's defined benefit plans are funded by contributions from the Group and by individual contributions from employees. Each pension plan is controlled by a separate, independent board that consists of current and former employees as well as independent members. These boards are independent and manage the full operations of each pension plan.

The Group monitors the interest rate, longevity, inflation and equity sensitivities of each pension plan and previously provided derivatives execution services in respect of the pension plans if the independent boards approved the use of derivatives to adjust interest rate hedging levels.

The Group All Risk Committee has defined risk targets for the Group's pension plans. To follow up on the objectives, the Group prepares quarterly risk reports to stress the pension plans. This process uses the Group's VaR model to stress interest rates and risk assets. In addition, the liabilities are calculated on the basis of swap rates rather than actuarial discount rates. The quarterly VaR model outputs are compared against the risk targets, and follow-up takes place if certain thresholds are exceeded.

The interest rate and inflation risk hedging levels of each pension plan are constantly monitored and hedged to a high degree. The Group's ambition is to externalise risks wherever possible through the purchase of bulk annuity buy-in policies. To date, such transactions have been executed for a proportion of the liabilities in Northern Ireland, Ireland and Denmark.

5.5.1 Internal pension risk profile

The Group's defined benefit pension obligations consist of pension plans in Northern Ireland, the Republic of Ireland and Sweden as well as a number of small pension plans in Denmark. In addition, the Group has unfunded defined benefit pension plans that are recognised directly on the balance sheet. All plans are closed to new members.

Overview of the Group's pension plans

At 31 December 2021 (DKK millions)		Northern Ireland	Ireland	Denmark	Sweden
Pension plan for new employees		Defined contribution	Cash balance	Defined contribution	Defined contribution
Status of defined benefit pension plan		Closed to new members in 2004	Closed to new members in 2008	Closed to new members	Closed to new members in 2013
Gross liabilities		10,903	3,550	946	2,042
Assets at fair value		12,270	4,481	554	2,148
Net assets (net liabilities)		1,367	932	-393	105
Number of members:	Active	0	24	82	566
	Deferred	1,971	617		1,435
	Pensioners	2,629	591	157	823
	Total	**4,500**	**1,232**	**239**	**2,824**

Note: In Norway, Finland and the Baltic states, the Group operates defined contribution plans under which it pays fixed contributions into separate, legally independent entities but subsequently has no further obligations. The Group wound up its Norwegian defined benefit plan in 2005, but still has an early retirement pension obligation. The obligation amounted to DKK 15 million at 31 December 2021.

At the end of December 2021, the Group's VaR was DKK 1,677 million (2020: DKK 1,480 million).

5.5.2 Liability recognition

The Group's defined benefit pension plans are recognised as a balance-sheet liability subject to valuation. As the pension benefits will typically be payable for the rest of the individual employee's life, this increases the Group's uncertainty about the amount of future obligations since the liability and pension expenses are measured actuarially.

Various assumptions need to be made. Some are financial (such as the discount rate used for calculating the net present value of the pension cash flows and rates of salary and pension increases), while some are demographic (such as rates of mortality, ill health, early retirement and resignation).

The Group calculates the market risk on defined benefit plans on a quarterly basis. The risk is expressed as VaR at a confidence level of 99.97% and on a one-year horizon. In this scenario, equity price volatility and the correlation between interest rates and equity prices are set at values reflecting normal market data. The duration of the pension obligations is reduced by half to take into account inflation risk.

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

Sensitivity analysis of the Group's net obligation

(DKK millions)	Change	Effect, 2021	Effect, 2020
Equity prices	-20%	-266	-284
Interest rates	+1%/-1%	-259/+1,020	+119/+315
Life expectancy	+1 year	-330	-398

Pension obligations are measured in the Group's solvency calculations at fair value. Pension risk is assessed in the ICAAP using a VaR measurement at a confidence level of 99.9% and on a one-year time horizon.

Liquidity, funding and capital risk

6.

6. *Liquidity, funding and capital risks*

The Group is exposed to many different risks, and some of them may inevitably materialise, usually as financial losses. As a consequence, the Group must hold capital to absorb losses and have available liquidity to ensure that all obligations and commitments can be met, even if losses are accompanied by weakened investor confidence. This, in turn, requires stable funding.

The overall structure of the balance sheet is managed for the purpose of mitigating risks. Capital must be adequate, funding must be stable, and a liquidity buffer must be maintained to allow the Group to serve its customers and contribute to financial stability in the economy at large through the economic cycle.

In the Capital Policy and the Liquidity Policy, the Board of Directors has defined the overall principles and standards for managing liquidity, funding and capital. These are further specified in other governing documents, and adherence is monitored on an ongoing basis.

The Group All Risk Committee has established two subcommittees to address liquidity, funding and capital risks: the Group Asset & Liability Committee (Group ALCO) and the Group Balance Sheet Risk Committee (BSRC). The Group ALCO is anchored in the first line of defence, while the BSRC is anchored in the second line of defence. The chairman of the Group ALCO is the CFO, while the CRO chairs the BSRC. Other members include representatives from Group Treasury, Group Finance, Markets & Transaction Banking, and Group Risk Management. Business units are also represented on the Group ALCO.

The Group ALCO has a strategic focus on asset and liability management components, such as net interest income, capital allocation, funds transfer pricing as well as interest and FX risks on the balance sheet, in accordance with the Liquidity Policy and the Market Risk Policy.

The BSRC oversees the risk framework for liquidity, funding and capital risks at the group level. The BSRC monitors and challenges the management of the risks addressed by the committee.

Capital, liquidity and funding are all subject to regulatory requirements, and the Internal Liquidity Adequacy Assessment Process (ILAAP) and the Internal Capital Adequacy Assessment Process (ICAAP) serve as input for the annual Supervisory Review and Evaluation Process (SREP).

This section describes the Group's risk strategy to ensure adequate liquidity, funding and capital.

6.1 *Liquidity risk management*

Liquidity risk is the risk that a lack of funding leads to excessive costs or prevents the Group from maintaining its business model or fulfilling its payment obligations. The Group manages liquidity risk by holding sufficient liquidity reserves to meet its obligations and to support its strategies, business plans and rating ambitions even in stressed situations.

6.1.1 Risk governance and responsibilities

Like other risk types, liquidity risk is governed in line with the principles of the three-lines-of-defence model. Group Treasury is in charge of liquidity management and is therefore the first line of defence for liquidity risk. It must keep the liquidity risk profile within the risk appetite. The responsibility for short-term liquidity management is delegated to Markets & Transaction Banking (M&TB) within certain limits and as outlined in Group Treasury guidelines.

Group Risk Management is the second line of defence. In particular, Liquidity & Capital Risk Management reviews and challenges the methodologies and metrics and has oversight responsibility for monitoring and checking compliance with applicable limits.

Liquidity risk management encompasses the use of a combination of risk indicators, risk triggers and risk policies. These are laid down in the Liquidity Policy, which sets the overall principles and standards as well as more specific guidelines for strong liquidity risk management across the Group. The Liquidity Policy defines the overall liquidity risk profile as well as the supporting principles and related governance for the funding plan, internal allocation of liquidity costs, reporting, the Internal Liquidity Adequacy Assessment Process (ILAAP), and the contingency plan for funding and liquidity. The Liquidity Policy also includes guidelines set by the Board of Directors to the Executive Leadership Team in the liquidity area.

Liquidity management is coordinated centrally to ensure regulatory compliance at the group level and compliance with internal requirements. Regulatory compliance and the maintenance of adequate liquidity reserves at subsidiaries are managed locally, but subject to coordination to ensure consistency across the Group. Realkredit Danmark and Danica Pension manage their own liquidity risks. Realkredit Danmark is subject to special mortgage bank legislation and is largely self-financing. As a result, it manages its liquidity separately from the rest of the Group. Danica Pension's balance sheet includes assets and long-term life insurance liabilities. A large part of Danica Pension's assets are readily marketable securities. Both companies are subject to statutory limits on their exposures to Danske Bank A/S.

6.1.2 Liquidity risk appetite and limit framework

Liquidity risk arises from the basic activities of banks such as deposit-taking and lending. The transformation of short-term deposits into long-term loans exposes banks to maturity mismatches.

Liquidity risk can be seen conceptually as consisting of two key elements, both of which are addressed by the Liquidity Policy.

Key element	Risk appetite
Distance to non-viability	A sufficient distance to non-viability should be maintained at all times: In case of a crisis, there must be sufficient time to respond to events and avoid bankruptcy or closure due to regulatory compliance failure.
Market reliance	Market reliance should be limited: if the Group relies on its ability to issue debt at all times, it becomes vulnerable to investor sentiments, market stress and market dysfunctionalities. The size and maturity profile of debt instruments must therefore be prudently managed.

By ensuring sufficient time to respond in case of a prolonged crisis, management will be able to adjust to changed conditions in a controlled manner, thus avoiding any hasty reactions to short-term market volatility. By reducing market reliance, the Group reduces the effects of market volatility and ensures the sustainability of its long-term business model. This allows it to serve customers at any time during the business cycle.

For liquidity management purposes, the term "Group" (the Danske Bank Group) does not include Danica Pension because it is not a credit institution. This means that Danica Pension is not subject to the same liquidity regulations as credit institutions and therefore not part of the prudential consolidation. Realkredit Danmark, on the other hand, is included in the prudential consolidation of the Group. Because of its particular funding structure, however, it is not always relevant to include Realkredit Danmark in Group aggregates. As a consequence, Realkredit Danmark is sometimes excluded from Group figures. It is explicitly stated when this is the case.

The Group monitors the two key elements through a set of risk indicators that make up the Group's liquidity risk profile. The Board of Directors has set internal limits for each indicator (in the Liquidity Policy) as shown below. A set of further limits and targets set by the Balance Sheet Risk Committee ensures that overall board limits are not breached.

Distance to non-viability

Indicator	Requirement	Frequency
1	The liquidity reserve must be positive three months ahead in the most severe internal stress tests for the Danske Bank Group and Danske Bank A/S.	Monthly
2	The Danske Bank Group's LCR must be at least 115%, while Danske Bank A/S's LCR must be at least 110%.	Daily
3	Danske Bank A/S's 90-day modified LCR, as defined by the Supervisory Diamond of the Danish Financial Supervisory Authority, must be at least 100%.	Monthly
4	The Danske Bank Group's currency-specific LCR in USD must be at least 100%.	Daily
5	The Danske Bank Group's currency-specific LCR in EUR must be at least 100%.	Daily

Market reliance

Indicator	Requirement	Frequency
6	The NSFR must be at least 103% for the Danske Bank Group and Danske Bank A/S.	Monthly
7	Long-term unsecured funding maturing within 12 months may not exceed DKK 80 billion for the Danske Bank Group.	Daily
8	Danske Bank A/S's asset encumbrance may not exceed 43% of total assets.	Quarterly

6.1.3 Stress testing

Stress tests are a core element of the models and methodologies used for managing liquidity risk. Stress tests are carried out for the Group and for Danske Bank A/S to measure their immediate liquidity risks and detect signs of possible crises. The stress tests use three different standard scenarios: a scenario specific to Danske Bank, a general market crisis scenario and a combination of the two scenarios. “Stress-to-failure” and “LCR in stress” calculations are also performed.

The setup makes it possible to analyse any time horizon up to one year, but a period of three months is standard for internal stress tests.

All stress tests are based on the assumption that the Group does not reduce its lending activities. This means that an unchanged volume of lending will continue to require funding. The availability of funding varies depending on the scenario in question and the funding source. The assessment of funding stability is based on the maturity structure for debt and behavioural data for deposits.

6.1.4 Methodologies and models

The Group uses regulatory indicators such as the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) as tools for asset and liability management. A crucial implementation tool in the internal management system is the Funds Transfer Pricing (FTP) model, which is based on LCR and NSFR metrics, among other things.

Liquidity

A number of metrics are used for monitoring liquidity. The key regulatory requirement is the LCR (see section 6.2) using stress scenarios defined by the regulator. Other scenarios may be analysed in liquidity stress tests. A three-month modified version of the LCR is also calculated as part of the supervisory process. Finally, liquidity curves based on contractual liquidity flows are also monitored.

Intraday liquidity is monitored and reported by currency in accordance with the guidelines issued by the Basel Committee. Overall, these measures have reduced cross-currency liquidity risk.

Liquidity by currency

The LCR regulation requires the denomination of liquid assets in the buffer to be “consistent” with the currency distribution of net liquidity outflows. In Denmark, these requirements are more specific. As a SIFI, Danske Bank is subject to quantitative currency-specific liquidity requirements for EUR and USD. Additionally, the Danske Bank Group has chosen to apply internal limits on LCR (SEK and NOK). In addition to these requirements, Danske Bank also balances the general composition of the liquidity buffer to ensure consistency with the outflow profile, as required by the Capital Requirements Regulation (CRR).

To maintain the availability of the relevant currencies in the medium-to-long term, the Group’s funding plan seeks to balance long-term commitments with stable funding in each of the relevant currencies.

NSFR

While the LCR focuses on short-term liquidity risk, the NSFR addresses the balance between the funding needs for assets and the stability of funding sources. The NSFR was formally adopted by the EU in May 2019 and entered into force on 28 June 2021. The NSFR applies to all individual banking units within the Group and to the Group as a whole.

Funds transfer pricing

The Group’s Funds Transfer Pricing (FTP) model is the central management tool used by the Group to adjust and manage the balance-sheet composition of its business units. Their business activity is guided by assigning internal funding prices based on the matched-maturity principle. The FTP model applies charges to loans and credits to deposits and other funding on the basis of the characteristics of the individual balance-sheet items, such as product type, customer type, maturity, currency, amortisation profile, modelled behaviour and interest rate risk. Some charges and credits are based on behavioural data, such as the expected stressed deposit run-off and expected amounts drawn on committed facilities.

FTP links the balance-sheet composition directly to the income statement, and it is a key component in determining the Group’s overall funding position. It links liquidity risk assessment, product pricing, balance-sheet valuation and profitability analysis.

Mortgage loans provided through Realkredit Danmark are excluded from FTP because they are match-funded.

The Group’s trading activities are also subject to FTP. Trading activities require funding and increase the needed liquidity buffer because they create new potential collateral outflows.

6.1.5 Monitoring and reporting

Liquidity & Capital Risk Management reports on indicators to the relevant parties and committees. Indicators set by the Board of Directors are monitored and reported back to the Board and to other relevant stakeholders (such as the BSRC and the Executive Leadership Team via the Group All Risk Committee). Indicators set by the BSRC or at lower levels are reported back to the BSRC and to the head of Liquidity & Capital Risk Management.

Liquidity risk reporting consists of overviews, analyses and forecasts for the most critical risk indicators such as the LCR. They outline the drivers and causes of changes in liquidity and give senior management a clear understanding of the Group's day-to-day liquidity risk profile.

Monitoring and reporting are conducted separately in line with the principles of the three-lines-of-defence model. As the first line of defence, Group Treasury and Group Finance calculate and report on risk measures. The second line of defence, Group Risk Management, monitors compliance with internal limits. Furthermore, Group Risk Management reviews and validates the models and assumptions used by the first line of defence.

Liquidity & Capital Risk Management monitors compliance with the risk limits set in the Liquidity Policy and in the instructions approved by the BSRC. The LCR figures, early warning indicators and operational liquidity are monitored and reported on a daily basis, while the other risk indicators are reported on a monthly basis to the BSRC and the Group All Risk Committee. Risk indicators are reported to the Board of Directors on a quarterly basis.

6.1.6 Internal Liquidity Adequacy Assessment Process (ILAAP)

Performed annually by Liquidity & Capital Risk Management and approved by the Board of Directors, the ILAAP is a process that evaluates the adequacy of the Group's and Danske Bank A/S's liquidity profile, liquidity risk and governance framework.

The process identifies risks and tracks key developments and lessons learned from the past year. Detailed quantitative analyses of all liquidity and funding issues are performed and presented in a report.

The ILAAP report for the Group and relevant subsidiaries forms the basis of dialogue with the supervisory authorities on the Group's liquidity risks and provides for the Supervisory Review and Evaluation Process (SREP). The ILAAP report is submitted annually to the supervisory authorities along with the Group's Internal Capital Adequacy Assessment Process (ICAAP) report.

6.2 Liquidity risk profile

6.2.1 Risk indicators

Distance to non-viability

The risk indicators used for managing the distance to non-viability allow the Group to adjust the size and composition of its liquidity reserve to meet its obligations in case of a stressed liquidity situation. The indicators are the Liquidity Coverage Ratio (LCR) (including currency-specific and 90-day modified variations) and the internal liquidity stress tests. The LCR covers a 30-day stressed period, while the internal stress tests cover a three-month stressed period.

Liquidity coverage ratio

At 31 December 2021 (DKK billions)	Danske Bank Group	Danske Bank A/S
HQLA level 1	669	570
HQLA level 2	18	17
Limits due to cap	0	0
A. Liquid assets, total	687	587
Customer deposits[1]	216	206
Market funding[2]	110	113
Other cash outflows	173	176
B. Cash outflows, total	499	495
Lending to non-financial customers	5	4
Other cash inflows	75	78
C. Cash inflows, total	79	82
Liquidity coverage ratio [A/(B-C)]	**164%**	**142%**

[1] Includes retail, operational and excess operational deposits.
[2] Includes non-operational deposits, unsecured debt issues and secured funding.

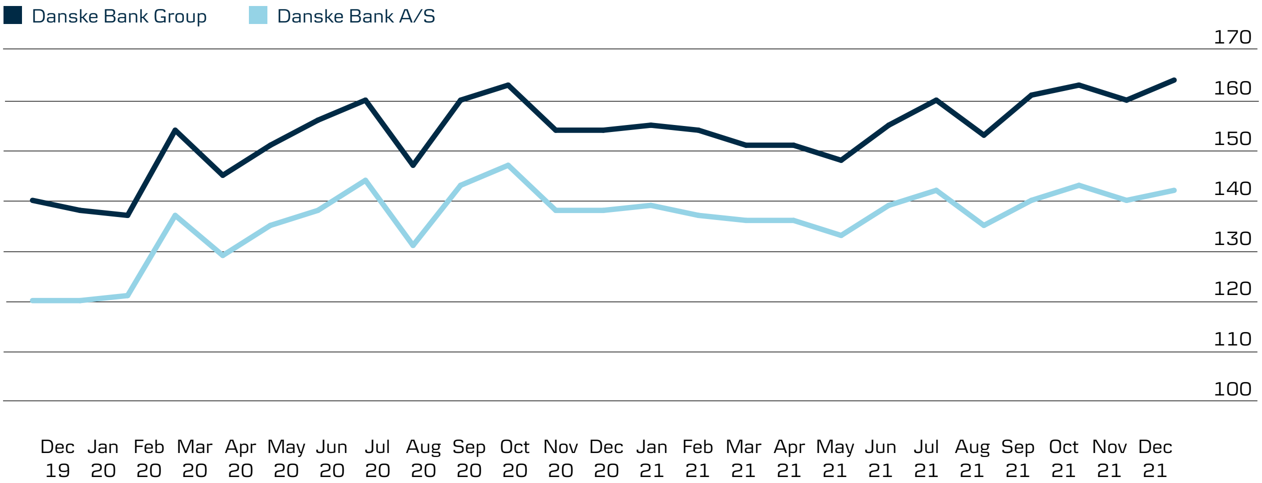
The LCR remained high during 2021 for both Danske Bank A/S and the Group as a whole. Some volatility was, however, observed from month to month, attributable to changing deposit balances and timing mismatches of maturing debt and new issues.

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 remained higher than pre-COVID 19 levels (2019).

A decline in deposits puts negative pressure on the LCR since the outflow factor is less than 100% for most deposits. However, during the course of 2021, reductions were seen in other off-balance-sheet liquidity reservations (such as outstanding credit facilities, derivatives and other commitments), offsetting the impact that the decline in deposits had on the LCR.

The Group's liquidity position remained strong throughout 2021. At the end of 2021, the Group's LCR stood at 164%, up from 154% at the end of 2020.

LCRs of the Danske Bank Group and Danske Bank A/S, 2021
(%)



Market reliance

The risk indicators addressing market reliance are effective management tools that enable the Group to maintain an adequate level of stable funding for its long-term commitments on the asset side. This reduces any pressure on the Group to fund large amounts during a liquidity crisis.

The NSFR is a key indicator and management tool for funding stability and market reliance. The NSFR officially took effect in June 2021 and has been relatively stable since final implementation. At the end of 2021, the NSFR stood at 130.5% for the Group as a whole and at 122.1% for Danske Bank A/S.

Net stable funding ratio

At 31 December 2021 (DKK billions)	Danske Bank Group		Danske Bank A/S	
Available stable funding (ASF)	Total assets	ASF	Total assets	ASF
Capital items and instruments	199	194	199	194
Retail deposits	574	536	509	475
Operational deposits	318	46	308	46
Non-financial customers	330	279	308	262
Financial customers and central banks	826	325	739	229
Interdependent assets/liabilities	809	0	0	0
Other[1]	202	1	189	0
ASF total	3,258	1,380	2,253	1,207
Required stable funding (RSF)	Total liabilities	RSF	Total liabilities	RSF
Central bank assets	370	0	325	0
Liquid assets	481	31	415	28
Other securities	101	96	167	160
Loans	1,415	806	1,280	709
Interdependent assets/liabilities	798	0	0	0
Other[2]	457	125	419	99
RSF total	3,623	1,058	2,606	997
Net stable funding ratio (ASF/RSF)		**130%**		**121%**

[1] Includes undetermined counterparties, deferred taxes and other liabilities.
[2] Includes derivatives, committed facilities, trade finance, non-performing exposures and other assets.

The Group also monitors the diversification of its funding sources by product, currency, maturity and counterparty to ensure that its funding base provides the best possible protection.

Special attention is devoted to the NOK and SEK markets. Danske Bank has a deposit gap in the Norwegian and Swedish markets, meaning that the Group must obtain market funding. Covered bonds in NOK are issued by Danske Bank A/S, whereas covered bonds in SEK are issued by Danske Hypotek AB.

6.2.2 Ratings and their potential liquidity effects

Danske Bank's ratings improved slightly in 2021, with S&P upgrading the issuer and senior unsecured debt ratings from 'A' to 'A+' and the counterparty rating from 'A+' to 'AA-', Fitch adjusting its outlook to Stable from Negative, and Moody's upgrading the non-preferred senior debt rating to 'Baa2' from 'Baa3'. Rating upgrades and downgrades have liquidity implications because they affect the ability to obtain market funding and the cost of such funding. They may also lead to changes in the amount of collateral needed in certain transactions.

Danske Bank's credit ratings, 31 December 2021

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

The following table shows the Group's loss of liquidity under four scenarios involving downgrades of the Group's long- and short-term debt. The number in brackets after each individual rating indicates how many notches the rating would drop from its current level.

The right-hand column shows the liquidity effects due to extra collateral requirements after downgrades under the various scenarios. Most contracts do not contain rating triggers but instead aim to eliminate or reduce credit exposures regardless of the rating, but some triggers remain. The liquidity effect was largely unchanged in 2021 from 2020.

Loss of liquidity in case of rating downgrades, November 2021

	Short-term			Long-term			
Assumed rating	Fitch	Moody's	S&P	Fitch	Moody's	S&P	Liquidity effect* (DKK billions)
Present rating	F1	P-2	A-1	A+	A3	A	
Scenario 1	F1 (0)	P-2 (0)	A-1 (0)	A (-1)	Baa1 (-1)	A-(-1)	0.5
Scenario 2 (mild crisis)	F2 (-1)	P-3 (-1)	A-2 (-1)	A (-1)	Baa1 (-1)	A-(-1)	2.3
Scenario 3	F2 (-1)	P-3 (-1)	A-2 (-1)	A-(-2)	Baa2 (-2)	BBB+(-2)	3.0
Scenario 4 (severe crises)	F2 (-1)	P-3 (-1)	A-2 (-1)	BBB+ (-3)	Baa3 (-3)	BBB (-3)	4.3

* Realkredit Danmark is not included.

6.2.3 Funding

In 2021, the Group issued long-term debt in the amount of DKK 75 billion. Covered bonds were issued primarily through the NOK and SEK domestic markets (as well as an issue in EUR through Danske Mortgage Bank Plc). The Group notably issued non-preferred senior debt in the form of green benchmark bonds for EUR 500 million and preferred senior debt in the form of Rule 144A dual tranche benchmark bonds for USD 2 billion. Furthermore, the Group issued additional tier 1 capital to the tune of USD 750 million and tier 2 capital in the amount of EUR 500 million.

Issuance in 2021 was slightly down from the level of DKK 79 billion in 2020. The reduction was largely caused by the following factors:

- Large deposit surpluses reduced the need for liquidity, leading to less issuance of covered bonds.
- In relation to MREL-compliant debt issuance in 2021, it was a question of maintaining the stack rather than building up, as was the case in the years from 2018 to 2020.

The strategy of securing more funding directly in the Group's main lending currencies, including NOK and SEK, remains in place, but the Group also utilises central bank facilities to obtain funding in the most cost-efficient manner.

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 policies.

Realkredit Danmark's funding

Realkredit Danmark funds its mortgage lending activities by issuing covered bonds. Mortgage finance in Denmark is subject to asset-liability balance requirements, and Realkredit Danmark complies with these requirements by applying a pass-through structure. This implies that

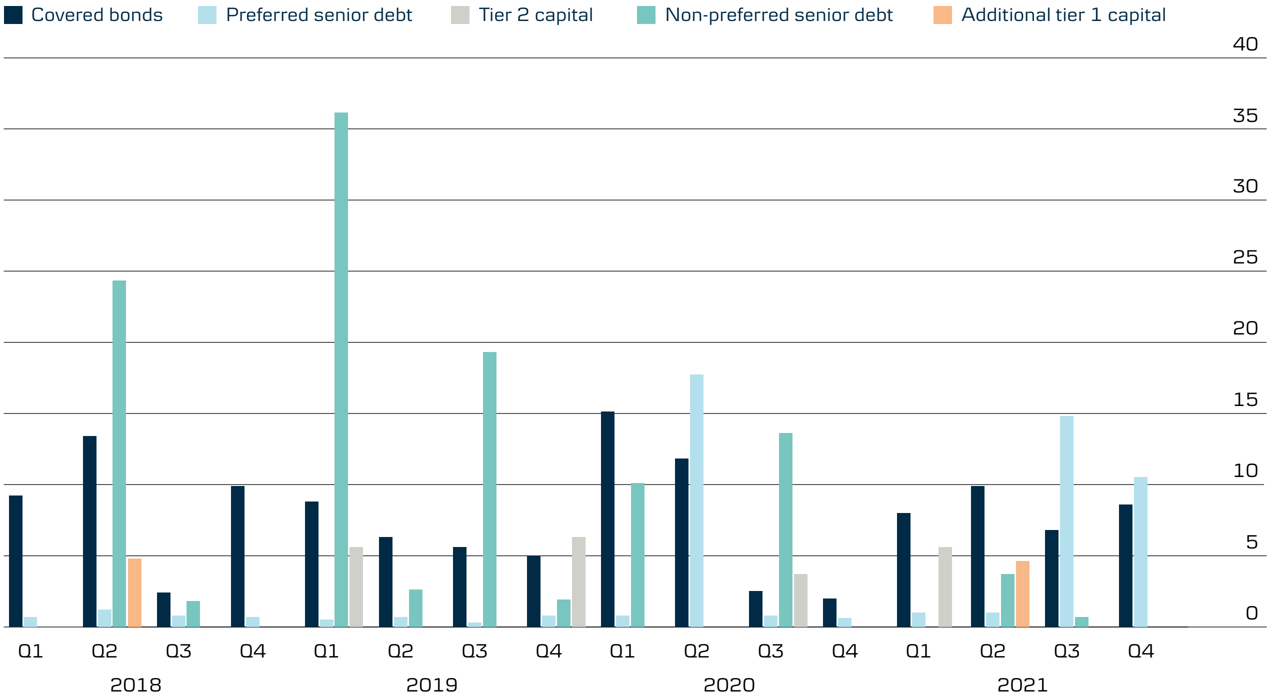
- all mortgages are funded by means of covered bonds with a matching cash flow
- all funding costs are absorbed by borrowers
- amounts of interest, redemptions and margins from borrowers fall due in advance of interest payments and principal repayments to bondholders
- covered bonds are issued on tap when the mortgages are originated

The pass-through structure allows for interest-reset loans with maturities ranging up to 30 years, while the underlying bonds are typically issued with maturities ranging from one to five years. The refinancing risk is mitigated by caps on the volume of interest-reset loans to be refinanced each quarter and each year. As a last resort, Realkredit Danmark is required by law to extend the maturity of maturing covered bonds in case of a refinancing failure.

The Group monitors the maturity profile of its long-term funding to ensure that the portions of long-term funding maturing within a year and within a quarter are maintained at acceptable levels.

Long-term debt issuance, by quarter

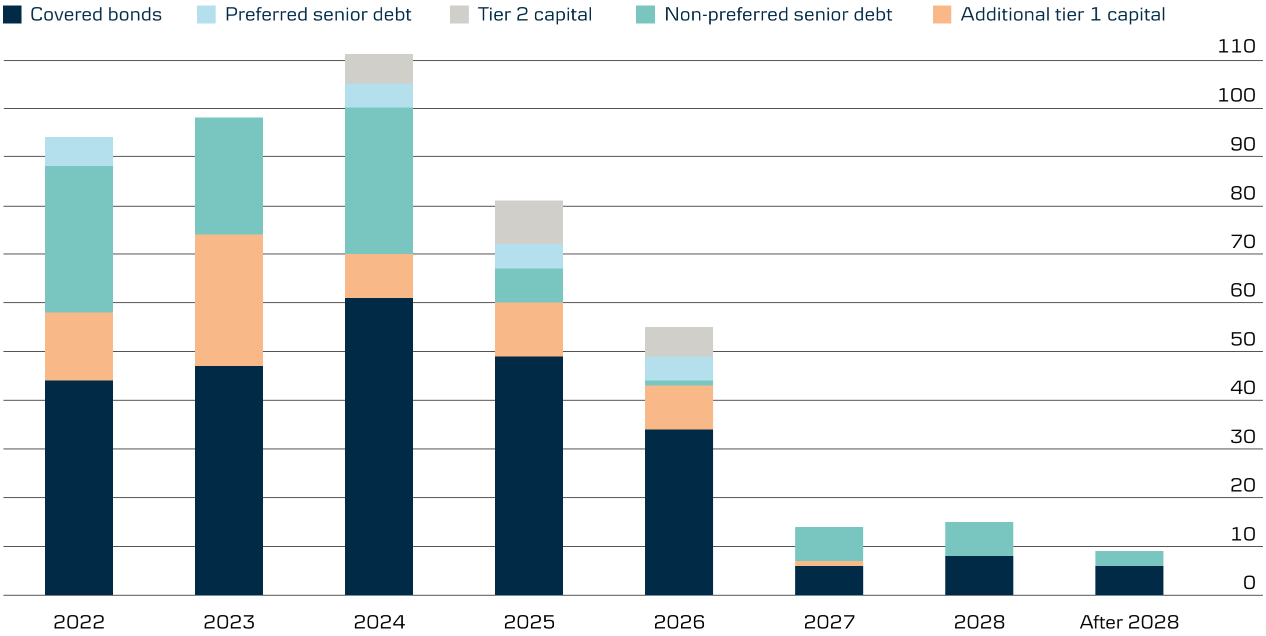
(DKK billions)



Note: Realkredit Danmark is not included.

Redemption profile of the Danske Bank Group, 31 December 2021

(DKK billions)



Note: Realkredit Danmark is not included. Maturity dates for T2/AT1 capital and NPS debt are first call dates.

Total wholesale funding consists of debt issues and deposits received from credit institutions and central banks. A detailed breakdown is shown below. In 2021, overall wholesale funding was relatively stable. The funding from central banks, including targeted longer-term refinancing operations (TLTRO), was relatively long term, while the bulk of the funding from other credit institutions was short term. The amount of wholesale funding maturing within one year was slightly lower at 42% of total wholesale funding, down from 44% in 2020. On a year-over-year basis, there was a slight shift from unsecured to secured funding.

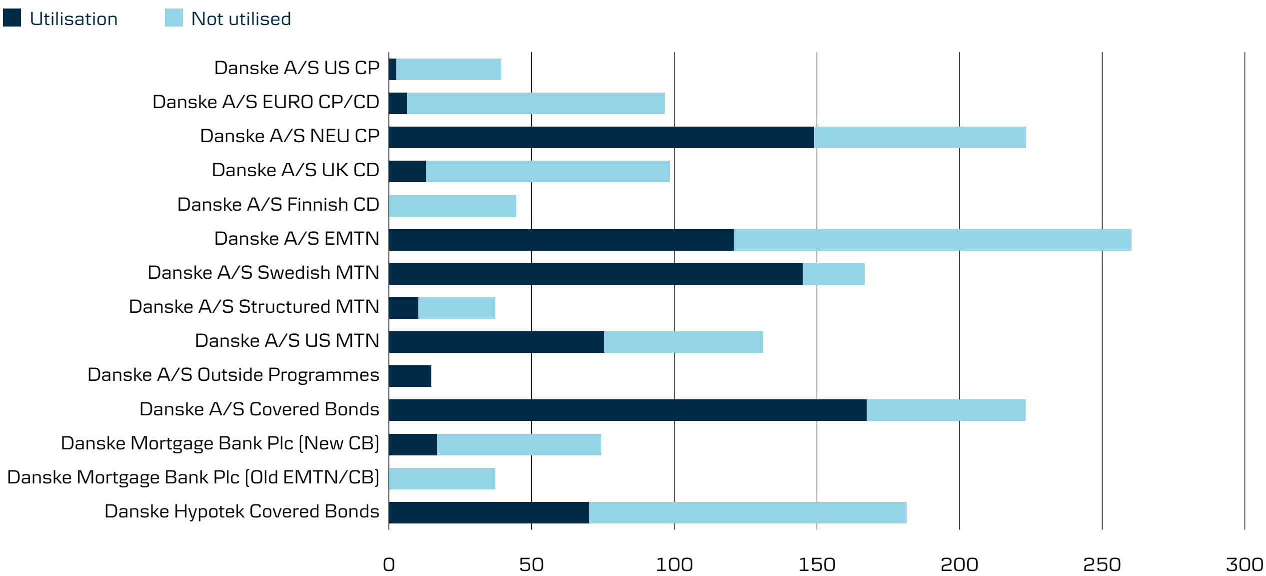
Breakdown of wholesale funding[1] by contractual maturity

At 31 December 2021 (DKK billions)	0-1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total 2021	Total 2020
Deposits from credit institutions	157	12	0	37	0	206	259
CDs and CP	2	17	3	2	1	26	23
Senior unsecured MTNs[2]	11	6	27	115	17	176	170
Covered bonds	0	8	37	190	20	254	262
Subordinated liabilities	0	0	0	21	0	21	19
Total	**171**	**42**	**66**	**366**	**38**	**683**	**733**
Portion from							
secured instruments	63	8	0	37	0	108	122
unsecured instruments	107	35	66	329	38	575	611

[1] Realkredit Danmark is not included.
[2] Net outstanding amount, consisting of non-preferred and preferred senior debt.

Utilisation of available long- and short-term programmes, 31 December 2021

(DKK billions)



Note: Realkredit Danmark is not included.

Danske Bank has a number of funding programmes as shown above. Each programme is approved by the Board of Directors along with a limit. Several programmes, especially for short-term funding such as CP/CDs, are barely used at all, primarily due to the lack of investment opportunities that are both profitable and consistent with the Group's Liquidity Policy and its emphasis on stable funding. Covered bonds remain an important funding source. The Euro Medium Term Note (EMTN) programmes are used for NPS issues and minor volumes of capital instruments.

6.2.4 Liquidity reserve

The Group's liquidity reserve is defined as all unencumbered liquid assets that are available to the Group in a stressed situation. Assets received as collateral are included in the reserve, whereas assets used as collateral are excluded.

The following table shows the liquidity reserve broken down according to the LCR framework. The decrease in liquid assets during 2021 was largely attributable to the relatively high level of liquidity at the end of 2020. The uncertainty associated with COVID-19 in 2020 meant that more customers were holding on to liquidity (in the form of deposits). This resulted in a high level of liquid assets held by the Group. As the COVID-19 pandemic abated in 2021, deposits began to decrease and liquidity levels followed suit.

The reduction in the liquidity buffer was almost entirely in central bank reserves. Otherwise, there was a small shift away from central government debt to covered bonds and other level 1 assets.

The Group's liquidity reserve – LCR definition

At 31 December (DKK billions after haircut)		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**

Most of the bonds held in the reserve are central-bank-eligible instruments, and they are important for intraday liquidity needs and overnight liquidity facilities.

The amounts of liquidity are calculated using haircut values mandated for each asset category in the LCR regulation. Some assets are excluded entirely. The amounts shown in the table may differ from actual market values and repo liquidity values. In internal stress tests, valuations closer to actual market values are generally used.

6.2.5 Asset encumbrance

Asset encumbrance implies structural subordination of senior unsecured creditors and depositors. Therefore, regulators, rating agencies and investors monitor Danske Bank's asset encumbrance ratio – that is, the percentage of assets pledged or mortgaged as collateral.

The Group's asset encumbrance has three main sources:

- Loans and securities serving as collateral for covered bond issuance.
- Securities provided as collateral in repo and securities-lending transactions. Such securities remain on the balance sheet and cash amounts received are recognised as deposits.
- Cash and securities provided as collateral to support business activities, such as clearing services and counterparty credit risk mitigation.

The Group's reporting follows the method set out in the EBA's implementing standard on asset encumbrance. The table shows the encumbrance of assets on the balance sheet and the encumbrance of collateral received, broken down by source of encumbrance.

Asset encumbrance and encumbrance ratio

At 31 December 2021 (DKK billions)	Danske Bank A/S	Danske Bank Group
Assets on balance sheet		
Derivatives	42	43
Deposits (repos)	308	307
Covered bonds	87	1,020
Other	14	14
Total encumbrance	**451**	**1,384**
Total assets	2,363	3,359
Collateral received		
Derivatives	5	4
Deposits (reverse repos)	201	169
Total encumbrance	**206**	**173**
Total assets	531	477
Asset encumbrance ratio (%)	**22.7%**	**40.6%**

6.3 Capital risk management

Capital risk is the risk of not having enough capital to cover all material risks arising from the Group's chosen business strategy.

The Group manages its capital risks through prudent planning, thus ensuring a sufficient level of capital to support its growth ambitions and to absorb unexpected losses even in severe downturns without breaching regulatory capital requirements. The Group's capital management practices are designed to support its rating ambitions, while ensuring access to funding markets under all market conditions.

Capital management involves executing the Internal Capital Adequacy Assessment Process (ICAAP), setting capital targets and dividend ambitions, capital planning, performing stress tests, allocating capital as well as monitoring and reporting.

The Group's Capital Policy set by the Board of Directors lays the foundation for the Group's capital management. The Capital Policy contains the Group's overall principles and standards for capital management, including the governance process for all of the principles.

6.3.1 Governance and responsibilities

The Group's capital management practices are organised in line with the principles of the three-lines-of-defence model. Day-to-day monitoring and management of the Group's capital position and risks are handled by Group Finance in the Group's CFO Area. As the first line of defence, Group Finance is responsible for monitoring and managing the Group's capital position on the basis of the principles set out in the Capital Policy, including stress testing, setting capital and payout targets, preparing a capital plan and allocating the cost of capital. Group Finance is also responsible for the annual ICAAP.

Group Risk Management serves as the second line of defence. For capital risks, Liquidity & Capital Risk Management is responsible for reviewing and challenging the methods applied and the results produced.

Group Internal Audit (GIA) serves as the third line of defence for the Group's capital management performing independent reviews of the main processes, such as the calculation of the risk exposure amount (REA), the ICAAP, capital levels and stress testing, and addressing risk assessments performed and control setups applied.

Subsidiaries have local responsibility for capital management, but work closely with Group functions to ensure consistent application of methodologies and principles.

The overall principles for the Group's capital management and recommendations based on these principles are approved by the Board of Directors and endorsed by the Balance Sheet Risk Committee, the Group All Risk Committee and the Board of Directors' Risk Committee.

6.3.2 Internal Capital Adequacy Assessment Process (ICAAP)

The ICAAP is an integral part of the Group's capital management practices. The purpose of the process is to assess, on an ongoing basis, the material risks that are inherent in the Group's business activities. The solvency need is determined as part of the ICAAP, and this ensures adequate capitalisation based on the Group's risk profile. Forward-looking by nature, the ICAAP includes both group-wide and portfolio-specific stress testing. The conclusions from the ICAAP serve as input for the Supervisory Review and Evaluation Process (SREP), and they are submitted to the supervisory authorities once a year, along with the conclusions from the Group's Internal Liquidity Adequacy Assessment Process (ILAAP).

6.3.3 Capital targets and capital distribution

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. The target for the total capital ratio was kept at above 20%. The targets take into account the expected increase in the Group's institution-specific buffer rate, mainly because of the reactivation of the countercyclical buffer rates in Denmark and Sweden (2.0% and 1.0%, respectively), as well as an increase in the Norwegian buffer rate from 1.0% to 2.0%. The target for the CET1 capital ratio includes a management buffer of at least 2.1%.

With respect to its capital targets, the Group has an ambition of paying out ordinary dividends within the range of 40-60% of its net profit.

The Board of Directors will continue to adapt the capital targets to the regulatory developments and revise the ambitions for capital distribution in order to ensure that the Group continues to have a strong capital position.

6.3.4 Capital planning

The Group's ongoing capital planning takes into account both short-term and long-term horizons in order to give the Board of Directors a comprehensive view of current and future capital levels. The capital plan includes a forecast of the Group's expected capital performance based on budgets and takes pending regulation into account when future capital requirements are assessed. The Group's capital planning is also based on stress tests and takes rating ambitions into consideration. The Group's capital and funding planning processes are integrated in the same process.

6.3.5 Input from stress testing

The Group uses macroeconomic stress tests in the ICAAP for the purpose of projecting its capital requirements and actual capital levels under various unfavourable scenarios. Stress tests are an important means of analysing the risk profile since they give management a better understanding of how the Group's portfolios are affected by macroeconomic changes, including the effects of undesirable events on the Group's capital.

When the Group uses stress tests in its capital planning, it applies stress to risks, income and the cost structure. Stressing income and costs affects the Group's capital, while stressing risk exposures affects its capital requirement.

Results from stress testing are used as input for setting capital targets, and they ultimately feed into the Group's capital planning.

Internal stress tests

The Group's internal stress tests are based on various scenarios, each consisting of a set of macroeconomic variables. The scenarios are generally used both at the group level and for subsidiaries. Specific scenarios are also developed for subsidiaries if deemed necessary. The Group evaluates the main scenarios and their relevance on an ongoing basis and at least once a year. New scenarios are added when necessary. The scenarios are approved by the Board of Directors.

Regulatory stress tests

The Group has permission to use internal ratings-based (IRB) models and therefore participates in the annual macroeconomic stress test conducted by the Danish Financial Supervisory Authority (the Danish FSA). The latest stress test was performed in the spring of 2021.

The Group also participates in the EU-wide stress test conducted by the European Banking Authority (the EBA) every second year. The purpose of the EBA stress test is to assess the robustness of the European banking sector in the event of a very severe economic setback. The latest exercise was conducted in 2021.

The Group's most important stress test scenarios

Scenario	Description and use
Severe recession	A sharp slowdown in the global economy reduces exports, private consumption and GDP, while increasing unemployment. This scenario assumes a significant setback in property prices because of weak consumer confidence, high unemployment and tight credit policies.
	The Group uses the severe recession scenario in its capital planning to determine whether the capital level is satisfactory. If management concludes that the level of excess capital is too low in the scenario's worst year, it will consider changing the risk profile or raising capital.
Extreme recession	A very sharp slowdown in the global economy reduces exports, private consumption and GDP, while increasing unemployment. This scenario assumes deflation in most economies and a very sharp drop in property prices.
	The Group uses the extreme recession scenario for recovery plan purposes to test the credibility and effectiveness of its actions to restore its capital and liquidity positions.
Regulatory scenarios	Base cases and adverse scenarios of the Danish Financial Supervisory Authority and the European Banking Authority.
	The Danish Financial Supervisory Authority uses the regulatory scenarios for the Supervisory Review and Evaluation Process (SREP).
Other scenarios	Besides the main scenarios listed above, the Group also uses various specialised or portfolio-specific scenarios that give management an understanding of how specific events will affect the Group.
	The Group applies industry-specific scenarios to selected portfolios to assess whether the impairment levels included in the severe recession scenario are sufficient.

For more information about the stress test process, see the ICAAP report, which is updated on a quarterly basis and published along with the Group's interim and annual reports at www.danskebank.com/investor-relations.

6.3.6 Capital allocation

The Group makes a full internal allocation of its total equity across business units on the basis of each unit's contribution to the Group's total risk as estimated by means of regulatory models. The Group is constantly improving its capital allocation framework to ensure that it reflects as closely as possible the effects of new regulation and the risk entailed in its business activities. The principles for allocating capital across the business units are fully aligned with the Capital Requirements Regulation (CRR). As a result, the capital consumption of the Group's individual business units is closely aligned with the Group's total capital consumption.

6.3.7 Monitoring and reporting

The Group monitors risks related to its capital and capital position and submits risk reports to the chief financial officer, the chief risk officer and the Board of Directors. Capital management risk reporting consists of a monthly report on the Group's capital position (the Capital and REA Report) and an overview of the Group's capital position against trigger levels (the Indicator Dashboard). In addition, the Group prepares quarterly reports on its capital position (on a short- and long-term basis) measured against its risk and business strategy as part of the ICAAP. See section 2.7 for an additional description of risk reporting.

6.4 Capital profile

At 31 December 2021, the Group's CET1 capital amounted to DKK 151.9 billion, or 17.7% of the total REA, and its tier 1 capital amounted to DKK 171.9 billion, or 20.0% of the total REA. The Group's total capital amounted to DKK 192.8 billion, and its total capital ratio was 22.4%.

6.4.1 Total capital

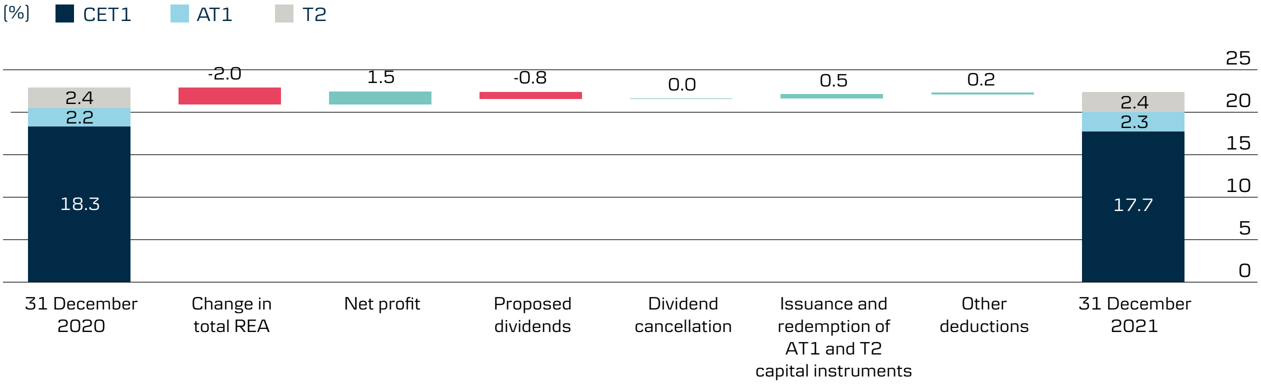
The high-level components of total capital are shown in the following table (a more detailed breakdown appears in the Group's Annual Report 2021). The figures reflected the Group's capital subject to the transitional rules of the CRR (including the phase-in of IFRS 9) at 31 December 2021.

Total capital and capital ratios of the Danske Bank Group

At 31 December (DKK millions)	2021	2020
Total equity	176,704	168,678
Adjustment to total equity	178	158
Total equity calculated according to the rules of the Danish FSA	176,881	168,836
Additional tier 1 (AT1) capital instruments included in total equity	-5,419	-8,415
Adjustments for accrued interest and tax effect on AT1 capital	-78	-93
Common equity tier 1 (CET1) capital instruments	171,384	160,329
Deductions from CET1 capital	-19,449	-16,602
– portion from goodwill	-5,325	-5,354
– portion from statutory deductions for insurance subsidiaries	-6,882	-8,992
CET1 capital	151,935	143,727
AT1 capital	19,933	17,282
Tier1 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%
Tier1 capital ratio (%)	20.0%	20.5%
Total capital ratio (%)	22.4%	23.0%

The following chart shows the change in the Group's total capital ratio from 31 December 2020 to 31 December 2021. The main drivers were the Group's net profit after dividend, proposed dividends and changes in the total REA.

Change in total capital ratio, the Danske Bank Group, 2021



Common equity tier 1 capital

Starting with total equity under International Financial Reporting Standards (IFRS), the Group makes a number of adjustments in order to determine its CET1 capital.

In accordance with IFRSs and the Danish FSA's accounting rules, total equity is subject to the following adjustments:

- Revaluation of domicile property is recognised at the estimated fair value. Revaluation to a value above the cost of acquisition is recognised as CET1 capital. The revaluation of domicile property is not affected by the implementation of IFRS 16, which concerns leased assets on the balance sheet rather than domicile property owned by the Group.
- The CRR-compliant additional tier 1 capital instruments issued in the period 2014-2016 count as equity under accounting rules, but do not qualify as equity under capital and solvency rules. The additional instruments are therefore excluded from CET1 capital and instead categorised as additional tier 1 capital. The additional tier 1 capital instruments issued in March 2017 and June 2018 are not recognised as equity under accounting rules.

In addition to the adjustments listed above, total equity is also subject to certain deductions to determine CET1 capital in accordance with the CRR. These are the main deductions:

- adjustment 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
- proposed dividends
- prudential filters
- statutory deduction for insurance subsidiaries

Furthermore, the IFRS 9 transitional arrangements, as stipulated in the CRR, were extended by two years from 2023 to 2025 in the light of COVID-19. In addition, institutions were allowed to fully add back to their CET1 capital any increase in new expected credit loss provisions recognised in 2020 and 2021 for financial assets that are not credit-impaired. At the end of 2021, those changes increased the Group's CET1 capital by around DKK 1.0 billion. The fully phased-in effect of IFRS 9 will lower the Group's CET1 capital ratio by 0.3 percentage points.

At the end of 2021, the Group's CET1 capital amounted to DKK 151.9 billion, an increase of DKK 8.2 billion from 2020. The Group's net profit increased its CET1 capital by DKK 12.9 billion in 2021.

Additional tier 1 capital and tier 2 capital

At the end of 2021, the Group's additional tier 1 capital amounted to DKK 19.9 billion, or 2.3 percentage points of its total capital ratio. During the year, the Group redeemed additional tier 1 capital in the amount of DKK 3.0 billion, while issuing CRR-compliant tier 1 capital in the amount of DKK 4.9 billion.[1] At 31 December 2021, all of the Group's additional tier 1 capital instruments were fully CRR-compliant.

[1] Capital instruments issued in USD – the amount of DKK 4.9 billion was the value at the end of 2021.

At 31 December 2021, the Group's tier 2 capital amounted to DKK 20.9 billion, or 2.4 percentage points of its total capital ratio. During the year, the Group redeemed tier 2 capital in the amount of DKK 3.7 billion, while issuing CRR-compliant tier 2 capital in the amount of DKK 5.6 billion. At 31 December 2021, all of the Group's tier 2 capital instruments were fully CRR-compliant.

For a description of the terms and conditions applicable to the Group's outstanding issues of individual additional tier 1 and tier 2 capital instruments, see notes G22 and G25 of the Group's Annual Report 2021.

Consolidation methods and statutory deductions for insurance companies and significant investments
The consolidation of the Group's financial statements is based on IFRSs, whereas the prudential consolidation in the statement of capital is based on the rules of the Danish FSA and the CRR. The main difference is that, under IFRSs, Danica Pension is consolidated on a line-by-line basis, whereas, under the rules of the Danish FSA, it is treated as a (net) investment in a subsidiary in accordance with the equity method.

In December 2013, the Danish FSA designated the Group as a financial conglomerate because of its ownership of Danica Pension. Consequently, the Group is subject to supplementary supervision as a financial conglomerate (at the group level). For this reason, the Group performs its solvency calculations using the deduction method.

In rare circumstances, companies taken over by the Group because they in default are consolidated in the financial statements and sold as soon as possible. The holdings are included in the calculation of the total REA. The following table shows the differences between the ordinary consolidation principles used in the financial statements and those used in solvency calculations for subsidiaries and significant investments in credit institutions.

Consolidation principles for subsidiaries and other holdings of Danske Bank A/S

	Consolidation of solvency calculations		Consolidation in IFRS accounts	
Subsidiaries and other holdings of Danske Bank A/S	Full	Capital deductions	Full	One line
Credit institutions	√		√	
Significant investment in credit institutions		√		√
Insurance operations (consolidated)*		√	√	
Foreclosed companies (risk-weighted)			√	

* Insurance operations are consolidated according to the capital deduction method.

As a financial conglomerate, the Group has obtained permission to use the Danish FSA's deduction method for investments in subsidiaries carrying out insurance operations in line with the conglomerate method stated in the CRR. The Group's statutory deduction for Danica Pension is calculated as Danica Pension's solvency need less the difference between Danica Pension's total capital and the carrying amount of Danske Bank's capital holdings in Danica Pension. This method ensures that the Group's total capital is reduced fully by deductions made from Danica Pension's total capital, among other things.

The statutory deductions for insurance companies were previously divided equally between tier 1 and tier 2 capital. Since 2018, the deductions for subsidiaries carrying out insurance operations are fully deducted from CET1 capital in accordance with the transitional rules of the CRR. At the end of 2021, the total capital deduction for Danica Pension was DKK 6.9 billion.

Total capital deductions for insurance subsidiaries

At 31 December (DKK millions)	2021	2020
Capital requirement at Danica Pension	13,167	14,278
Less the difference between		
Danica Pension's capital base	27,586	27,209
Danske Bank's capital holdings	24,122	22,377
Total difference	3,464	4,832
Less Danica Pension's holding of Danske Bank shares etc.	521	453
Total deductions for insurance subsidiaries	**6,882**	**8,992**
Deductions from common equity tier 1 capital	6,882	8,992

Note: The carrying amount of Danske Bank's capital holdings in Danica Pension less the total deduction for Danica Pension from the Group's total capital is included in the total REA calculation at a weight of 100%.

The CRR defines capital holdings in other credit and financial institutions that represent more than 10% of the share capital of such institutions as significant investments. Significant investments in financial sector entities, excluding subsidiaries, are subject to a deduction from CET1 capital if the total sum of significant investments is higher than a threshold defined in the CRR. Holdings below the threshold will be risk-weighted at 250%. At the end of 2021, the sum of significant investments held by the Group in financial sector entities was below the threshold, and the deduction was thus not applicable.

6.4.2 Capital and solvency requirements for Danica Pension

The prudential supervision of Danica Pension is governed by the Solvency II framework, which provides for EU-harmonised solvency rules in the insurance sector. Under these rules, in 2021, Danica Pension's capital requirement was DKK 13.2 billion, and its solvency coverage ratio was 210%, up from 191% at the end of 2020.

Danica Pension's solvency coverage ratio

At 31 December (DKK millions)	2021	2020
Shareholder's equity	24,122	22,377
Differences in valuation between accounts and Solvency II	1,914	904
Subordinated liabilities	3,852	3,958
Foreseeable dividends	-2,300	
Eligible own funds for covering the solvency capital requirement	27,587	27,239
Capital requirement	13,167	14,278
Solvency coverage ratio (%)	210	191

6.4.3 Total capital requirement

The total capital requirement is determined as the solvency need ratio plus the combined buffer requirement. The solvency need ratio consists of the 8% minimum capital requirement for risks covered under Pillar I and an additional capital requirement under Pillar II for risks not covered under Pillar I.

At the end of 2021, the Group's solvency need ratio was 11.4%, and the combined buffer requirement was 5.6%. When fully phased in, the buffer requirement will change to 7.0% since increases in the countercyclical buffer rates in the Group's core markets are intended to take effect in 2022. This implies that the fully phased-in CET1 capital requirement was 13.9% and the fully phased-in total capital requirement 18.4%. Assuming fully phased-in rules, the Group would have excess CET1 capital of 3.4% of its total REA at the end of 2021.

Capital ratios and requirements

(percentage of total risk exposure amount)	31 December 2021	Fully phased-in[1]
Capital ratios		
CET1 capital ratio	17.7	17.4
Total capital ratio	22.4	22.1
Capital requirements (incl. buffers)[2]		
CET1 capital minimum requirement (Pillar I)	4.5	4.5
Capital add-on to be met with CET1 capital (Pillar II)	2.4	2.4
Combined buffer requirement	5.6	7.0
– portion from countercyclical capital buffer	0.1	1.5
– portion from capital conservation buffer	2.5	2.5
– portion from SIFI buffer	3.0	3.0
CET1 capital requirement	12.5	13.9
Minimum capital requirement (Pillar I)	8.0	8.0
Capital add-on (Pillar II)	3.4	3.4
Combined buffer requirement	5.6	7.0
Total capital requirement	17.0	18.4
Excess capital		
CET1 capital	5.1	3.4
Total capital	5.4	3.7

1 Based on fully phased-in CRR and CRD rules and requirements, including the fully phased-in impact of IFRS 9.
2 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.

Minimum capital requirement

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

Credit risk amounted to 83.6% of the total REA, making it the Group's largest risk type. In collaboration with other national financial supervisory authorities, the Danish FSA has approved the Group's use of the A-IRB approach for the calculation of credit risk.

The Danish FSA has granted the Group an exemption from the A-IRB approach for exposures to government bonds and equities, among other things. The exemption also applies to exposures at the legal entities of Northern Bank Limited (Northern Ireland) and Danske Bank International (Luxembourg) and to retail exposures in the Non-core Ireland portfolio. For these exposures, the Group currently uses the standardised approach. A complete list of exemptions and approvals is available in section 3.3.

At Danske Mortgage Bank Plc (Finland), the Group has permission to use the F-IRB approach for credit risk exposures to corporate customers. In December 2016, the Group obtained permission to calculate the REA at Danske Mortgage Bank Plc using the F-IRB approach for the institutions asset class and using the A-IRB approach for the retail asset class. Implementation took place in January 2017.

Counterparty credit risk (CCR) is calculated using the same approach as mentioned above for credit risk. CCR, including central clearing counterparty (CCP) default risk and the credit value adjustment (CVA) risk charge, amounted to 3.7% of the total REA.

Market risk amounted to 4.2% of the total REA. The Group uses an internal VaR model both for the market risk on items in the trading book and for the foreign exchange risk on items outside the trading book.

Operational risk amounted to 8.5% of the total REA. The Group uses the standardised approach for the calculation of operational risk.

Risk exposure amounts and risk weights

At 31 December (DKK millions)	2021 REA	2021 Weight* (%)	2020 REA	2020 Weight* (%)
Credit risk				
A-IRB approach				
Institutions	4,540	26	4,092	27
Corporates	286,151	29	275,912	29
Exposures secured by real property	154,071	15	161,509	17
Other retail	20,237	24	19,677	23
Securitisation	1,086	39	1,017	39
Other assets	12,510	88	9,458	81
A-IRB approach, total	478,595	23	471,666	24
F-IRB, total	20,397	48	23,139	50
Standardised approach, total	219,748	24	139,047	16
Credit risk, total	718,740		633,852	
Counterparty credit risk	26,566	9	32,680	11
Central counterparty (CCP) default risk	432	4	498	6
Credit value added (CVA) risk charge	4,431		4,536	
Counterparty credit risk (incl. CCP and CVA)	31,429		37,715	
Market risk, total	36,541		39,906	
Operational risk, total	73,463		72,711	
Total risk exposure amount	**860,173**		**784,184**	

* The average risk weight is EAD-weighted. The implied risk weight is calculated as REA/EAD, thus including the SME supporting factor and risk weight floors.

During 2021, the total REA increased by DKK 76.0 billion to DKK 860.2 billion. The main cause was an increase in credit risk in 2021.

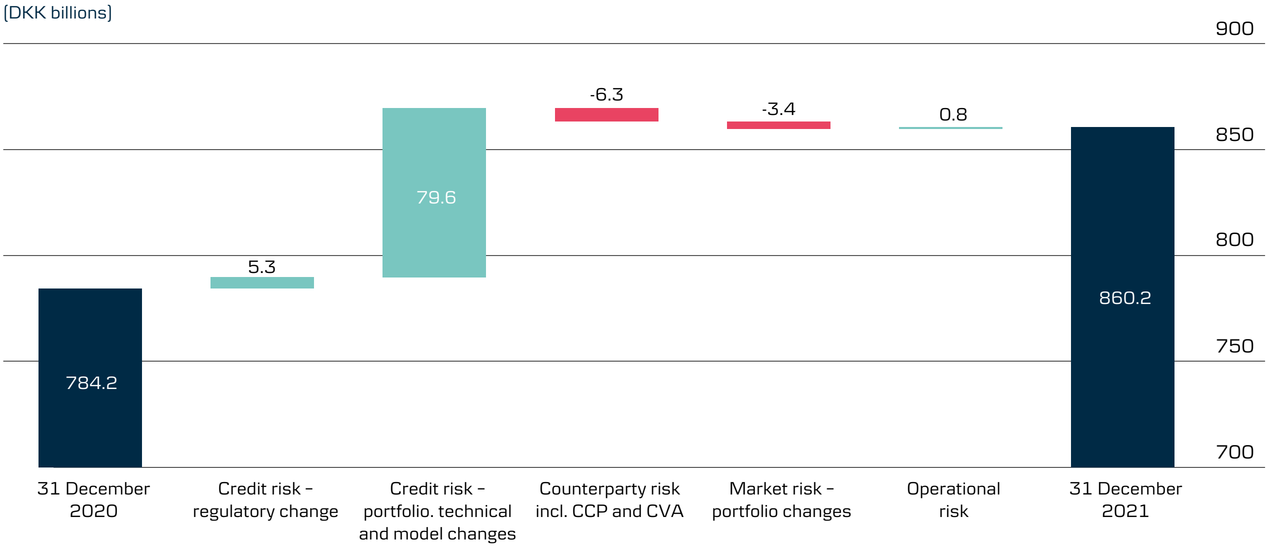
The REA for credit risk increased by DKK 84.9 billion, driven by the implementation of the new regulatory requirements from the EBA (EBA guidelines). Implementation has taken place in terms of the REA, with the main part made via a block reservation under the standardised approach that will be converted into A-IRB at a later stage as models are updated. The REA for market risk decreased by DKK 3.4 billion from the 2020 level.

The REA for operational risk was stable with a slight increase of DKK 0.8 billion from the 2020 level.

The REA for counterparty credit risk, including CCP default risk and the CVA risk charge, decreased by DKK 6.3 billion from the 2020 level, primarily driven by portfolio changes.

Change in total risk exposure amount in 2021

(DKK billions)



Solvency need

The solvency need is the amount of capital that is adequate in terms of size and composition to cover the risks to which a financial institution is exposed. As stated in Danish legislation, the solvency need ratio is the solvency need divided by the total REA as determined under Pillar I.

The Group assumes risks as part of its business activities and expects to incur some financial losses as a consequence of these risks. Under normal circumstances, it expects losses to be well covered by its earnings. If earnings are not sufficient to cover the losses, they are covered by the Group's capital.

The Group is involved in a broad range of business activities. These activities can be divided into five segments for the purpose of risk identification: banking, market, asset management, insurance and group-wide activities. The latter category covers management activities that are not specific to any of the first four business segments but broadly support them all. Each of these activities entails various risks, which fall into the nine main categories of the Group's enterprise risk management (ERM) framework. These risks can be mapped to the risk types listed in the Danish Executive Order on Calculation of Risk Exposures, Own Funds and Solvency Need.

Risk identification by Danish FSA risk type

	Danske Bank Group risk categories								
	Financial risks			Non-financial risks					
FSA executive order Appendix 1 risk items	Credit risk	Market risk	Liquidity and capital risk	Model risk	Operational risk	Technology and data risk	Financial control and strategic risk	Financial crime risk	Regulatory compliance risk
Earnings		√	√						
Credit growth	√						√		
Credit risk	√			√	√				
Concentration risk	√	√	√						
Market risk	√	√	√	√	√				
Interest risk outside banking book		√	√						
Liquidity risk			√						
Operational risk	√	√	√	√	√	√	√	√	√
Gearing	√	√	√						
Other risk*	√	√	√		√	√	√	√	√
Control environment	√	√	√	√	√	√	√	√	√

* Includes strategy risk, reputational risk, external risk, group risk and settlement risk.

After identifying the risks, the Group determines how and to what extent they will be mitigated. Mitigation usually takes place by means of business procedures and controls, contingency plans and other measures. Finally, the Group determines the risks to be covered by capital. The Group thus ensures that it has sufficient excess capital to cover the risks associated with its business activities. It uses models and expert assessments to monitor all significant risks.

As part of the ICAAP under Pillar II, the solvency need is determined on the basis of an internal assessment of the Group's risk profile in relation to the minimum capital requirement. An important part of the process of determining the solvency need is to evaluate whether the calculation takes into account all material risks to which the Group is exposed. The Group uses its internal models as well as expert judgement and Danish FSA benchmark models to quantify whether the regulatory framework indicates that additional capital is needed.

The Group's ICAAP also forms the basis for the Supervisory Review and Evaluation Process (SREP), which is a dialogue between a financial institution and the relevant financial supervisory authority on the institution's risks and capital needs.

At the end of 2021, the Group's solvency need was DKK 98.1 billion, or 11.4% of its total REA. The solvency need decreased by DKK 0.4 billion.

For information about the general methods of calculating the solvency need and the solvency need ratio, see the Group's ICAAP report, which is updated on a quarterly basis and published along with the Group's interim and annual reports on the Group's website at www.danskebank.com/investor-relations.

Combined buffer requirement

A combined buffer requirement applies to financial institutions in addition to the solvency need ratio. The Group's combined buffer requirement consists of a countercyclical buffer, a capital conservation buffer and a SIFI buffer and must be funded with CET1 capital.

The capital conservation buffer and the countercyclical capital buffer are designed to ensure that credit institutions accumulate a sufficient capital base during periods of economic growth to absorb losses during periods of stress. The capital conservation buffer is 2.5%. The countercyclical buffer requirement is calculated as a weighted average of the national buffers in effect in the jurisdictions in which an institution has credit exposures. The Group's countercyclical buffer rate of 0.1% at the end of 2021 was based primarily on the countercyclical buffer rate in Norway (1.0%). The Group takes into account announced national buffer rates when determining its fully phased-in capital requirement.

The Group was designated as a SIFI in Denmark in 2014. Consequently, the Group is subject to higher capital requirements than non-SIFIs. The Group's SIFI buffer requirement is 3%.

Breaching the combined buffer requirement will restrict the Group's capital distribution, including the payment of dividends, payments on additional tier 1 capital instruments, and variable remuneration.

As stated in the CRR, any dividends on CET1 and additional tier 1 capital instruments must be paid from distributable items. These are primarily retained earnings. At the end of 2021, Danske Banks A/S's distributable items amounted to DKK 133.2 billion.

Distributable items for Danske Bank A/S

At 31 December (DKK billions)	2021	2020
Retained earnings	127.2	123.1
Expected/proposed dividends	6.5	1.7
Interest on AT1 capital instruments, not distributed	0.1	0.1
Foreign currency translation reserve	-0.6	-1.0
Distributable items	**133.2**	**123.9**

6.4.4 Leverage ratio

The leverage ratio represents a non-risk-adjusted capital requirement implemented to serve as a further backstop measure for risk-based capital. The CRR/CRD rules require a credit institution to calculate, monitor and report on its leverage ratio (defined as tier 1 capital as a percentage of total leverage exposure). On the basis of the implementation of the revised CRR, a minimum leverage ratio requirement of 3% became applicable from the second quarter of 2021.

The Group takes the leverage ratio into consideration in its capital management process. The Group's overall monitoring of leverage risk is performed in the ICAAP, which also includes an assessment of changes in the leverage ratio under stressed scenarios. On a monthly basis, the Group determines and monitors its leverage ratio. To ensure sound monitoring, the Group has set forth policies for the management and control of each component that contributes to leverage risk.

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.

Leverage ratio

At 31 December (DKK billions)	2021	2020
Total exposure for leverage ratio calculation	3,532.3	3,616.3
– portion from derivatives	132.9	143.0
– portion from securities-financing transactions	264.5	267.6
– portion from exposure to central banks, institutions and cash in hand	326.8	352.1
Reported tier 1 capital (transitional rules)	171.9	161.0
Tier 1 capital (fully phased-in rules)	169.3	158.2
Leverage ratio (transitional rules)	4.9%	4.5%
Leverage ratio (fully phased-in rules)	4.8%	4.4%

Under the transitional rules, the leverage ratio increased by 0.4 percentage points during 2021, driven mainly by an increase in tier 1 capital and a decrease in exposures to central banks and credit institutions as well as a decrease in trading portfolio assets.

6.4.5 Minimum requirement for own funds and eligible liabilities

As a consequence of the Bank Recovery and Resolution Directive (BRRD), credit and financial institutions in the EU are required to hold a certain amount of bail-in-able resources to fulfil the minimum requirement for own funds and eligible liabilities (MREL). The purpose of the MREL is to ensure that institutions can absorb potential losses and be recapitalised with no recourse to public funds.

The national resolution authorities are required to set an MREL for each institution on the basis of its institution-specific resolution plan. Danske Bank's resolution plan is based on a single-point-of-entry (SPE) approach at the group level. The requirement for the Group is calibrated in accordance with the Danish FSA's resolution strategy. This strategy states that a systemically important financial institution (SIFI) is to be recapitalised in order for the entire institution to be able to continue its activities post resolution.

For Danish SIFIs, the MREL is set at two times the solvency need plus one time the SIFI buffer and one time the capital conservation buffer. Furthermore, the combined buffer requirement (CBR) must now be met in addition to the MREL. With effect from 28 December 2020, the Danish FSA set the MREL for the Group at 30.5% of the REA (adjusted for Realkredit Danmark). With the addition of the combined buffer requirement of 5.6%, this corresponded to a de facto MREL of 36.1% of the REA. At the end of 2021, the MREL ratio was 40.0%, corresponding to a surplus of DKK 28.0 billion. The MREL is to be met with eligible instruments as defined in the CRR, which includes equity, subordinated debt, non-preferred senior debt, and preferred senior debt.

In addition, part of the MREL must be met with own funds and liabilities capable of bearing losses before unsecured claims. This is known as the subordination requirement and can be met with subordinated debt, which includes non-preferred senior debt but excludes preferred senior debt. The subordination requirement for Danish SIFIs is calibrated as the higher of 8% of total liabilities and own funds and two times the solvency need plus the combined buffer requirement, where the latter is currently binding. For the Group, the subordination requirement is set at 30.6% of the REA (corresponding to the previous requirement). At the end of 2021, the MREL subordination ratio was 35.3%, corresponding to a surplus of DKK 33.7 billion.

Since mortgage credit institutions are exempt from the MREL, Realkredit Danmark figures are excluded from the consolidation for the purposes of determining the MREL. Thus, the calculation of the risk exposure amount to be used for determining the Group's MREL does not include the risk exposure amount for Realkredit Danmark.

The exclusion of Realkredit Danmark (RD) figures from this consolidation is shown in the table below. Furthermore, the capital and debt buffer requirements applicable to Realkredit Danmark are deducted from the own funds and liabilities used for the fulfilment of the MREL.

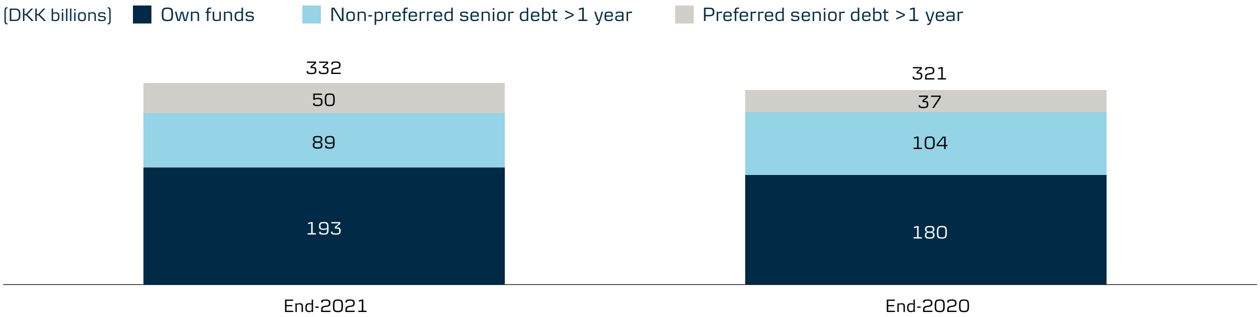
Total REA for the Danske Bank Group excluding Realkredit Danmark

At 31 December (DKK billions)	2021	2020
Danske Bank Group REA	860	784
Deduction for RD REA contribution to Group REA	184	-171
REA adjustment for Danske Bank A/S exposure to RD		
Add-on for guarantees	28	29
Add-on for bonds, repos and derivatives	5	5
Add-on for RD equity (100% risk weight)	49	50
Deduction of RD capital and debt buffer requirements	-45	-43
NPS, risk-weighted (150% risk weight)	3	3
Group REA adjusted for RD	716	656
MREL liabilities – Danske Bank A/S	331	321
Deduction for RD capital requirements	-29	-26
Deduction for RD debt buffer requirement	-16	-16
Available MREL liabilities in DKK	287	279
Available MREL liabilities as % of REA adjusted for RD	40.0	42.5

The Danish FSA's current approach to the MREL is based on the Danish implementation of BRRD I, taking into account certain effects from the Danish implementation of BRRD II (applicable from end-2020). Hence, the framework for setting the MREL might be revised in the light of the Danish implementation of BRRD II.

The following table shows the composition of the Group's eligible liabilities that may be used for meeting the MREL.

Composition of the Group's own funds and eligible liabilities



6.5 *Future regulatory requirements*

6.5.1 Basel IV

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 part of the EU 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 several adjustments to the original Basel IV standard, including a specific transitional arrangement for the calculation of the output floor in respect of exposures to unrated corporates. In addition, 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 Danske Bank, 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 future legislative negotiations is subject to uncertainty as to the final outcome.

6.5.2 New directive on covered bonds

In December 2019, the EU covered bonds package was adopted by the EU legislators. It outlines requirements for bonds to be recognised as covered bonds under EU law. This includes a requirement for a new cover pool liquidity buffer and stipulates eligible cover pool assets. Furthermore, the package introduces a new requirement of a minimum level of cover pool overcollaterisation. Depending on the transposition of the directive in the individual EU member states, the Group expects the new rules to have a limited effect on the Group since the proposal, to some extent, introduces features that are already part of the legislation on covered bonds in Denmark. The Danish implementation of the EU covered bonds package, which was adopted in June 2021, is in line with expectations and will thus imply limited changes to the Group's covered bonds activities.

6.5.3 EBA IRB roadmap

In 2016, the European Banking Authority (EBA) set out a roadmap to enhance internal models used for calculating own funds requirements for credit risk under the internal ratings-based (IRB) approach. The roadmap aims to address the concerns about undue variability of own funds requirements and to restore trust in IRB models by ensuring comparability of the estimates of risk parameters, while retaining their risk sensitivity.

The EBA roadmap to enhance the internal models used for calculating credit risk has materialised in the expected increase in Danske Bank's total REA. In 2021, Danske Bank's total REA thus increased by around DKK 90 billion as a result of the EBA IRB roadmap.

Insurance and pension risk

7.

7. *Insurance and pension 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. For a description of this particular risk, see section 5.

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.

7.1 *Insurance and pension risk management*

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.

7.1.1 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.

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.

7.1.2 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.

7.1.3 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.

For more information about non-financial risk, see section 8 of this report.

7.1.4 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

7.2 Risk governance and responsibilities

The general strategic goals and the risk management framework for Danica Pension are decided by its Board of Directors. The risk appetite set by the Board of Directors defines the material risks to which Danica Pension is exposed and sets limits on aggregate measures of these risks. The Board of Directors has two committees: the Risk Committee and the Audit Committee. The general objective of the Risk Committee is to advise the Board of Directors on Danica Pension's risks and internal control system and to oversee the adequacy and effectiveness of Danica Pension's risk structure. The Audit Committee prepares the work of the Board of Directors in respect of financial reporting and auditing matters.

Danica Pension's solvency capital requirement is calculated in accordance with the Solvency II Directive standard model. However, a partial internal model is applied to the calculation of longevity risk. Approved by the Danish Financial Supervisory Authority (the Danish FSA), the partial internal model is based on the Danish FSA's life expectancy benchmark and longevity observations for Danica Pension's policyholders.

Danica Pension's daily risk management activities are governed by its risk management policy issued by its Board of Directors.

Accordingly, Danica Pension's risk management practices are organised in line with the principles of the three-lines-of-defence model:

- The first line of defence consists of all Danica Pension employees who are not organised within the second or third line of defence.
- The second line of defence oversees risk exposure and risk management in the first line of defence and consists of Danica Pension's risk management function, compliance function and actuarial function.
- The third line of defence consists of Danica Pension's internal audit function and internal audit employees.

Danica Pension's risk management activities are anchored in Danica Pension's All Risk Committee, which is chaired by Danica Pension's chief risk officer (CRO), who is also responsible for the risk management function. The All Risk Committee is responsible for maintaining the complete risk picture across all risk types and undertakings.

The All Risk Committee is supplemented by the Asset & Liability Management (ALM) Committee. The ALM Committee coordinates the management of risks arising from differences in exposures between assets and liabilities and also ensures that limits set by the Board of Directors are not breached. The ALM Committee is chaired by Danica Pension's CRO.

Danica Pension's CRO reports to the CEO of Danica Pension and to the Large Corporates & Institutions CRO at Group Risk Management.

Danica Pension has three other committees: the Investment Committee, the Valuation Committee and the Product Committee.

The Investment Committee is chaired by Danica Pension's chief investment officer. It meets on a weekly basis to discuss developments in the financial markets, risk reporting and asset allocation.

The Valuation Committee is chaired by Danica Pension's chief financial officer. To ensure independence in respect of the valuations of alternative investments, the committee has two external members who are not employed by the Danica Group. The committee meets on a quarterly basis to validate and approve the valuations of alternative investments.

The Product Committee is chaired by Danica Pension's chief executive officer. The purpose of the Committee is to ensure that the products and services offered and/or distributed by Danica Pension meet the requirements set by Danica Pension's Board of Directors.

As a part of its risk governance, Danica Pension's Board of Directors approves a capital plan and a capital contingency plan every year. Danica Pension can and has previously issued capital in the form of restricted tier 1 or tier 2 capital instruments in order to improve or optimise its capital structure. Danske Bank A/S has no obligation to provide capital to Danica Pension to help re-establish its solvency position in adverse events.

7.3 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).

7.4 Insurance risk profile

In recent years, Danica Pension's new sales have primarily been sales of unit-linked products, and the portfolio of with-profits products (average rate products) has been in run-off since the first half of 2020. For the activities in Denmark at 31 December 2021, life insurance provisions for unit-linked products accounted for about 58% of total provisions for insurance and investment contracts, up from 53% at year-end 2020, 50% at year-end 2019, and 48% at year-end 2018.

Provisions for insurance and investment contracts

At 31 December (DKK billions)	2021	2020	2019	2018*
Life insurance provisions, average rate products	172	184	186	181
Life insurance provisions, unit-linked products	272	232	212	185
Other provisions	26	25	23	20
Provisions for insurance and investment contracts, Denmark	**470**	**440**	**421**	**386**
Provisions for insurance and investment contracts, Norway	23	18	17	13
Total provisions for insurance and investment contracts	493	458	438	400

* Excluding Danica Pension's former subsidiary in Sweden, which was sold in 2019.

Danica Group's solvency coverage ratio was 210% at 31 December 2021, up 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%.

Sensitivities – solvency capital ratio

At 31 December 2021 (DKK millions)	Stress (%)	Own funds	Solvency capital requirement	Solvency capital ratio (%)
Interest rate risk	-1.71	27,708	22,166	125
Equity risk	69	21,242	16,994	125
Property risk	68	24,399	19,519	125
Credit spread risk:				
Danish government bonds	14	24,318	19,454	125
Other government bonds	36	25,645	20,516	125
Other bonds	48	24,124	19,299	125
Longevity risk	54	24,221	19,377	125

Non-financial risk

8.

8.1 Introduction to 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 or from people, systems or external events, including legal and compliance risks.

The purpose of this section is to describe the Group's approach to non-financial risk management. Subsection 8.1 describes the Group's overall approach to managing non-financial risk, while subsection 8.2 elaborates on the Group's management of specific non-financial risk categories.

The Group recognises the importance of managing its non-financial risks. Specifically, in 2021, the Group continued to deal with the impact of COVID-19 and the implementation of the organisational changes announced in 2020.

During 2021, the Group carried on its efforts to strengthen its non-financial risk management framework and to increase awareness of non-financial risks across the Group. Important developments were made in the following key areas:

- **Risk and compliance competencies:** The non-financial risk discipline continued to mature and develop in 2021. Activities included maturing the non-financial risk tolerances, working with change risk management in respect of major strategic initiatives as well as critical and important outsourcing agreements, and implementing the first two modules of a new governance risk and compliance (GRC) tool. The focus was on enhancing the work across the Nordic countries and Northern Ireland and on improving interactions with subsidiaries.
- **Framework and policies:** In 2021, the Group strengthened many of its policies as part of the annual review process. The Product Governance Policy for New & Amended Product Approval (NAPA) and the accompanying instructions and template reflected greater recognition of environmental, social and governance (ESG) and conduct risks. A new conduct risk policy was introduced across the Group. The Group also published its Risk and Control Self-Assessment Instructions to strengthen risk identification and management updating of existing methodologies with industry good practice. Accompanying systems were also updated.
- **Risk event management and lessons learned:** Enhancements to the Group's risk management, risk awareness and risk culture initiatives led to better identification of legacy issues. This meant that issues were recognised more promptly and understood more fully than previously. In addition, the Group strengthened the follow-up on events to ensure greater transparency and to provide a better overview of the progress of mitigating actions.
- **Operational resilience:** The Group's crisis management remained sufficiently robust and flexible to deal with the ever-changing nature of the ongoing pandemic by ensuring swift and adequate reaction. The Group's development of its operational resilience strategy continued in 2021.

The Group has a substantial focus on strengthening the control environment across the organisation through a number of programmes to address orders issued by the Danish Financial Supervisory Authority (the Danish FSA), to control weaknesses observed, and to adhere to regulatory requirements.

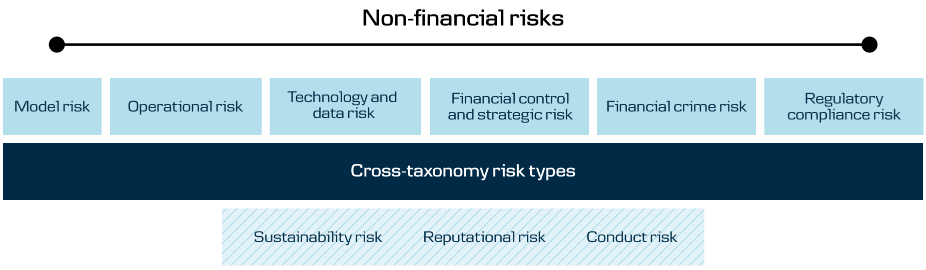
Strengthening the management of non-financial risk is a continuous process. In 2021, the Group continued its work to remediate the gaps identified by the Danish FSA in 2019 in the Group's IT risk framework and control activities.

The Group continued its efforts to address significant events and remediation in 2021, with the debt collection case being the most critical. A number of remediation issues have now been closed as customer cases have been remediated and new solutions are in place. The Group maintains the aim of ensuring that all issues are handled in a consistent, timely and proactive manner and that lessons learned are applied across all issues. The central remediation unit established in 2020 has now been supplemented by operational units to ensure remediation and follow-up closer to the customers. This will provide a transparent approach and timely communications to customers.

The implementation of the GRC platform (a multi-year programme) progressed with further releases of both the underlying platform and individual applications. The Group is implementing the new platform in order to strengthen its risk management and regulatory compliance controls through effective data analytics. The GRC platform will help the Group identify immediate actions to ensure regulatory compliance on the basis of increased quality information and process optimisation. When implemented, the new platform will give the Group a transparent overview of risks, controls and compliance efforts and enable it to effectively manage them. The implementation is a multi-year project and will consolidate various existing systems and processes into a single platform. Using a shared data model, the new platform will consist of seven applications that span all three lines of defence. The first two applications have already been successfully implemented with a further three to go live in the first half of 2022.

8.1.1 Non-financial risk management

In accordance with the Group's risk taxonomy as set out in its ERM framework (see section 2.2), non-financial risk consists of six risk categories:



Three additional risk types – sustainability risk, reputational risk and conduct risk – are embedded across the taxonomy along with the six non-financial risk categories. Sustainability risk is defined as the risk of a significant negative impact on the Group's financial situation, operations and/or reputation as a result of current or potential effects arising from environmental, social or governance (ESG) events or conditions. For more information about sustainability risk, see section 4 of this report. Reputational risk is defined as the risk arising from failure to meet stakeholders' expectations with possible damage to the Group's brand and reputation. Conduct risk is defined as the risk that the Group's behaviour in supplying financial services causes customer detriment, damages the integrity of financial markets, reduces competition, or erodes society's trust in the Group.

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 risk across the three lines of defence. Supplementary policies are in place and reviewed annually to ensure alignment with regulatory developments.

Implementation of the non-financial risk management framework is linked to the process of building and maintaining a strong risk and compliance culture across the Group. All employees (including members of the Executive Leadership Team) participate in annual compulsory eLearning courses on a variety of risk- and compliance-related topics, including "Everyone is a risk manager at Danske Bank", competition law, anti-money laundering, whistleblowing, GDPR, and information security awareness.

The Group's approach to non-financial risk management focuses on the identification, assessment, mitigation and reporting of the six non-financial risk types as specified in the Group's taxonomy for non-financial risks. 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. Moreover, the Group's change risk management, especially with respect to new product introduction, is fundamental in supporting the Group's ambition of creating value for all of its stakeholders.

The Group takes mitigating actions and learns from materialised non-financial risk events in order to reduce the likelihood and impact of such risk events in future and to avoid breaches of the risk tolerance threshold.

The non-financial risk tolerance threshold is set for net losses after recoveries for a calendar year. Compliance with this tolerance threshold is monitored and reported in accordance with internal procedures. In 2020, a number of non-financial risk tolerances were enhanced and defined at a more granular level and aligned with the ERM taxonomy. They were approved by the Board of Directors in April 2021 and are monitored on a monthly basis against key risk indicators. Additional tolerances were developed during the second half of 2021 and is expected to be presented to the Board of Directors for approval in the first quarter of 2022.

8.1.2 Governance and responsibilities

Business units and functions across the Group, including dedicated business risk and control units, are responsible for the management of the Group's non-financial risks and act as the first line of defence. They are in charge of managing non-financial risks in accordance with the Group's risk tolerance threshold (where set). The Group's second line of defence consists of Group Risk Management and Group Compliance, and these functions oversee all non-financial risks.

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, including the Non-Financial Risk Committee (NFRC), the Compliance, Conduct & 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. Group Internal Audit (GIA) acts as the third line of defence.

8.1.3 Risk assessment and risk event management

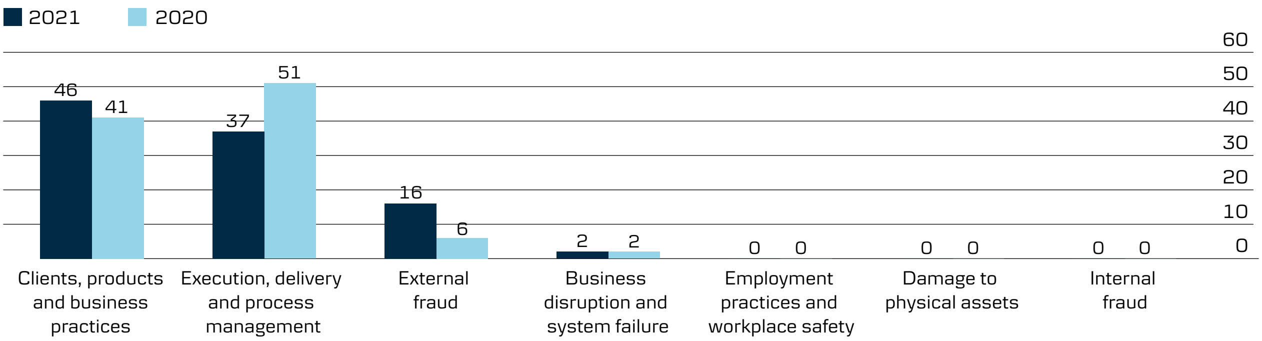
It is a prerequisite for non-financial risk management that the Group understands and maintains an overview of its organisation and takes ownership of its activities.

The Group's standard approach to risk 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. This is encapsulated in both the Non-Financial Risk Policy and the supporting Risk and Control Self-Assessment Instructions.

Risk event management aims to ensure timely and appropriate handling of detected events in order to minimise the potential impact on the Group and its stakeholders and to prevent reoccurrence. Furthermore, risk event management allows 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, and risk assessment and root cause analysis are performed to effectively address underlying risks and provide mitigation plans. The Group strives to learn from materialised events and observed near misses to improve its operational risk management framework on an ongoing basis. Event awareness and coverage continue to strengthen across the Group as registration, approval and escalations take place in an increasingly timely manner.

The following chart provides an overview of the Group's materialised losses broken down into seven Basel II event type categories.

Gross losses broken down by Basel event type category
(%)



Note: The chart shows gross losses (actual losses sustained by the Group excluding any recovery) for non-financial risks broken down by Basel II event type category, as reported for COREP reporting.

As in 2020, the majority of loss events in 2021 continued to fall into 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 service-related events.

8.1.4 Monitoring and reporting

Significant non-financial risk events across the Group are monitored and reported to the Executive Leadership Team, the Board of Directors, the Danish FSA and, where applicable, to relevant local financial supervisory authorities (FSAs).

The Group monitors trends in risk performance data to identify changes in non-financial risk management that may require further analysis and mitigation and/or support risk profile conclusions and managerial decisions.

The Group standards require group-level aggregation and monitoring of its non-financial risk profile against the risk tolerance threshold. Non-financial risk monitoring comprises two core components: financial losses stemming from non-financial risk events and non-financial risk exposure derived from continuous risk assessments.

Reports on the Group's non-financial risk profile, including risks, events and risk tolerance, are submitted on a monthly basis to the Executive Leadership Team and on a quarterly basis to the Board of Directors.

8.2 Non-financial risk categories

In addition to the Group's general approach to non-financial risk management, each non-financial risk category, as defined by the Group's risk taxonomy set out in its ERM framework, is managed in accordance with specific regulatory requirements and business objectives.

8.2.1 Operational risk management

Operational risk is inherent in the Group's day-to-day operations. Such risk may occur in relation to the Group's products and services, reporting procedures, employment practices, workplace safety, damage to physical assets, outsourcing agreements, third parties dealing with the Group, mismanagement of legal disputes or contractual rights and obligations, or as the result of business continuity events (such as natural disasters, pandemics or power outages).

The Group's business units form the first line of defence. They are responsible for day-to-day operational risk management and own the risk inherent in their operations. The first line of defence has the responsibility for identifying, assessing, monitoring and mitigating risks associated with business operations.

Operational risk is managed in accordance with the Group Non-Financial Risk Policy, which is supported by related policies and instructions.

Danske Bank's approach to ongoing identification and management of operational risks

Risk event management

Risk event awareness and coverage continue to improve across the Group as registration, approval and escalation take place in a timely manner. All employees are instructed and required to register risk events in the Group's risk event registration system. This information is analysed to identify root causes, estimate the exposure and perform the remediation actions needed. Where the level of impact exceeds agreed thresholds, risk events are escalated to the relevant regulatory bodies.

Conduct

The supporting risk management framework is being developed and implemented through the Conduct Programme, which was established in 2020 as a key strategic initiative under the Group's Better Bank transformation programme. The Group's Conduct Risk Policy was approved by the Board of Directors in June 2021, and the supporting instructions and risk tolerance statements were subsequently aligned with relevant stakeholders across the Group and implemented by the first line of defence.

Risk and control self-assessment instructions

The Group's approach to risk assessment provides a consistent methodology for all business units and subsidiaries to apply in a broad range of contexts. For example, risk and control self-assessments are completed to assess risks associated with products, processes, organisational changes and outsourcing arrangements, and the assessments can be scheduled or based on triggers.

Outsourcing

Outsourcing risk management addresses the risks associated with processes, services or activities outsourced to third parties by the Group or Group entities. The purpose is to identify, manage and mitigate non-financial risks stemming from outsourcing arrangements. Centralised teams are in place in both the first and second lines of defence to ensure uniform application of the outsourcing process and appropriate governance both prior to decision-making on outsourcing and during the outsourcing engagement lifecycle.

New and amended product approval (NAPA)

The NAPA process ensures that the products and services offered by the Group are in the best interests of customers and comply with relevant regulations. The NAPA Policy sets out the product governance process and provides guidance on the overall process. The policy also includes guidance on roles and responsibilities, including but not limited to those of the product owners (overall responsibility), the manufacturing and distributing business units, and the product committees.

Financial crime

The Group continues 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 has established more detailed risk tolerance statements for elements of financial crime, and they are now being operationalised. The Group has 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.

Semi-annually, the Group's non-financial risk loss events are reported to the Danish FSA on the basis of the EBA standards for common reporting (COREP). Significant non-financial risk loss events across the Group are monitored and reported as described in section 8.1.4. Operational risk is assessed annually within the scope of the Group's Internal Capital Adequacy Assessment Process (ICAAP).

The Group's non-financial risk awareness and culture are strengthened through continuous education and training. All employees are required to perform mandatory training in key areas, such as Know-Your-Customer processes, information security, fraud prevention, anti-money laundering, and the Group's code of conduct.

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's approach to operational resilience is based on 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.
- 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, the 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 in incident responses, in contingency planning and among third parties.

The Group will carry on strengthening 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.

The Group has prepared a recovery plan to recover its capital and/or liquidity position and long-term viability in a crisis situation. An indicator framework has been established to escalate signs of financial weaknesses and to identify potential threats in due time for the Group to act.

Third-party risk
Third-party risk management (TPRM) considers the risks associated with processes, services, or activities provided to the Group by third parties. The purpose of TPRM is to identify, manage and mitigate non-financial risks when the Group engages with a third party. Third-party arrangements classified as *outsourcing* or *critical or important outsourcing* are subject to specific regulatory requirements listed in the EBA Guidelines on Outsourcing and the Danish Executive Order on Outsourcing. Outsourcing arrangements are to be managed in accordance with the Group's Outsourcing Policy.

In connection with the implementation of the new regulatory outsourcing requirements and the Outsourcing Policy, the Group has also strengthened its governance and framework for outsourcing. This includes establishing centralised teams in both the first and second lines of defence, central processes and templates, a group-wide outsourcing register, and an improved risk assessment process. The overall purpose is to ensure a uniform application of the outsourcing process and appropriate governance both prior to decision-making on outsourcing and during the outsourcing engagement lifecycle. Elements of the new governance and framework are still maturing, but the Group now has a good platform to address potential issues and risks identified as part of the new process and to maintain control of the outsourcing portfolio.

8.2.2 Financial crime risk management
Financial crime risk is the risk that internal or external parties misuse the Group's infrastructure and services to steal, defraud, manipulate or circumvent established rules, laws and regulations through money laundering, financing of terrorism, sanctions breaches, bribery and corruption, tax evasion or fraud.

The Group's business units and their support functions constitute the first line of defence and are responsible for identifying financial crime risks and for having appropriate 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, setting policies and providing independent oversight and challenge to ensure that financial crime risks are managed effectively.

To further improve the execution of the Group's Financial Crime Plan in an effective and efficient way – by leveraging automation and digitalisation and by eliminating overlaps to the benefit of customers – all responsibilities for the overall implementation of the Group's financial crime control environment now rest with one member of the Executive Leadership Team, the chief administrative officer (CAO). The CAO has the end-to-end ownership of the fight against financial crime across both the first and second lines of defence.

The new units reporting to the CAO will work together to ensure this end-to-end ownership. The following new areas report to the CAO: 1st Line Financial Crime Prevention, 1st Line Financial Crime Risk, and Financial Crime Compliance (as part of Group Compliance).

Financial crime strategy
The Group is undertaking a multi-year enhancement programme to materially upgrade its financial crime framework. In the past few years in particular, the pace of progress has been significant. 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.

In 2021, the Group continued to make progress in executing its enhancement programme, which is scheduled to be completed by the end of 2023. Furthermore, a detailed framework was established to ensure adherence to specific requirements in the Group's various markets. The Group initially focused on money laundering, financing of terrorism, and sanctions, but started expanding its frameworks relating to bribery and corruption, tax evasion and fraud in 2021.

The enhancement programme is tracked through clearly defined roles and responsibilities for each specific area of work (workstream) and initiative. In addition, a monthly progress tracking meeting with senior stakeholders is held to discuss and align progress and risks. Monthly status updates are provided to the Group's Executive Leadership Team and to the Danish FSA. Regular updates are also provided to the Group's Conduct & Compliance Committee and to the Board of Directors. The responsibility for tracking and reporting progress rests with Group Compliance to ensure independent and objective assessments of progress to senior management.

The aim of the enhancement programme is to ensure that the Group operates a financial crime control framework that

- meets the regulatory requirements in the jurisdictions in which the Group operates
- manages the Group's inherent risk in line with the Group's risk appetite

This will be achieved by leveraging international market practice.

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 on 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.

Financial crime risk
In 2021, the Group continued to strengthen its oversight and management of financial crime risk in a number of areas:

- **Geographic risk:** Having significantly reduced its inherent risk by exiting certain high-risk jurisdictions in previous years, the Group continued this work in 2021 and further reduced the risk by introducing a list of prohibited countries.
- **Product risk:** The Group's highest inherent risk segments continued to be business areas offering products such as trade finance and correspondent banking services. Looking forward, the Group will review its products and services on an ongoing basis to assess their inherent financial crime risk and to evaluate the need for customised, product-specific controls in order to reduce the Group's residual risk.
- **Management information and reporting:** The Group increased the level of risk management data in 2021 to provide management with a more comprehensive and holistic overview of risk and emerging trends. Quantitative and qualitative information is reported to senior management in a number of ways, including through the Quarterly Group Compliance Report and the Monthly Chief Risk Officer Letter, both of which are presented to the Executive Leadership Team, the Conduct & Compliance Committee and the Board of Directors. The Financial Crime Compliance Risk Committee (FCRC) was established in 2021. The overall purpose of the FCRC is to ensure a holistic oversight of financial crime risk and risk mitigation across the Group and to oversee material activities in the second line of defence ('Run the bank' and 'Change the bank') that are not in scope of the AML remediation governance structure.
- **Roles and responsibilities:** As part of its broader implementation of the three-lines-of-defence model, the Group further defined and developed roles and responsibilities within the organisation. Combatting financial crime relies on a number of functions working together across the organisation (branch staff, technology units, dedicated risk managers, Group Compliance and Legal), but it is critical that accountability is clearly defined.
- **Training:** In 2021, all staff across the Group received online training on core financial crime risks and on the Group's systems and controls. In addition, the Group provided in-person training to specific business areas tailored to specific risks (trade finance, for example) and provided all members of the Group's executive management with one-to-one training on how to exercise oversight and supervision of risks within their fields of responsibility.
- **Quality assurance and testing:** With the implementation of enhanced controls, the Group maintained a programme of quality assurance and testing in 2021 to assess whether these controls were operating as intended. In addition, Group Compliance performed independent testing of certain high-risk areas, and the Group also continued to retain a third-party professional services firm to provide independent assessments of the Group's remediation programme.

- **Independent experts:** In February 2021, the Danish FSA decided to appoint independent experts to follow Danske Bank to check whether its Financial Crime Plan is being implemented as intended throughout the Group. The appointment was for six months, and the independent experts started the work at the end of March. As expected, the Danish FSA subsequently extended the appointment of the independent experts for a further six months commencing in October 2021.

Resourcing
In 2021, the Group continued to hire staff with deep subject matter expertise for key roles, thus enabling the organisation to design, implement and manage its control enhancements to a high standard and to leverage international practice. The main attention of the Financial Crime Compliance unit shifted from recruiting additional resources to embedding them with a focus on rolling out further financial crime-related training and on intensifying work on talent development and a pipeline for developing future management from within the Group. The Group continues to invest in these employees to ensure motivation and engagement, while operating in a high-paced environment. The demand for experienced and expert financial crime staff continues to be high and may increase so retention of staff continues to be an area of focus for the Group.

Technology and tools
The Group seeks to leverage on technological innovation as part of its financial crime transformation and control infrastructure. New technology solutions such as robotics are being deployed to increase the speed at which certain high-volume, repeatable and consistent controls are executed. The Group has implemented further analytical software solutions and enhanced its use of the solutions in place. This has enabled a more thorough investigation of potentially suspicious activity with a view to providing law enforcement agencies and management with high-quality suspicious activity reporting (SAR).

Industry collaboration
Combatting financial crime effectively requires strong industry collaboration in order to ensure the security and soundness of the entire financial system. In 2021, the Group was also an active participant in industry initiatives across the Nordic region. These initiatives aim to make the public and private sectors more effective in reaching the common goal than previously.

8.2.3 Regulatory compliance risk management
Group Compliance provides independent second-line-of-defence oversight of regulatory compliance risk.

Regulatory compliance risk is defined as the risk that the Group receives regulatory, criminal or administrative sanctions, incurs material financial losses or suffers a loss of reputation as a result of its failure to comply with laws, rules and regulations applicable to the Group's activities in the areas of fair treatment of customers, market integrity, data protection and confidentiality, and breach of licensing, accreditation and/or individual registration requirements.

In 2021, the Group continued to strengthen and enhance its regulatory compliance risk management framework, and important developments were made in the following key areas:

- **Conduct risk:** Conduct risk is the risk that the Group's behaviour in supplying financial services causes customer detriment and/or damages the integrity of financial markets. Conduct risk occurs as a cross-cutting risk across the enterprise risk management (ERM) taxonomy and may arise as any or all other risk types materialise. The supporting risk management framework is being developed and implemented through the Conduct Programme. This programme was established in 2020 as a key strategic initiative under the Group's Better Bank transformation programme. The Conduct Risk Policy was approved by the Board of Directors in June 2021, and the supporting instructions and risk tolerance statements 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:
  - conduct risk identification and assessment
  - conduct risk data and management information
  - conduct risk governance and reporting

  The Conduct Compliance function will provide advisory services and oversight at the group level.

- **Compliance oversight:** 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 the IT Compliance functions. In 2021, there was an increased focus on the compliance coverage for branches and regulated subsidiaries through governance, reporting improvements and targeted recruitment. This will continue to be an area of focus in 2022. Regulatory compliance risk tolerance statements were developed in 2021 to be implemented in 2022, and this will improve risk management, mitigation and oversight at the group level.

- **Trade and communications surveillance:** The Group continued to make significant improvements in its trade and communications surveillance framework, having implemented automated trade and communications systems for the large majority of relevant regulated activities. Through these achievements, the Group has taken significant steps to ensure compliance with the last remaining order issued by the Danish FSA. The previous gaps in automated surveillance and the execution of a number of 'wash trades' (as defined by the Danish FSA) caused the regulator to report Danske Bank to the Danish State Prosecutor for Serious Economic and International Crimes (SØIK), and the Group continues to cooperate with the authorities, while making improvements in relation to the issues identified.

- **Conflict management:** The Group set up a control room to improve the oversight of conflicts of interest risk. This type of risk is captured under both the Market Abuse Regulation and the Markets in Financial Instruments Directive II and is listed under the Market Integrity level 2 risk type in the ERM framework. A number of instructions, process enhancements, IT upgrades and eLearning courses were implemented in 2021 with a focus on two key objectives:

  - the protection and governance of strictly confidential/inside information flows
  - the control and oversight of the detection and management of conflicts of interest predominantly involving formal entities (customers and suppliers)

  The improvement programme will continue in 2022 and make a significant contribution to the Group's goal of bringing 'Compliance under Control' by 2023.

- **Strengthening compliance expertise:** The Regulatory Compliance function executed a broader monitoring plan in 2021 than during previous years. This included targeted monitoring of compliance at branches and regulated subsidiaries. Having aligned its structure with organisational business changes, the Regulatory Compliance function provided a deep level of advice and challenge to units across the Group. The insight into regulatory compliance risks gained in 2021, combined with the insight from other compliance functions, forms the basis for the Group's 2022 Compliance Activity Plan. This helps increase the maturity of regulatory compliance risk management and allows Group Compliance to remain a trusted adviser to units across the Group.

- **Risk remediation:** In 2021, the Group identified and addressed cases requiring remediation such as those related to debt collection and tools handling investment agreements with customers, and this work is still ongoing. Such incidents are subject to formal remediation governance, close regulator engagement and public communications through various channels, including press releases. The Group has now codified remediation principles in cases in which customers suffer detriment, and these principles form part of the Conduct Programme book of work. In 2021, a number of the remediation cases also identified the need to improve the Group's data governance and information records management (IRM) framework. A programme of work was set up in 2020 for these enhancements, and the implementation of the enhanced IRM framework – led by the Group Data Office (Technology & Services) – will continue into 2022. The framework is essential for improving the regulatory compliance risk profile – not least in the areas of data accuracy, retention and deletion. These areas are components of multiple regulatory requirements, including GDPR, and the Group was approached in 2021 by the Danish Data Protection Agency in relation to issues identified in the Group's debt collection case.

The Group continued its focus on maintaining momentum and ensuring issue ownership in the first line of defence following the organisational changes implemented in the first quarter of 2021. The Group Compliance function also implemented organisational changes to ensure alignment with the new business structure, including developing a model to engage with the Group's new agile way of working, Better Ways of Working (BWoW).

Regulatory compliance risks are reported in the Quarterly Group Compliance Report to the Executive Leadership Team, the Conduct & Compliance Committee of the Board of Directors, and the Board of Directors. Regulatory Compliance issues are reported to the heads of Large Corporates & Institutions and Personal & Business Customers on a monthly basis as well as to the country managers of the Group's large branches outside Denmark.

8.2.4 Technology and data risk management

Technology and data risk is the probability that vulnerabilities of an asset or a group of assets are exploited, thereby causing harm to the Group. Technology and data risk includes the risk of disruption to the availability of information, communications or technology, the risk of corruption and loss of data, and the risk of breach of data confidentiality through actions that attack and exploit vulnerabilities.

Requirements for the management of technology and data risk are documented in the Non-Financial Risk Policy, IT Risk Management Policy and Security Policy.

Business units are responsible for the management of their own technology and data risks, while the Security function provides support in identifying, assessing and tracking technology and data risks. The Security team, which reports to the chief security officer (CSO), submits monthly security risk updates to the chief risk officer (CRO). On a quarterly basis, Group Non-Financial Risk undertakes a review of the registered IT risks to assess the completeness and accuracy of the risk profile and the effectiveness of the risk management activities performed. An update on the technology risk profile is provided to the Non-Financial Risk Committee through Group Non-Financial Risk every six months.

Although individual business units are responsible for control management activities as part of their standard operations, there are known deficiencies in control activities and gaps in the technology and data risk profile. This is consistent with the IT inspection conducted by the Danish FSA in 2019. The inspection observed material gaps in the Group's IT risk framework and control activity.

In response, the Group maintains its ongoing multi-year transformation programme across the first and second lines of defence. Enhancements to address both the orders resulting from the Danish FSA's inspection and other self-identified security weaknesses continue according to plan. The following areas highlight ongoing initiatives:

- Strengthening of governance structures, oversight capability and the segregation of duties between the first and second lines of defence, including the establishment in 2020 of a dedicated security function reporting directly to the chief operation officer (COO).
- Continued refinement of the IT Risk Management Policy as well as alignment of the Security Policy with EBA guidelines on information and communication technology (ICT) and security risk management and with the Danish Executive Order on Management and Controls of Banks (Schedule 5 on IT security requirements).
- Further development of processes and technologies to effectively monitor and manage technology and data risks, including the rollout of cross-functional information security, physical security and fraud training and awareness across the Group.
- Significant security enhancements across multiple domains, such as the replacement of the core infrastructure for access management and the ongoing redesign of the access rights model. This has greatly enhanced asset control, including providing better resilience through formally defined and tested recovery objectives.
- Enhancement of capabilities in preventing, detecting and responding to IT and security incidents, including implementing information protection controls, extending the geographical coverage of existing information protection controls and implementing new technologies to enhance endpoint security.

In addition, the Group has seen strong performance in respect of system availability, while minimising customer impact across all critical services. The introduction of formal service continuity governance for critical IT services and the establishment of failover capabilities have played a significant role in this continued success.

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 the Group's capabilities to prevent, detect, respond to and recover from cyber-related attacks.

The management of cyber-related risk is covered within the Group's overall risk management framework since such risks may prevent the Group from achieving its objectives. Governance structures and methods to oversee, prioritise and undertake risk mitigation activities related to cyber-attacks are in place to ensure that the focus remains on the area.

Various forums discuss and decide on technology risk matters. These forums include councils that are specific to technology-related teams and the Technology & Services Risk Committee. If required by Group policies, matters are escalated to the Group All Risk Committee. Oversight is provided through the Non-Financial Risk Committee (in the second line of defence).

8.2.5 Model risk management

Models form a key part of the Group's core business processes and play a critical role in the day-to-day delivery of services to customers and in the processes that the Group uses to manage its risks. Models are also essential to the Group's ambition of improving customer experience and driving efficiency and agility. Achieving this ambition requires the automation and use of models. The use of models constitutes model risk, which is the potential risk of adverse consequences resulting from decisions based on incorrect or misused model output and reports.

The Group manages model risk in accordance with its Model Risk Policy. The Model Risk Policy sets out standards and principles for the purpose of embedding strong model governance with a comprehensive and holistic approach to model risk, while also supporting the Group's business strategy.

In order to ensure that the amount of model risk acceptable to the Group continues to be aligned with its overall strategic objectives, the Group has defined and implemented a model risk tolerance statement. It supports clear communication of the requirements for mitigating excessive model risk and is included in the group-wide non-financial risk tolerance framework.

The responsibility for managing model risk is assigned to model owners. They are responsible for the identification of models and all relevant processes, proper implementation of new models, adherence to the model risk tolerance statement, data quality, development of model risk instructions, validation of new models and significant changes, and implementation of model performance controls.

The Model Risk Management (MRM) function (as the second line of defence) is responsible for developing and maintaining the Model Risk Policy and for model risk oversight. The Model Risk Management function reports to the head of Model Risk Management and thus has a separate reporting line from model owners and the teams that develop and run models.

A key component of the Model Risk Policy is the validation of high-risk models. The Group has an internal framework for validating models. The Model Risk Management function performs model validation for in-scope models and owns the validation process and methodology. The validation framework comprises a set of quantitative and qualitative processes and activities intended to verify that the models perform as expected. Model validation reporting and escalation are performed by second-line business unit risk committees. See section 5.2.4 for information about the validation of models and section 5.2 for information about models used in the market risk area.

All new models included in the validation scope are subject to initial validation, whilst in-scope models in the production environment are validated periodically, independently of the business units and of the team that develops the models.

The Group's model inventory is contained in a model inventory repository that features and tracks key characteristics of the models. Using this repository, MRM performs model risk monitoring, including the adherence to model risk tolerances. Along with the overall status of the Group's model risk, this information is reported on a periodic basis to the Model Risk Management Committee and through the CRO letter to the Group All Risk Committee, the Board of Directors' Risk Committee and the Board of Directors.

8.2.6 Financial control and strategic risk management

Financial control risk is the risk of inaccurate or incomplete application of accounting and tax laws. Strategic risk is the possibility of an opportunity loss of earnings resulting from the failure to account adequately for external forces on the Group's corporate strategy or the possibility of a loss of market position due to the failure of the Group's corporate strategy (wrong prioritisation or strategic choice, for example).

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU, while the parent company's financial statements are prepared in accordance with the Danish Financial Business Act. Interim and annual reports are prepared in accordance with Danish disclosure requirements for listed financial institutions. The risk of non-compliance with these standards is assessed on a quarterly basis in advance of the preparation of interim and annual reports.

The Group's risk appetite is embedded in its strategic and financial planning processes to ensure that the strategic decision-making process is based on a strong risk culture. Strategic risks are monitored by the owner of each strategic initiative and by business unit heads. Strategic risks are reviewed on a quarterly basis by the Executive Leadership Team and at least twice a year by the Board of Directors. Significant deviations from the specified goals in strategy execution are escalated to the Executive Leadership Team or to the Board of Directors.

As the first line of defence, the Group Strategic Steering unit is responsible for the development of the Group's corporate strategy in co-operation with business units and other Group functions. As such, it has the responsibility for identifying and managing the risk associated with this process. The Group's corporate strategy is formulated on the basis of both internal and external factors that shed light on the capabilities, challenges and opportunities that are relevant for the Group. Internal factors relate to past performance, available capacity and capabilities within the organisation. This is supported by analyses of external factors such as peer performance and developments, changing consumer demands, technological trends, environmental and social developments, market developments, and macroeconomic and political environments.

Strategy execution results in actions plans, and action plans often introduce new processes and/or new products. With the introduction of new processes and new products, new risks are identified.

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 on an ongoing basis in accordance with the Group's standards. The performed risk assessment activities ensure that changes are embedded into the risk management process and that potential mitigating actions are identified and implemented. Risk assessments related to Better Bank initiatives were independently reviewed and challenged by Group Non-Financial Risk (Group Risk Management) in 2021. Risk assessments had an elevated focus on change risk management to ensure adequate support for the Group's transition to a new organisational structure and the introduction of agile ways of working across the Group's development activities. Ongoing risk assessment in this regard will take place in the next few years, with key risk themes being evaluated on a quarterly basis. Business units and Group functions are in charge of implementing and executing on the strategy and taking corrective action in respect of deviations and risks relating to strategy operationalisation. The implementation approach is tested against the Group's risk appetite to ensure alignment.

Management declaration

9.

9.1 *Management declaration*

As stated in article 435(1) of Capital Requirements Regulation II (CRR II), Danske Bank must publish a declaration and a risk statement approved by its management body (the Board of Directors):

- Board declaration: a declaration approved by the management body on the adequacy of the risk management arrangements of the institution providing assurance that the risk management systems put in place are adequate with regard to the institution's profile and strategy.
- Risk statement: a concise risk statement approved by the management body succinctly describing the institution's overall risk profile associated with the business strategy. This statement must include
  - key ratios and figures providing external stakeholders with a comprehensive view of the institution's management of risk, including how the risk profile of the institution interacts with the risk tolerance set by the management body
  - information on intragroup transactions and transactions with related parties that may have a material impact on the risk profile of the consolidated group

Board declaration

In accordance with the responsibilities placed on a company's board of directors as stipulated in the Danish Executive Order on Management and Control of Banks etc., Danske Bank's Board of Directors assesses the Group's individual and overall risks on an ongoing basis and at least once a year in the form of a comprehensive report from the Executive Leadership Team. The Board of Directors finds that the Group has adequate risk management arrangements in place with regard to the Group's risk profile and strategy.

Risk statement

Key ratios, figures and risk profile

Danske Bank is a Nordic universal bank offering a full range of financial and banking services to personal, business and institutional customers across the Group's home markets. The Group has a diversified business model that spreads across various industries, customer types and countries.

At the end of December 2021, the Group's solvency need ratio was 11.4%.

In 2021, the Group's capital targets were unchanged from the increased levels set by the Board of Directors in 2019. The target for the Group's CET1 capital ratio was kept at above 16% in the short term to ensure a sufficiently prudent buffer in relation to the capital requirements. The target for the Group's total capital ratio was kept at above 20%. At the end of December 2021, the Group's CET1 capital ratio was 17.7% and its total capital ratio was 22.4%.

Credit risk is managed in accordance with the Group's Credit Policy, Credit Risk Instructions, Credit Risk Appetite and credit risk framework. The Group operates with a credit risk appetite to limit impairment volatility and manage credit risk concentrations (limits on single names, industries and geographical regions). Risk reporting enables ongoing monitoring of the Group's credit risk profile to ensure that it remains in line with the credit risk appetite.

The Group's market risk comprises three separate frameworks for the following areas: trading-related activities at Large Corporates & Institutions, fair value adjustments (xVA) at Large Corporates & Institutions, and the non-trading portfolio at Group Treasury. Market risk is managed in accordance with the Group's Market Risk Policy and Market Risk Instructions. The Group operates with a market risk appetite for the various areas.

The Group manages its liquidity on a daily basis by using risk indicators, risk triggers and a liquidity risk appetite as defined in the Group's Liquidity Policy and Liquidity Guidelines. The policy documents define the limits and methods for calculating liquidity risk and set the overall principles and standards for the Group's liquidity management. At the end of December 2021, the Group's liquidity coverage ratio was 163.7% – well above the internal limit set at 115% by the Board of Directors. The Group's long-term debt was rated 'A+'/'A'/'A3' (S&P Global/Fitch Rating/Moody's) at the end of December 2021.

Non-financial risk, which covers operational risk, financial crime risk, regulatory compliance risk, technology and data risk, model risk, and financial control and strategic risk, is managed in accordance with the overarching Group Non-Financial Risk Policy and a number of supplementary policies and instructions. The Group monitors non-financial risk tolerance limits to ensure that the Group pursues its business strategy according to its risk tolerance.

Intragroup transactions and transactions with related parties

The Group conducts intragroup transactions with its undertakings and foreign branches, and they cover mainly provision of short- and long-term financing in relation to lending activities, depositing of surplus liquidity, guarantees, payment services, and trading in securities and other instruments. The Group conducts such transactions on the basis of market conditions, applied limits and risk appetites in order to set a sufficient level of risk taking. The undertakings and foreign branches operate mainly in the Group's strategic core markets. This limits the Group's risk since the Group has detailed knowledge of these markets and holds a diversified portfolio and collateral assets. As a result, intragroup transactions are not considered to have any material impact on the Group's risk profile.

The Group conducts transactions with related parties. Related parties with a significant influence are shareholders with holdings exceeding 20% of Danske Bank A/S's share capital. Between them, the A.P. Møller and Chastine Mc-Kinney Møller Foundation and the companies of the A.P. Møller Holding group hold 21.3% of the share capital. The Group's other related parties comprise associates and key management personnel defined as members of the Board of Directors and the Executive Leadership Team. The consolidated financial statements specify holdings in associates. Transactions with the members of the Board of Directors and the Executive Leadership Team and their dependants cover personal facilities, deposits, etc. and facilities with businesses on which these parties have a controlling or significant influence. Transactions with related parties are settled on an arm's-length basis and are not considered to have any material impact on the Group's risk profile.

Moreover, the Group does not conduct business with any single customer generating 10% or more of the Group's total income, and the Group is not financially dependent of any of its single customers.

For more information about intragroup transactions and transactions with related parties, see notes G3.b, G35, G38, G39 and P27 of the Group's Annual report 2021 as well as the annual reports of the Group's individual undertakings.

BOARD OF DIRECTORS

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Vice Chairman

Carol Sergeant
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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
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Other Danske Bank Group publications, available at www.danskebank.com/investor-relations

Annual Report 2021

Corporate Governance
Report 2021

Sustainability Report 2021

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