Annual Report 2018

Danske Bank Group

Danske Bank

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Foreword

Danske Bank is one of the largest financial services providers in Denmark and one of the largest financial institutions in the Nordics. As such, we have a particular responsibility and an obligation to positively impact the Nordic economies and societies by creating long-term value for all our stakeholders.

Through our shortcomings and failures in Estonia, including our late and inadequate handling of the issues, we have failed to live up to this responsibility. Not only have we disappointed our customers and our employees but also our shareholders and society at large.

This has changed the way the world sees us and has shaken the trust our stakeholders have in us. Many people are asking themselves if we can be trusted to act responsibly, ethically and lawfully.

No issue can be of greater importance than restoring the trust we have lost.

Through all aspects of our day-to-day conduct of business, a continuous and consistent effort is required to demonstrate that we are committed to acting with integrity and responsibility – and that we are determined to create long-term value for all stakeholders.

We will strive to achieve this through a joint effort between Danske Bank's Executive Board and Board of Directors in dialogue with you and with every other stakeholder.

Your perspective and your interests are crucial. Only a strategy that builds on the shared interests of all stakeholders can guide us towards future long-term success.

For more than 145 years, Danske Bank has created opportunities and helped individuals and businesses in the Nordic countries realise their ambitions. Enabling businesses to finance new ventures and providing opportunities for individuals to buy a home of their own or save for retirement are examples of how we help our customers achieve their ambitions, whilst also creating wealth and prosperity for society as a whole.

Banking underpins most aspects of society by creating funding and investment opportunities and by powering the economy and the wheels and gears of everyday life.

This requires trust. Only with trust can we fulfil our obligations as a financial facilitator and enabler, and only as a trustworthy bank can we pursue a coherent strategy to the benefit of all stakeholders.

Restoring trust will be a long-term effort, but the work has begun and we are determined to succeed.

Karsten Dybvad
Chairman of the
Board of Directors

Jesper Nielsen
Interim CEO

Danske Bank 2018 at a glance

15bn
Net profit*

44.4bn
Total income

Investigations
of Estonia case published

3%
Lending growth y/y

Changes to
Executive Board and Board of Directors

Nordic Integrator
strategy launched

9.8%
Return on equity*

Acquisition of
SEB Pension
Danmark

Donation 1.5bn
to combat
financial crime

From financial highlights, see Definition of Alternative Performance Measures on page 65.


2018 was a challenging year for Danske Bank

Financial highlights – Danske Bank Group

Income statement
(DKK millions)

	2018	2017	Index 18/17	2016	2015	2014
Net interest income	23,571	23,806	99	22,028	21,402	22,198
Net fee income	15,402	15,664	98	14,183	15,018	14,482
Net trading income	4,676	7,087	66	8,607	6,848	6,895
Other income	716	1,591	45	3,140	2,343	1,755
Total income	44,365	48,149	92	47,959	45,611	45,330
Operating expenses	25,011	22,722	110	22,642	23,237	23,972
Goodwill impairment charges	-	-	-	-	4.601	9.098
Profit before loan impairment charges	19,354	25,427	76	25,317	17,773	12,260
Loan impairment charges	-650	-873	-	-3	57	2,788
Profit before tax, core	20,004	26,300	76	25,320	17,716	9,472
Profit before tax, Non-core	-282	-12	-	37	46	-1,503
Profit before tax	19,722	26,288	75	25,357	17,762	7,969
Tax	4,721	5,388	88	5,500	4,639	4,020
Net profit for the year	**15,001**	**20,900**	**72**	**19,858**	**13.123**	**3,948**
Attributable to additional tier 1 etc.	781	786	99	663	607	261

Balance sheet (end of year)
(DKK millions)

	2018	2017	Index 18/17	2016	2015	2014
Due from credit institutions and central banks	169,237	277,631	61	200,544	75,221	63,786
Repo loans	316,362	228,538	138	244,474	216,303	290,095
Loans	1,769,438	1,723,025	103	1,689,155	1,609,384	1,563,729
Trading portfolio assets	415,811	449,292	93	509,678	547,019	742,512
Investment securities	276,424	324,618	85	343,337	343,304	330,994
Assets under insurance contracts	377,369	296,867	127	285,398	265,572	268,450
Total assets in Non-core	14,346	4,886	294	19,039	27,645	32,329
Other assets	239,480	234,672	102	192,046	208,431	161,120
Total assets	**3,578,467**	**3,539,528**	**101**	**3,483,670**	**3,292,878**	**3,453,015**
Due to credit institutions and central banks	148,095	155,528	95	155,085	137,068	126,800
Repo deposits	262,181	220,371	119	199,724	177,456	400,618
Deposits	894,495	911,852	98	859,435	816,762	763,441
Bonds issued by Realkredit Danmark	741,092	758,375	98	726,732	694,519	655,965
Other issued bonds	330,477	405,080	82	392,512	363,931	330,207
Trading portfolio liabilities	390,222	400,596	97	478,301	471,131	550,629
Liabilities under insurance contracts	417,279	322,726	129	314,977	285,030	288,352
Total liabilities in Non-core	4,014	3,094	130	2,816	5,520	4,950
Other liabilities	204,243	164,531	124	149,641	140,640	138,642
Subordinated debt	23,092	29,120	79	37,831	39,991	41,028
Additional tier 1 etc.	14,300	14,339	100	14,343	11,317	5,675
Shareholders' equity	148,976	153,916	97	152,272	149,513	146,708
Total liabilities and equity	**3,578,467**	**3,539,528**	**101**	**3,483,670**	**3,292,878**	**3,453,015**

Ratios and key figures

	2018	2017	Index 18/17	2016	2015	2014
Dividend per share (DKK)	8.5	10.0		9.0	8.0	5.5
Earnings per share (DKK)	16.5	22.2		20.2	12.8	3.8
Return on avg. shareholders' equity (%)	9.8	13.6		13.1	8.5	2.5
Net interest income as % p.a. avg. of loans and deposits	0.88	0.89		0.86	0.88	0.95
Cost/income ratio (%)	56.4	47.2		47.2	61.0	73.0
Cost/income ratio before goodwill impairment charges (%)	56.4	47.2		47.2	50.9	52.9
Total capital ratio (%)	21.3	22.6		21.8	21.0	19.3
Common equity tier 1 capital ratio (%)	17.0	17.6		16.3	16.1	15.1
Share price (end of year) (DKK)	128.9	241.6		214.2	185.2	167.4
Book value per share (DKK)	174.3	172.2		162.8	153.2	146.8
Full-time-equivalent staff (end of year)	20,683	19,768	105	19,303	19,049	18,603

The financial highlights represent alternative performance measures that are non-IFRS measures. Note 3 provides an explanation of differences in the presentation between IFRS and the financial highlights. For a description of the alternative performance measures used and definition of ratios, see Definition of Alternative Performance Measures on page 65.

Executive summary

"2018 was a challenging year for Danske Bank. The serious and demanding issue concerning the terminated portfolio of non-resident customers in Estonia triggered justified criticism from our stakeholders and led to a number of changes at management level. We must use the lessons learned from this case to prevent something similar from ever happening again. That is why in coming years we will further strengthen our efforts within compliance, financial crime and anti-money laundering activities to become best in class among our peers," says Jesper Nielsen, Interim Chief Executive Officer and continues:
"From a financial point of view, the year was characterised by continued growth in the Nordic economies, and we saw good demand for loans, especially from commercial customers and within home finance. The financial markets saw significant uncertainty throughout the year, however. This affected net trading income, and combined with a rise in costs – related, among other things, to the Estonia case, the donation of 1.5 billion kroner and our compliance activities - this meant that net profit for 2018 came out lower than estimated at the beginning of the year".

A challenging year
2018 was a challenging year for Danske Bank. The serious issues related to the terminated portfolio[1] of non-resident customers at the Estonian branch required significant management attention and had a negative impact on our business in a number of ways as it caused considerable concern and criticism from a wide range of stakeholders. We offer our sincere apologies for our failures and the implications the case has had. It is clear that we have failed to live up to our responsibility in this matter, not only in not being able to efficiently prevent suspicious activities and transactions from taking place in Estonia, but also in our inability to understand and address the issues efficiently as they came to light.

These failures have placed us in a challenging position, with stakeholders from customers and shareholders to regulators and the general public not only criticising past events but also questioning our ethics and culture as well as our determination to handle the matter with adequate levels of urgency and transparency. We remain fully committed to taking all necessary steps to understand what led to the failures and to make all the changes needed, however big or small they may be, to prevent something similar from happening again.

On the basis of learnings from the Estonia case and a general review of our efforts and ambitions within AML, we have decided to accelerate our AML improvement efforts over the next three years through earmarked investments of up to DKK 2 billion. The purpose is to further accelerate our efforts to improve both the quality and the efficiency of our controls as well as to integrate the processes into our customer journeys as part of our ambition to offer the best customer experience. We acknowledge that we have a big task in fully restoring all of our stakeholders' confidence and trust in us, and we will work tirelessly towards that goal in the years to come.

During the year, our dedicated employees have done a tremendous job, despite the difficult circumstances, working hard every day to make sure that our customers' concerns were addressed, their needs met and that they continued to receive the best service possible.

Solid underlying business
Danske Bank ended 2018 with a net profit of DKK 15 billion, in line with our latest outlook announcement, against DKK 20.9 billion the year before. We maintain our dividend policy of paying out between 40% and 60% of net profit, and we propose a dividend of DKK 8.5 per share, corresponding to 51% of reported net profit. This is compared to a total payout of 78% for 2017 including the share buy-back programme of DKK 6.9 billion.

Our underlying business remained solid and saw good developments. Economic momentum remained

[1] *Terminated portfolio as defined in the report by Bruun & Hjejle of 19 September 2018*

favourable and despite intense competition, our strategy of pursuing profitable growth in our Nordic business led to good growth and lending activity with both new and existing customers. Partnership agreements and new mortgage products were some of the drivers of the growth in lending. Impairments remained very low, with reversals of DKK 650 million.

The decrease in net profit from 2017 was driven mainly by difficult conditions on the financial markets, which had a negative impact on trading as well as on fee income. The results also reflect the donation of the estimated gross income from the non-resident portfolio in Estonia from 2007 to 2015 of DKK 1.5 billion.

The return on shareholders' equity after tax was 9.8%, against 13.6% in 2017 – 10.8% adjusted for the donation.

As part of our response to the powerful structural changes that shape the financial services market, we launched our new Nordic Integrator strategy in the second quarter of 2018. This will help us take an even more active role in making our customers financially confident and will contribute to societal growth and stability. We want to become integral to our customers lives, integrated closer into Nordic societies and more integrated internally across our organisation. At the same time, we launched a new organisational structure in order to accelerate the execution of the strategy.

The customer development and satisfaction rates were also impacted by the Estonia case. On a net basis, approximately 11,000 core Danish retail customers (NemKonto customers) left Danske Bank in 2018, equivalent to 0.8% of our Nem Konto customer base in Denmark. The number of commercial customers in Denmark has been flat. We have taken every opportunity to proactively reach out to our customers and engage in dialogue with them. At our branches across Denmark, we held around 150 dialogue meetings with retail, commercial, corporate and institutional customers. We will continue these efforts in 2019 and remain committed to our target of being number one in customer experience by 2020.

Despite our efforts, customer satisfaction has been negatively impacted, especially among retail customers in Denmark where satisfaction is significantly below our target. We have also seen a negative impact among corporate customers in Denmark, and, to a slightly lower degree, in Sweden. Customer satisfaction remains a key priority for Danske Bank, and we will continue to work towards rebuilding customers' trust in us.

In line with our Nordic strategy, Banking Nordic saw continually good growth throughout the year in all markets. Lending was up 5% year on year due to our partnership agreements with unions and strong business activity. In November, we renewed our partnership agreement with Akademikerne in Norway and entered into a new partnership with the Norwegian engineers' union, Tekna. At Banking DK, we saw stable lending growth of 1% and increasing demand for our new and improved value propositions within home finance products.

While we saw lending growth in all our Nordic markets, net interest income was slightly lower than the year before due to adverse currency effects in Sweden and Norway as well as some margin pressure.

Due to challenging market conditions throughout the year, at DKK 4.7 billion, net trading income was significantly lower than the year before, when trading income was very strong. Rates trading at Corporates & Institutions in particular was affected by the difficult market conditions.

At Wealth Management, lower investment and risk results in the health and accident business had a negative effect on trading and other income. Despite the difficult market conditions, Wealth Management saw Assets under Management increase by 3% to DKK 1,575 billion. This was due mainly to the acquisition of SEB Pension Danmark, which was finalised in June. Danica Pension is now in the process of welcoming more than 300,000 new customers from SEB Pension Danmark and making sure that the transition is as smooth as possible for our new customers.

Expenses were at DKK 25 billion, significantly higher than the year before. This was due primarily to the DKK 1.5 billion donation related to the Estonia case, which was booked in the third quarter of 2018. Expenses were impacted by the cost of the Estonia investigations as well as continued costs for compliance, combating financial crime and regulatory requirements. We also saw integration costs and operating expenses related to the acquisition of SEB Pension Danmark.

Credit quality remained strong across the business units, with almost all units seeing a reversal of impairments in 2018. In total, net reversals of DKK 650 million were recognised, against net reversals of DKK 873 million in 2017.

On 11 December, we announced the prospective sale of our Swedish pension activities to a consortium of investors. However, Danske Bank and the new owners of Danica Pension Sweden will continue to cooperate to the benefit of our customers in Sweden. The price was DKK 1.9 billion, and the sale awaits final approval from relevant authorities. This is expected in the first half of 2019. The sale did not have any significant financial impact in 2018.

Our capital position remains strong, with a total capital ratio of 21.3% and a CET1 capital ratio of 17.0% at 31 December.

Our regulatory CET1 requirement stands at 14.0% while Danske Bank's own CET1 capital target remains at around 16% in the short to medium term.

At 31 December, DKK 6.9 billion of the announced DKK 10 billion share buy-back programme had been bought back. The programme was discontinued on 4 October.

At 31 December 2018, our liquidity coverage ratio stood at 121%.

Financial outlook for 2019
We expect net interest income to be at around the level in 2018, as volume growth will be offset by higher funding costs and margin pressure. This is subject to changes in funding spreads.

Net fee income is expected to be higher, due mainly to the effect of the acquisition of SEB Pension Danmark and subject to customer activity.

Expenses are expected to be at around the level in 2018 including the donation of DKK 1.5 billion due to higher costs related to AML, SEB Pension Danmark, VAT and a higher activity level. The outlook includes costs of DKK 0.3 billion specifically earmarked for AML digitalisation efforts.

Loan impairments are expected to be higher.

We expect net profit for 2019 to be in the range of DKK 14-16 billion. This excludes any potential gain on the prospective sale of Danica Pension Sweden.

The outlook is subject to uncertainty and macroeconomic developments.

We maintain our long-term ambition of being in the top three among major Nordic peers in terms of return on shareholders' equity.

Estonia case

The Estonia case has been a major focus point for Danske Bank and all our stakeholders in 2018.

The findings from the investigation of the non-resident portfolio at the Estonian branch, published in September, showed that a series of major deficiencies in governance and control systems in Danske Bank made it possible to use Danske Bank's branch in Estonia for suspicious transactions.

The approximately 10,000 customers in the non-resident portfolio carried out transactions for around EUR 200 billion in the period from 2007 to 2015, but only a small number of these customers and transactions were reported as suspicious to the authorities at the time. The investigation includes additional customers with non-resident characteristics. In September, it was reported that most of the customers investigated by that time (6,200 customers, starting with the customers hitting the most risk indicators) should have been classified as suspicious and reported to authorities.

It is clear that we have not lived up to our own standards, our responsibility and the expectations of our stakeholders in this case. We did too little too late both in terms of closing the portfolio down and realising the seriousness and scope of the problems. We failed to grasp the magnitude of the case and to adjust our response and communication accordingly. This is disappointing and unacceptable, and we offer our apologies to all of our stakeholders – not least our customers, investors, employees, regulators and society in general. We acknowledge that we have a big task ahead of us in regaining their trust. We are working hard to get to the bottom of the matter and to learn from it, so that we can take all necessary steps to prevent something similar from happening again. In this process, we wish to be as transparent as possible and we share all relevant findings with the authorities on an ongoing basis.

The case has led us to take a number of actions:

- Several members of management as well as staff connected with the case have left Danske Bank, among these former CEO Thomas F. Borgen. On the Board of Directors, the Chairman of the Board and the Chairman of the Audit Committee were replaced in December. Another two members will step down at the upcoming Annual General Meeting.
- As reported in September, eight former employees of our Estonian branch have been reported to the police, and a further 42 employees and agents have been reported to the Estonian FIU.
- We have strengthened our anti-money laundering measures and financial crime compliance efforts and continue to do so. We have also increased the number of people working to combat financial crime considerably. We are using this experience to learn and to improve our efforts in financial crime compliance in order to prevent something similar from happening at Danske Bank again.
- On the basis of learnings from the Estonia case and following a full review at the end of the year of our efforts and ambitions within AML, we have decided to accelerate our AML improvement efforts over the next three years through earmarked investments of up to DKK 2 billion. The purpose is to improve both the quality and the effectiveness of our controls and to integrate the processes into the customer journey as part of our ambition to offer the best customer experience.
- Our governance and control systems have also been improved. Danske Bank's new Chief Compliance Officer is a member of the Executive Board and reports directly to the Board of Directors and day-to-day to the CEO. Furthermore, on top of basic and mandatory AML training, our new AML Academy provides specialised training in detecting and combating financial crime for relevant employees.
- We have also taken several steps to increase our financial strength. We have increased our Pillar II requirement by DKK 10 billion and have cancelled our share buy-back programme, resulting in an additional DKK 3.1 billion of CET1 capital. Furthermore, we will not launch a share buy-back programme in 2019.
- The estimated gross income from the non-resident portfolio in Estonia in the period from 2007 to 2015 of DKK 1.5 billion has been set aside net of confiscation as a donation for measures to combat financial crime. The donation will be transferred to an independent foundation, which will be set up to support initiatives aimed at combating international financial crime, including money laundering. The foundation will be set up independently from Danske Bank with an independent board.
- It has been very important to us to engage with our customers and address any concerns and questions that they may have. At the end of 2018, we had held around 150 town hall meetings at our branches all across Denmark. We also encourage our staff across the organisation to use all customer-facing opportunities to talk about the issue and the measures we have taken to prevent something similar from happening again. Our customer satisfaction scores have been adversely impacted, especially among Danish retail customers. We remain committed to regaining the trust of our customers, but we acknowledge that this will not happen overnight.

The investigation into the customers in the terminated non-resident portfolio of the Estonian branch continues, and we keep the authorities informed of all progress on an ongoing basis.

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

Below is a short summary of the key events related to the Estonia case in 2018 and 2019:

- On 3 May, the Danish FSA published its assessment of the role of Danske Bank's management and senior employees in relation to the Estonian case. Danske Bank received eight orders and eight reprimands from the FSA and immediately launched measures to comply with all requirements.
- On 18 July, we announced that we do not wish to benefit financially from suspicious transactions in Estonia in the period from 2007 to 2015. Consequently, we decided to donate the estimated gross income from the non-resident portfolio in that period to an independent foundation supporting initiatives to combat international financial crime.
- On 19 September, we published the findings of the Estonia investigations. We also announced the resignation of CEO Thomas F. Borgen, and on 1 October, he was relieved of his duties. Jesper Nielsen was appointed Interim CEO as of the same date.
- On 4 October, it was announced that we had received requests for information from the US Department of Justice (DoJ) in connection with a criminal investigation relating to our Estonian branch conducted by the DoJ. We also remain under investigation by the Danish FSA and the Estonian FSA, as well as the Danish State Prosecutor for Serious Economic and International Crime (SØIK) and the Estonian Office of the Prosecutor General (the Estonian FIU). We cooperate fully with all authorities.
- On 4 October, the Danish FSA ordered us to reassess our solvency need with a view to adding an absolute minimum of DKK 10 billion to our Pillar II requirement. In addition to increasing our Pillar II requirement, we revised our CET1 capital ratio target from 14-15% to around 16% and our total capital ratio target from above 19% to above 20%. At the same time, the share buy-back programme for 2018 was discontinued.
- The Estonia case has also impacted our ratings. Following the publication of the findings of the investigations, Moody's downgraded Danske Bank's issuer rating from A1 to A2 and changed the outlook to negative, while Fitch and S&P both maintained their issuer ratings of Danske Bank but also changed the outlook to negative.
- On 2 November, we published the results of the EU-wide stress test conducted by the European Banking Authority. In the adverse scenario, Danske Bank had a CET1 capital buffer of almost DKK 10 billion. The test took into account the capital need and assumed costs in relation to the Estonia case, within the scope of the Danish FSA decision of 4 October 2018.
- On 19 and 21 November, Interim CEO Jesper Nielsen participated in AML hearings at the Danish and European parliaments, respectively. He answered questions from politicians regarding the Estonia case and our efforts to prevent something similar from happening again.
- On 28 November, SØIK presented Danske Bank with a preliminary charge.
- On 7 December, an Extraordinary General Meeting was held to elect two new members to the Board of Directors. These were Karsten Dybvad and Jan Thorsgaard Nielsen. They replaced Ole Andersen and Jørn P. Jensen, who both stepped down. Karsten Dybvad is now Chairman of the Board of Directors.
- On 9 January 2019, an action was filed in New York by an alleged holder of Danske Bank's American Depositary Receipts, representing its ordinary shares, against Danske Bank. The complaint seeks unspecified damages on behalf of a putative class of purchasers of Danske Bank's American Depositary Receipts between 9 January 2014 and 23 October 2018. Danske Bank intends to defend itself against the claims. The timing of completion of the lawsuit and the outcome are uncertain.
- On 11 January, we announced that we had received a letter from the French Tribunal de Grande Instance de Paris summoning Danske Bank to an interview to discuss matters relating to the ongoing investigation into organised money laundering of tax evasion proceeds. The letter states that the judge envisages placing Danske Bank under formal investigation after having previously changed Danske Bank's status in the case to that of an assisted witness.
- On 16 January, we issued USD 3 billion worth of new funding in non-preferred senior format. The transaction demonstrated that despite the Estonia case, Danske Bank retains good market access. We acknowledge, however, that current spreads are significantly wider than those applying to our NPS issuance in June 2018 and that this is due partly to the negative impact of the Estonia case on our reputation.

As is clear from the above, the Estonia case has had a substantial impact on Danske Bank, and the case will probably continue to impact us in 2019. However, we remain dedicated to learning from this case in order to prevent anything like this from happening again. Consequently, going forward we will continue our efforts to get to the bottom of the case and will keep the authorities informed of all progress and findings.

Closer to customers, colleagues and the Nordic societies

Strategy execution

Strategy execution
Danske Bank is a Nordic universal bank with strong local roots and bridges to the world. For almost 150 years, we have played an important role in the communities we serve and in the lives of our customers. Deeply engrained in our Nordic home markets, we have a strong position to help our customers meet their financial objectives by providing banking services based on our deep financial competence and dedicated focus on developing leading and innovative solutions. Our universal banking model provides a diversified platform that allows us to be competitive across our core markets.

The financial services sector is, however, undergoing significant changes. We believe that six drivers of change in particular are likely to affect the financial services landscape over the coming years:

- A challenging macroeconomic environment characterised by persistently low interest rate levels
- Intensified competition and emergence of new market entrants
- Dramatically changing customer expectations and behaviour
- Continued digitalisation and emergence of new technologies
- Increasing regulatory requirements
- Increased expectations from society and external stakeholders

To remain competitive and relevant for customers and all other stakeholders in the future, we need to adapt to these changes. This also offers significant opportunities. For this reason, we launched our Nordic Integrator strategy in May 2018, with the vision of becoming a trusted financial partner and setting new ambitions for the value we want to create for all our stakeholders.

The Nordic Integrator bank
With our new strategy, we are working towards becoming a Nordic Integrator bank, taking an even more active role in making our customers financially confident and contributing to societal growth and stability. We want to become integral to our customers lives, more closely integrated into the Nordic societies and more integrated internally across our organisation.

We know from our customers that financial decision-making can be overwhelming, with a fragmented landscape of solutions to choose from. We believe that customers now have an even greater need for a trusted partner that integrates the various solutions and helps them navigate. Given our history in the Nordic markets, we are uniquely positioned to be the integrator that offers consumers and businesses a coherent solution, tailored to their needs, whenever and however it feels most relevant to them.

In addition to integrating with our customers, we also assume the role of integrating with society, which, given the Estonia case, has become even more important for us. There is a growing awareness of the role of financial institutions in promoting sustainable growth and a positive development in society. To us, that means becoming better at utilising our assets and competencies to drive sustainable progress and create a positive impact on the societies that we are part of.

Finally, because we want to be the best possible Danske Bank for our customers, we have begun a process of internal integration. This has led us to change our organisational structure to better serve our market areas and cater to customers' needs. Alongside this, we have initiated a cultural journey to foster the behaviour necessary to deliver on our Nordic Integrator ambitions, allowing for better a customer experience and addressing the Estonia case properly in the organisation.

To realise the Nordic Integrator vision, we have identified eight strategic priorities that will guide our efforts in the coming years:

- Win on customer experience
- Make compliance a business enabler
- Increase the focus on people and culture
- Build a harmonised Nordic core
- Drive efficiency and agility
- Make partnerships a growth lever

- Lead data and analytics
- Integrate societal impact into our business model

Going forward, our business units will work within this framework to create the best possible customer experience. Examples of the initiatives launched in 2018 are included below.

Win on customer experience
Customers need to feel recognised and experience banking as easy. We are striving to give proactive and relevant guidance that helps customers gain an overview and become confident that they will reach their financial goals.

As an example of our current efforts in relation to our commercial customers, we have launched the financial platform District. Our aim is to give customers a main hub in which they can handle all of their day-to-day finances as well as major financial decision-making.

As another example, in 2018 we started offering our commercial customers Industry Insights reports as an integral part of our advisory services. These reports give commercial customers an overview of trends and industry developments, helping them make informed strategic decisions.

In order to be available to customers where and when they prefer, we have made it easy to book meetings directly with an adviser via our digital platforms. We will continue to launch more initiatives to improve the experience for our customers.

Make compliance a business enabler
Customers and society expect us to be a solid, balanced and predictable institution. This entails continuously contributing to a healthy and efficient financial system. The Estonia case has demonstrated that there are important learnings for us in this context. Accordingly, compliance will become an even more important topic for us in the time ahead and will continue to require increasing efforts and investments.

One initiative is Profile in Danske Mobile Banking, a GDPR-compliant feature that makes it easy for customers to get full transparency on the data that Danske Bank stores about them. Customers are able to request a transfer of their data with just one tap.

Another example is the implementation of a new investment proposition in Finland designed on the basis of compliance with MiFiD2 regulation. The solution provides customers with a choice of innovative investment propositions and the flexibility to select only the products and advisory services they need with increased transparency on the associated benefits and costs.

Increase the focus on people and culture
Our people are our main assets, and we have a skilled and motivated workforce as well as a strong talent pool to ensure that we continue to meet changing customer needs and deliver a winning customer experience.

We are continuously building capabilities for the future to bring more benefits to our customers. Furthermore, the expectations that future generations have of their work environment continue to evolve, requiring us to explore new ways of ensuring high employee satisfaction through commitment and engagement.

Build a harmonised Nordic core
Customers should experience us as serving them efficiently, keeping up with their latest needs and frequently offering new and innovative solutions. This requires us to strengthen the way we operate.

Customers should also experience us as one bank regardless of their preference for how they interact with us. As a result, we are harmonising our service model across channels and across the Nordic countries. This will provide a seamless customer experience that is independent of how, when and where customers prefer to interact with us.

We participate in sector collaborations that benefit customers through improvements to the financial infrastructure. To give customers the benefit of faster payments processing, we are part of the pan-Nordic 'P27' payments sector initiative, which seeks to modernise and standardise the payments infrastructure in the Nordic countries.

Similarly, we are part of the Nordic KYC Utility sector collaboration, which seeks to make compliance simpler for new customers by reducing the processing time for onboarding.

Drive efficiency and agility
We should help make our customers' lives easier. Therefore, we strive to serve our customers swiftly and meet their needs as they emerge. This means that we are constantly working towards becoming more efficient and agile in the way we work. As part of this, we established a central Innovation unit in 2018,

tasked with exploring and learning about future unmet customer needs.

To make financial decision making easier and faster for our commercial customers, we have expanded our Future Finance offering, whereby commercial customers can apply for, and be granted, a new loan within seconds.

Similarly, for our personal customers, we continued to expand the use of automated credit decision tools so that customers seeking home finance or a consumer loan are now able to get loan approval on the spot.

Make partnerships a growth lever
Partnerships benefit our customers through new skills and technology that can be used to improve their banking experience. We recognise partnerships as a key driver of growth, either as a means of reaching new customer groups or as a source of new competencies, ideas or technologies to the benefit our customers.

During 2018, we expanded our partnership with Akava and Frank in Finland, renewed our partnership with Akademikerne in Norway and entered into a new exclusive partnership with Norway's largest union, Tekna. With these partnerships, new customer groups can benefit from our products and services.

Additionally, we entered into a new Nordic partnership with Tryg Insurance, through which we will ensure access for our customers to high-quality and innovative insurance offerings on competitive terms.

Finally, we entered into partnerships with a number of fintech companies such as Spiir, Minna Technologies and TomorrowTech. With Spiir we are able to give customers an overview of not only their Danske Bank products, but all their accounts across various banks.

Lead data and analytics
Customers expect us to approach them with messages and advice tailored to their individual needs. Using advanced analytics, we are able to identify emerging customer needs and concerns and, in turn, adjust our interactions to be more relevant. Additionally, we are using advanced analytics to improve our ability to detect and prevent fraud.

In Danica Pension, we are using analytics to help our customers stay 'one step ahead' when their life situation changes. By making proactive advice and recommendations available to our customers, we make them feel safe and confident about saving for retirement.

Similarly, we are upgrading our financial markets digital platform, resulting in faster execution and higher accuracy for the benefit of our customers.

Integrate societal impact into our business model
To create a positive impact on the societies we are part of, we are incorporating societal impact as a core element of our business model. A more detailed description of our societal impact efforts is available in Corporate Responsibility 2018.

In 2018, we launched sustainable impact funds and financing solutions, and we sharpened our policies for investment funds by excluding investments in enterprises operating in nuclear and tar sands for instance. We made sustainable financing available to retail and commercial customers in the form of green investment products, and we are actively supporting the international Task Force on Climate-related Financial Disclosures.

We continue to support societal growth by supporting entrepreneurs, connecting them with relevant advisory services via our +impact initiative and a specially designed accelerator programme for selected social entrepreneurs.

Financial review

Income statement
(DKK millions)

	2018	2017	Index 18/17	Q4 2018	Q3 2018	Index Q4/Q3
Net interest income	23,571	23,806	99	5,895	5,852	101
Net fee income	15,402	15,664	98	4,078	3,777	108
Net trading income	4,676	7,087	66	938	1,236	76
Other income	716	1,591	45	20	235	9
Total income	44,365	48,149	92	10,931	11,100	98
Operating expenses	25,011	22,722	110	6,243	7,367	85
Profit before loan impairment charges	19,354	25,427	76	4,688	3,733	126
Loan impairment charges	-650	-873	-	-43	100	-
Profit before tax, core	20,004	26,300	76	4,731	3,632	130
Profit before tax, Non-core	-282	-12	-	-286	-44	-
Profit before tax	**19,722**	**26,288**	**75**	**4,445**	**3,588**	**124**
Tax	4,721	5,388	88	1,029	1,107	93
Net profit for the year*	**15,001**	**20,900**	**72**	**3,415**	**2,482**	**138**
Attributable to additional tier 1 etc.	781	786	99	192	198	97

**From financial highlights, see Definition of Alternative Performance Measures on page 65.*

In 2018, Danske Bank Group delivered a profit before tax from core activities of DKK 20.0 billion, a decrease of DKK 6.3 billion, or 24% from the level in 2017. The result was primarily affected by a decrease in net trading income of DKK 2.4 billion, and the one-off expense of DKK 1.5 billion relating to the donation of the estimated gross income from our non-resident portfolio in Estonia in the period from 2007 to 2015. In addition, the result was negatively affected by increased compliance costs, including costs relating to the Estonia case, the integration of SEB Pension Danmark, and the fact that Krogsveen, which was sold in the first quarter of 2018, no longer contributed to the results.

Profit before tax in the IFRS income statement amounted to DKK 19.3 billion, a decrease of 26% from the level in 2017.

Income
Total income amounted to DKK 44.4 billion, a decrease of 8% from the level in 2017. Net trading income was negatively affected by challenging market conditions.

Net interest income totalled DKK 23.6 billion and decreased 1% from the level in 2017. Net interest income benefited from growth in lending and deposit volumes, increased deposit margins as a result of developments in market rates, and lower liquidity costs. However, the positive effects were offset by a decrease in lending margins due to developments in market rates, currency effects, higher capital costs as a result of the issuance of additional tier 1 capital at the end of the second quarter of 2018 and the non-preferred senior debt issued during the second and third quarters of 2018. The transfer of Baltic customers to the Non-core unit also reduced net interest income.

Net fee income amounted to DKK 15.4 billion and decreased 2% from the level in 2017. Net fee income was adversely affected by a decline in capital markets related activity, which was partly mitigated by higher net fee income following the acquisition of SEB Pension Danmark.

Net trading income totalled DKK 4.7 billion, a decrease of 34% from the level in 2017. In particular, Corporates & Institutions (FI&C and Capital Markets) and Wealth Management saw a decrease. FI&C was negatively affected by difficult market conditions, resulting in lower income on customer transactions, and lower net trading income in credit markets due to challenging secondary market conditions. Wealth Management was affected by a lower investment result in the health and accident business.

Other income amounted to DKK 0.7 billion, against DKK 1.6 billion in 2017. Income in 2017 included income from Krogsveen, the Norwegian real estate agency chain, which was sold in the first quarter of 2018. In addition, a lower risk result in the health and accident business at Wealth Management adversely affected Other income.

Expenses

Operating expenses amounted to DKK 25.0 billion, an increase of 10% from the level in 2017. Operating expenses benefited from lower activity-related costs and efficiency measures, which were, however, more than offset by the expense for the DKK 1.5 billion donation. Adjusted for the donation, operating expenses increased 3%. Higher compliance costs, including costs related to the Estonia case, expenses resulting from the integration of SEB Pension Danmark, and continued initiatives to meet our high ambitions within digital transformation also contributed to the increase in expenses. In 2017, expenses benefited from a one-off gain related to the amended pension liability at the Northern Ireland unit.

Loan impairments

Loan impairments remained low, with net reversals in 2018 of DKK 650 million in core activities, against net reversals of DKK 873 million in 2017, as credit quality remained solid, supported by stable macroeconomic conditions and higher collateral values in most markets.

In the IFRS income statement for 2018, loan impairments amounted to a net reversal of DKK 387 million. The figure in the IFRS income statement includes impairment charges at the Non-core unit and the effect on loans granted by Realkredit Danmark of DKK 400 million resulting from the change in valuation following the implementation of IFRS 9.

At Banking DK, reversals in 2018 primarily reflected improved credit quality for retail and commercial customers, except for agricultural customers. Reversals related to legacy non-performing loans for which restructurings during the year have had a positive outcome, thus allowing impairment reversals. In general, the Banking Nordic portfolio saw improved credit quality. Corporates & Institutions saw net impairments due to restructurings in relation to single name exposures in the oil and gas industry. At the Northern Ireland unit, the low amount of impairment charges related to a few cases in the first quarter of 2018.

Loan impairment charges
(DKK millions)

	2018		2017	
	Charges	% of net credit exposure*	Charges	% of net credit exposure*
Banking DK	-758	-0.09	-1,065	-0.12
Banking Nordic	-159	-0.03	221	0.04
C&I	278	0.07	311	0.07
Wealth Management	-42	-0.05	-93	-0.12
Northern Ireland	26	0.06	-247	-0.55
Other Activities	5	0.29	-	0.01
Total	**-650**	**-0.03**	**-873**	**-0.04**

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

Tax

Tax on profit for the period amounted to DKK 4.7 billion, or 23.9% of profit before tax, against 20.5% of profit before tax for 2017. The increase in the effective tax rate is due to the expense for the donation of DKK 1.5 billion, which we have found is not tax deductible.

Net profit

Net profit amounted to DKK 15,001 million, a decrease of 28% from the level in 2017. Net profit in the IFRS income statement amounted to DKK 14,689 million and was thus DKK 312 million lower due to the IFRS 9 implementation effect on loans granted by Realkredit Danmark. See Definition of Alternative Performance Measures on page 65 for more information.

Q4 2018 vs Q3 2018

In the fourth quarter of 2018, the Group posted a net profit of DKK 3.4 billion, against DKK 2.5 billion in the third quarter.

Net interest income amounted to DKK 5.9 billion, an increase of 1% from the level in the third quarter. Net interest income saw a positive effect from lending volume growth, deposit margins as a result of developments in market rates, and lower capital costs. However, the positive effect was partly offset by a decrease in lending margins, due primarily to developments in market rates, and a decrease in deposit volumes.

Net fee income amounted to DKK 4.1 billion, an increase of 8% from the level in the third quarter. Net fee income at Wealth Management increased as a result of performance fees from asset management.

Net trading income amounted to DKK 0.9 billion, a decrease of 24% from the level in the third quarter. At Corporates & Institutions, net trading income in FI&C decreased due to a continuation of challenging market conditions, and at Wealth Management, we saw a lower investment result in the health and accident business. Net trading income benefited from seasonal mortgage refinancing at Banking DK.

Other income amounted to DKK 20 million in the fourth quarter of 2018. The decrease was due primarily to a lower risk result in the health and accident business at Wealth Management.

Operating expenses amounted to DKK 6.2 billion, a decrease of 15% from the level in the third quarter. Adjusted for the expense for the DKK 1.5 billion donation, operating expenses increased 6%. Efficiency measures were more than offset by higher compliance costs, including costs relating to the investigation into matters at the Estonian branch, and increased costs at Wealth Management primarily due to costs regarding the integration of SEB Pension Danmark and the sale of Danica Pension in Sweden.

Loan impairments showed a net reversal of DKK 43 million, due to continued reversals relating to legacy non-performing loans. Loan impairments at Corporates & Institutions related to a few single-name exposures, due primarily to ongoing restructurings in the oil and gas industry. The underlying credit quality was consistently strong and was supported by higher collateral values.

Balance sheet

Lending (end of period)
(DKK billions)

	2018	2017	Index 18/17	Q4 2018	Q3 2018	Index Q4/Q3
Banking DK	878.7	869.7	101	878.7	874.8	100
Banking Nordic	586.7	561.2	105	586.7	590.3	99
Corporates & Institutions	198.3	199.5	99	198.3	186.6	106
Wealth Management	77.7	75.0	104	77.7	77.5	100
Northern Ireland	49.8	46.3	108	49.8	50.9	98
Other Activities incl. eliminations	-3.8	-9.4	-	-3.8	-4.2	-
Allowance account, lending	17.9	19.4	92	17.9	18.0	99
Total lending	**1,769.4**	**1,723.0**	**103**	**1,769.4**	**1,757.9**	**101**

Deposits (end of period)
(DKK billions)

	2018	2017	Index 18/17	Q4 2018	Q3 2018	Index Q4/Q3
Banking DK	282.6	278.1	102	282.6	281.7	100
Banking Nordic	226.8	225.2	101	226.8	227.7	100
Corporates & Institutions	260.8	282.9	92	260.8	272.5	96
Wealth Management	66.6	65.8	101	66.6	68.1	98
Northern Ireland	62.6	59.0	106	62.6	63.5	99
Other Activities incl. eliminations	-4.9	0.8	-	-4.9	-4.7	-
Total deposits	**894.5**	**911.9**	**98**	**894.5**	**908.9**	**98**

Covered bonds
(DKK billions)

	2018	2017	Index 18/17	Q4 2018	Q3 2018	Index Q4/Q3
Bonds issued by Realkredit Danmark	741.1	758.4	98	741.1	738.3	100
Own holdings of bonds	57.8	33.6	172	57.8	59.1	98
Total Realkredit Danmark bonds	**798.9**	**792.0**	**101**	**798.9**	**797.4**	**100**
Other covered bonds issued	182.6	168.1	109	182.6	174.7	105
Own holdings of bonds	57.5	33.5	172	57.5	40.1	143
Total other covered bonds	**240.1**	**201.7**	**119**	**240.1**	**214.8**	**112**
Total deposits and issued mortgage bonds etc.	**1,933.5**	**1,905.5**	**101**	**1,933.5**	**1,921.1**	**101**
Lending as % of deposits and issued mortgage bonds etc.	91.5	90.4		91.5	91.5	

Lending
At the end of 2018, total lending was up 3% from the level at the end of 2017. Lending increased in almost all markets and across all geographies.

In Denmark, new gross lending, excluding repo loans, amounted to DKK 85.9 billion. Lending to retail customers accounted for DKK 38.4 billion of this amount.

Our market share of total lending in Denmark, excluding repo loans, was stable at 26.6% at the end of 2018. In Sweden, our market share of lending rose 0.3 percentage points to 5.9%. Our market shares in Finland and Norway decreased slightly (0.1 percentage points) to 9.5% and 6.0%, respectively.

Market shares of lending
(%)

	31 December 2018	31 December 2017
Denmark incl. RD (excl. repo)	26.6	26.6
Finland*	9.5	9.6
Sweden (excl. repo)*	5.9	5.6
Norway *	6.0	6.1

Source: Market shares are based on data from the central banks.
**The market shares for Finland, Sweden and Norway are based on data as at 30 November 2018.*

Lending equalled 91.5% of the total amount of deposits, mortgage bonds and other covered bonds, against 90.4% at the end of 2017.

Deposits
At the end of 2018, total deposits were down 2% from the level at the end of 2017. The decrease was due primarily to a decrease in deposits at Corporates & Institutions, due partly to the transfer of the Baltic customers to the Non-core unit.

Our market share in Denmark decreased slightly (0.1 percentage points) to 27.8%. Our market share in Sweden increased slightly (0.1 percentage points) to 4.1%. Our market share in Finland decreased from the high level of 13.5% at the end of December 2017 to 11.0%. Our market share in Norway decreased 0.2 percentage points. The Group maintained its strong funding position.

Market shares of deposits
(%)

	31 December 2018	31 December 2017
Denmark (excl. repo)	27.8	27.9
Finland*	11.0	13.5
Sweden (excl. repo)*	4.1	4.0
Norway*	6.4	6.6

Source: Market shares are based on data from the central banks.
**The market shares for Finland, Sweden and Norway are based on data as at 30 November 2018.*

Credit exposure
Credit exposure from lending activities in core segments totalled DKK 2,392 billion, against DKK 2,688 billion at the end of 2017. The decrease in credit exposure from lending activities was owing primarily to the IFRS 9 reclassification and exclusion of DKK 223 billion of repos and other loans in the trading units of Corporates & Institutions from the credit exposure from lending activities from 1 January 2018. The decrease was partly offset by the inclusion of committed loan offers of DKK 65 billion in the credit exposure and an increase in lending, primarily at Banking Nordic. The remaining decrease related primarily to exposures to central banks and other banks, and the transfer of Baltic customers to the Non-core unit.

Risk Management 2018, section 3, which is available at danskebank.com/ir, provides details on Danske Bank's credit risks.

Credit quality
Credit quality remained solid in light of stable macroeconomic conditions. At the end of 2018, gross NPL was DKK 3.3 billion lower than at the end of 2017, while net NPL was stable. The effect of new non-performing loans at Corporates & Institutions was more than offset by continued work-outs in the legacy portfolio.

The risk management notes on pp. 176-205 provide more information about non-performing loans.

Non-performing loans (NPL) in core segments
(DKK millions)

	31 December 2018	31 December 2017
Gross NPL	29,923	33,255
NPL allowance account	13,020	15,965
Net NPL	**16,903**	**17,290**
Collateral (after haircut)	**15,296**	**14,703**
NPL coverage ratio (%)	85.0	86.1
NPL coverage ratio of which is in default (%)	96.2	96.8
NPL as a percentage of total gross exposure (%)	1.2	1.2

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

Accumulated impairments amounted to DKK 20.4 billion, including an IFRS 9 implementation effect of DKK 2.6 billion, or 1.1% of lending and guarantees. The corresponding figure at 31 December 2017 was DKK 20.1 billion.

Allowance account by business units
(DKK millions)

	2018		2017	
	Accum. impairm. charges*	% of net credit expo-sure**	Accum. impairm. charges*	% of net credit expo-sure**
Banking DK	12,185	1.36	12,922	1.45
Banking Nordic	4,134	0.69	3,540	0.62
C&I	2,806	1.26	2,379	0.58
Wealth Management	423	0.52	460	0.59
Northern Ireland	792	1.53	764	1.62
Other	12	0.02	3	0.01
Total	**20,353**	**1.10**	**20,069**	**1.00**

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

Realised losses amounted to DKK 2.3 billion. Of these losses, DKK 0.7 billion was charged directly to the income statement.

Trading and investment activities
Credit exposure from trading and investment activities amounted to DKK 1,012 billion at the end of 2018, against DKK 774 billion at 31 December 2017. The increase, which related primarily to repos and other loans in the trading units of Corporates & Institutions, was the result of the implementation of IFRS 9. This credit exposure is now included in credit exposure from trading and investment activities and therefore no longer forms part of credit exposure from lending activities.

The Group has made netting agreements with many of its counterparties concerning positive and negative market values of derivatives. The net exposure was DKK 68.6 billion, against DKK 74.7 billion at the end of 2017.

The value of the bond portfolio was DKK 442 billion. Of the total bond portfolio, 68% was recognised at fair value and 32% at amortised cost.

Bond portfolio
(%)

	31 December 2018	31 December 2017
Government bonds and bonds guaranteed by central or local governments	39	34
Bonds issued by quasi-government institutions	1	1
Danish mortgage bonds	47	49
Swedish covered bonds	9	12
Other covered bonds	2	3
Corporate bonds	2	1
Total holdings	**100**	**100**
Bonds at amortised cost included in total holdings	32	30

Other balance sheet items
Total assets in Non-core amounted to DKK 14.3 billion at the end of 2018, against DKK 4.9 billion at the end of 2017. The increase related to the transfer of Baltic customers to the Non-core unit as per 1 April 2018 as a result of the repositioning of the Group's business activities in the Baltic countries.

Other assets is the sum of several small line items. Other assets increased DKK 4.8 billion, or 2%, from the end of 2017 and related to the assets of Danica Pension in Sweden, which are now presented as part of Other assets.The increase was, however, partly offset by a decrease in cash in hand and demand deposits. Other liabilities increased DKK 43 billion, or 26%, from the end of 2017. The increase related primarily to liabilities of Danica Pension in Sweden, which are now presented as Other liabilities, and to the provision for the DKK 1.5 billion donation.

Capital and liquidity management

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

Capital effect of the Estonia investigation
The Board of Directors reassessed and increased the Group's solvency need by DKK 10 billion during 2018 to ensure adequate capital coverage of its compliance and reputational risks as a consequence of the orders from the Danish FSA 3 May 2018, and the FSA's follow-up decision from 4 October 2018, concerning the Estonian branch. As part of the decision from 4 October 2018, the Pillar II requirement concerning compliance and reputational risk is to be met with CET1 capital.

Furthermore, the Board of Directors has reassessed and increased the Group's capital targets and has taken further prudency measures, as outlined below.

Capital ratios
At the end of 2018, the total capital ratio was 21.3%, and the CET1 capital ratio was 17.0%, against 22.6% and 17.6%, respectively, at the end of 2017. The movement in capital ratios in 2018 was driven primarily by the share buy-back programme initiated on 5 February 2018, which totalled DKK 6.9 billion at discontinuation, and planned net redemptions of subordinated capital as well as accumulated net profits for 2018 adjusted for proposed dividends. In addition, Danica Pension's acquisition of SEB Pension Danmark lowered the Group's capital ratios due to the rules of deducting investments made in insurance subsidiaries.

During 2018, the REA decreased around DKK 5.3 billion to DKK 748.1 billion at the end of 2018. Despite the implementation of a risk weight floor on Swedish residential mortgage exposures in the fourth quarter of 2018 (moved from Pillar II to Pillar I), the REA for credit risk decreased DKK 5.1 billion due to portfolio changes such as lower exposure and a depreciation of our main currencies. Lower market risk reduced the total REA by a further DKK 3 billion.

At the end of 2018, the Group's leverage ratio was 4.6% under transitional rules and 4.5% under fully phased-in rules.

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

The solvency need consists of the 8% minimum capital requirement under Pillar I and an individual capital add-on under Pillar II.

At the end of 2018, the Group's solvency need was 11.8%, an increase of 1.3 percentage points from the level at the end of 2017. The increase was due to a reassessment of capital to cover compliance and reputational risks, which increased the solvency need by DKK 10 billion. The DKK 10 billion is covered by common equity tier 1 (CET1) capital, as ordered by the Danish FSA.

A combined buffer requirement applies in addition to the solvency need. At the end of 2018, the Group's combined capital buffer requirement was 4.9%.

In March 2018, the Danish Government introduced a countercyclical buffer requirement in Denmark of 0.5% effective as of 31 March 2019. In September 2018, the requirment was increased to 1.0%, effective as of 30 September 2019, which will increase the Group's combined buffer requirement by 0.5 percentage points. In addition, the Swedish FSA and the Norwegian Ministry of Finance increased their respective national buffer requirements from 2.0% to 2.5%, taking effect during 2019, which will raise the Group's requirement by 0.1 percentage points. Consequently, the buffer requirement will be 6.7% when fully phased in, bringing the fully phased-in CET1 capital requirement to 14.0% and the fully phased-in total capital requirement to 18.6%.

Capital ratios and requirements
(% of total REA)

	2018	Fully phased-in*
Capital ratios		
CET 1 capital ratio	17.0	16.8
Total capital ratio	21.3	21.2
Capital requirements (incl. buffers)**		
CET 1 requirement	12.1	14.0
- portion from countercyclical buffer	0.6	1.2
- portion from capital conservation buffer	1.9	2.5
- portion from SIFI buffer	2.4	3.0
Total capital requirement	**16.7**	**18.6**
Excess capital		
CET 1 capital	4.8	2.8
Total capital	4.6	2.6

** Based on fully phased-in rules and requirements incl. fully phased-in impact of IFRS 9.*
*** The total capital requirement consists of the solvency need and the combined buffer requirement. The fully phased-in countercyclical buffer is based on the buffer rates announced at the end of 2018.*

The calculation of the solvency need and the combined capital buffer requirement is described in more detail in Risk Management 2018, section 5, which is available at danskebank.com/ir.

Capital targets
As a consequence of the increase in the Group's solvency need of DKK 10 billion and in order to take further prudency measures, the Board of Directors decided to increase the Group's capital targets during 2018.

The CET1 capital ratio target was set at around 16% (previously 14-15%) and the total capital ratio target was set at above 20% (previously above 19%). Danske Bank fully meets the revised capital targets.

The Board of Directors reassesses the targets on an ongoing basis.

Capital distribution policy
On the basis of our continually strong capital position, the Board of Directors is proposing a dividend of DKK 8.5 per share, corresponding to 51% of reported net profit.

Going forward, Danske Bank's dividend policy is unchanged, and it is still our ambition to pay out 40-60% of net profit for the year.

As a further prudency measure due to the current circumstances and in addition to the increased capital targets, the Board of Directors decided on 4 October 2018 to discontinue the 2018 share buy-back programme. The programme, totalling DKK 10 billion, was due to end on 1 February 2019.

By the date of discontinuation, we had bought back a total of 33.8 million shares for a gross value of DKK 6.9 billion (figures at trade date). Due to continued uncertainty regarding consequences of the Estonia case, no share buy-back programme is initiated in 2019.

Ratings
In 2018, rating agencies took repeated rating actions in both a positive and negative direction. The defining event was the publication of the Bruun & Hjejle report in September, which lead to all rating agencies taking negative rating actions.

On 25 September 2018, S&P Global affirmed Danske Bank's 'A' issuer and senior debt ratings. At the same time, it lowered Danske Bank's stand-alone credit profile to 'a-'. Consequently, S&P Global lowered by one notch the ratings on Danske Bank's non-preferred senior debt, tier 2 debt, and additional tier 1 capital instruments, and also lowered the long-term issuer credit rating on Danica Pension Livsforsikringsaktieselskab to 'A-' from 'A'. At the same time, S&P Global revised the outlook on Danske Bank to negative from positive due to regulatory investigations into Danske Bank's Estonian branch and the possible consequences for Danske Bank.

On 25 September 2018, Fitch Ratings affirmed all ratings of Danske Bank, while revising the outlook to negative from stable due to the uncertainty relating to the investigations and their consequences.

On 12 October 2018, Moody's downgraded Danske Bank's senior unsecured debt rating to 'A2' from 'A1', Danske Bank's counterparty risk rating to 'Aa3' from 'Aa2' and Danske Bank's non-preferred senior debt rating to 'Baa2' from 'Baa1'. The rating action followed the announcement that Danske Bank is subject to an investigation by the US Department of Justice. Moody's maintained the negative outlook assigned on 21 September 2018. The negative outlook reflects operational and reputational risks stemming from the investigations.

Danske Bank's ratings, 31 December 2018

	Moody's	S&P Global	Fitch Ratings
Counterparty rating	Aa3/P-1	A+/A-1	A+
Senior debt	A2/P-1	A/A-1	A+/F1
Outlook	Negative	Negative	Negative
Non-preferred senior debt	Baa2	BBB+	A
Tier 2	-	BBB	A-
AT1	-	BB+	BB+

Mortgage bonds and covered bonds (RO and SDRO) issued by Realkredit Danmark are rated 'AAA' (stable outlook) by S&P Global and Scope Ratings. Scope Ratings assigned its inaugural ratings on 29 August 2018. Fitch Ratings rates bonds issued from Realkredit Danmark's capital centre S 'AAA' (stable outlook) and rates bonds issued from capital centre T 'AA+' (stable outlook).

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

ESG ratings
ESG ratings cover a range of analytical activities that address a business's or an organisation's societal impact. The acronym stands for Environment, Social and Governance. Each concept itself may be defined to include a broad range of sub-assessments. Definitions vary considerably among analysis providers.

While there are several hundred providers of ESG analyses, Danske Bank has chosen to focus on four providers in particular (selected on the basis of their importance to our investors):

MSCI ESG Ratings, USA
Oekom Research, Germany
Sustainalytics, USA
Vigeo Eiris, Italy

Going forward, the information requirements defined by these ESG rating agencies will influence Danske Bank's disclosure policy on financial and non-financial information.

Unlike ratings published by credit rating agencies, ESG ratings are unsolicited and based on public information only. Disclosure of ratings does not take place on a public basis; it is discretionary, meaning that ratings are made public selectively.

Funding and liquidity
During 2018, the Group issued preferred senior bonds of DKK 3.5 billion, non-preferred senior bonds of DKK 26.1 billion, covered bonds of DKK 34.9 billion, and additional tier 1 bonds of DKK 4.8 billion, bringing total new long-term wholesale funding to DKK 69.3 billion.[2]

The new legislation covering non-preferred senior issuance passed the parliamentary process, and the law came into effect on 1 July 2018. Importantly, the new legislation has been effective retroactively from 1 January 2018, thus also applicable to the inaugural non-preferred senior we issued in the second quarter.

The funding plan for 2019 is DKK 70-90 billion, and we remain dedicated to our strategy of securing a large part of funding directly in our Nordic lending currencies. SEK covered bonds issues are planned out of our Swedish mortgage subsidiary Danske Hypotek AB.

We plan for regular issues in the EUR benchmark format in both covered bonds and non-preferred senior bonds as well as issues in the domestic USD market for non-preferred senior bonds in the Rule 144A format. On 11 January 2019, we issued non-preferred senior bonds in the amount of USD 3 billion. We do not plan for benchmark issues in preferred senior format. The benchmark issues are expected to be supplemented with private placements of bonds.

We will, from time to time, issue in GBP, JPY, CHF and other currencies when market conditions allow. Issuance plans for subordinated debt in either the additional tier 1 or tier 2 formats will depend on balance sheet growth and redemptions on the one side and our capital targets on the other. Any issuance of subordinated debt may cover part of our funding need.

Danske Bank's overall liquidity position remained robust. Stress tests show that we have a sufficient liquidity buffer well beyond 12 months. At the end of 2018, our liquidity coverage ratio stood at 121%, with a liquidity reserve of DKK 512 billion.

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

At 31 December 2018, the total nominal value of outstanding long-term funding, excluding equity-accounted additional tier 1 capital and bonds issued by Realkredit Danmark, was DKK 326 billion, against DKK 327 billion at the end of 2017.

Danske Bank excluding Realkredit Danmark
(DKK billions)

	31 December 2018	31 December 2017
Covered bonds	182.6	168.1
Preferred senior bonds	93.9	129.9
Non-preferred senior bonds	26.4	-
Subordinated debt	23.1	29.1
Total	**326.0**	**327.1**

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

At the end of 2018, Danske Bank was in compliance with all threshold values. A separate report is available at danskebank.com/ir.

Realkredit Danmark also complies with all threshold values.

New regulation
In March 2018, the Danish FSA published its decision to set the minimum requirement for own funds and eligible liabilities (MREL). As expected, the MREL for the Group was set to be equivalent to two times the capital requirement including capital buffer requirements.
The requirement for the Group is equivalent to 33% of

[2] *Amounts translated into Danish kroner at the date of issue.*

the REA adjusted for Realkredit Danmark and will be effective from 1 July 2019. The Danish FSA updates the MREL requirement annually. We expect the next update in February 2019. As a result of the increases in the Group's capital requirement since 2016, including the expected rise from the increases in the countercyclical buffer rates in Denmark and Sweden effective from 2019, the Group plans for an MREL of around 36% of the REA adjusted for Realkredit Danmark. At the end of December 2018, the MREL ratio stood at 33.9% of the REA adjusted for Realkredit Danmark.

Danish mortgage credit institutions are exempt from the MREL. Instead they are subject to a debt buffer requirement of 2% of their loans. Due to this exemption, Realkredit Danmark is not included in the consolidation for the purpose of determining the MREL for the Group. However, the capital and debt buffer requirements that apply to Realkredit Danmark are deducted from the liabilities and own funds used to fulfil the MREL.

The Danish FSA also imposes the requirement that all MREL eligible liabilities and own funds must bear losses before other senior unsecured debt in case of both resolution and insolvency. However, under a gradual transition to the 2022 requirement, unsecured senior debt issued before 1 January 2018 can also be used to fulfil the MREL if the residual maturity exceeds 12 months.

In December 2017, the Basel Committee on Banking Supervision (BCBS) published the final revised standards for REA calculations. The standards are also known as 'Basel IV'. According to the BCBS, the standards are revised in order to restore credibility in REA calculations and to improve the comparability of the capital ratios of financial institutions.

It is too early to firmly assess the effects of the changes since the political process to implement the recommendations in the EU has not yet been initiated, and the final outcome is subject to substantial uncertainty.

However, on the basis of our strong underlying earnings capacity and capitalisation, the Group is confident that it will be able to adapt smoothly to the future changes in EU regulatory requirements in relation to Basel IV.

On 23 November 2016, the EU Commission brought forward proposals to review CRD IV, CRR and BRRD. The changes include the implementation of the leverage ratio (LR), the net stable funding ratio (NSFR) and the fundamental review of the trading book (FRTB). In addition, the Commission aims to harmonise the Pillar II framework to ensure alignment with the international standards and further harmonisation towards a single rule book in the EU. In December 2018, EU co-legislators reached an agreement on the package. In respect of BRRD II, the agreed package implies changes to the future MREL as regards the size of the requirement, the composition of eligible liabilities and phase-in of the requirement.

If formally adopted in the first half of 2019, the implementation will take place in 2021. In the light of the preliminary compromise text, the Group expects the CRR and CRD IV amendments to have limited capital and REA impact on the Group.

Investor Relations

Investor Relations at Danske Bank contributes to the Group's pursuit of its strategic goals by ensuring that stakeholders receive correct and adequate information according to best practice in proactive investor communications and consultation.

Together with executive management, Investor Relations has an ongoing dialogue with analysts, shareholders, debt investors and prospective investors. This dialogue includes presenting and discussing current topics relevant to Danske Bank at seminars and conferences.

Through regular shareholder identification studies, Investor Relations proactively targets institutional investors in order to achieve a stable and diversified investor base and to support high liquidity in and fair pricing of Danske Bank shares. Investor Relations also aims to ensure that there is a broad level of coverage by relevant analysts. At the end of 2018, 30 equity analysts covered Danske Bank.

In 2018, investor events were held in the Nordic countries, other European countries, Asia and the US, with more than 700 investors attending.

Danske Bank shares

Danske Bank shares are listed on Nasdaq Copenhagen and are included in a number of Danish and international equity indices, such as the OMX Copenhagen 25 CAP Index (OMXC25CAP). At the end of 2018, Danske Bank shares had an index weighting of 7.45%.

Danske Bank's share price declined from DKK 241.6 at 31 December 2017 to DKK 128.9 at 31 December 2018, a decrease of 46.6%. In comparison, the OMXC25CAP Index decreased 13.2%, while the Europe 600 Banks Index decreased 28.3%.

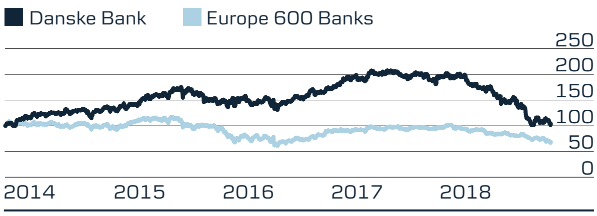
Danske Bank shares
(DKK)

	2018	2017
Share capital (millions)	8,960	9,368
Share price (end of year)	128.9	241.6
Total market capitalisation (end of year) (billions)	110.2	216.0
Earnings per share	16.5	22.2
Dividend per share	8.5	10.0
Book value per share	174.3	172.2
Share price/book value per share	0.7	1.4

Each share entitles the holder to one vote, and all shares carry the same rights.

The average daily trading volume of Danske Bank shares was 2.6 million. The Danske Bank share was the second most actively traded share on Nasdaq Copenhagen during 2018.

Danske Bank shares Index 2014 = 100

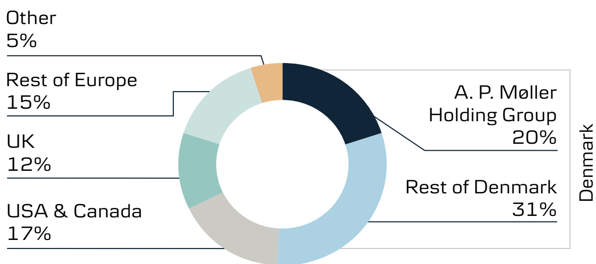


Shareholders

At the end of 2018, Danske Bank had about 270,000 shareholders. The 10 largest shareholders together owned about 41% of the share capital.

We estimate that shareholders outside Denmark, mainly in the US and the UK, hold around 49% of the share capital.

Danske Bank shareholders 2018

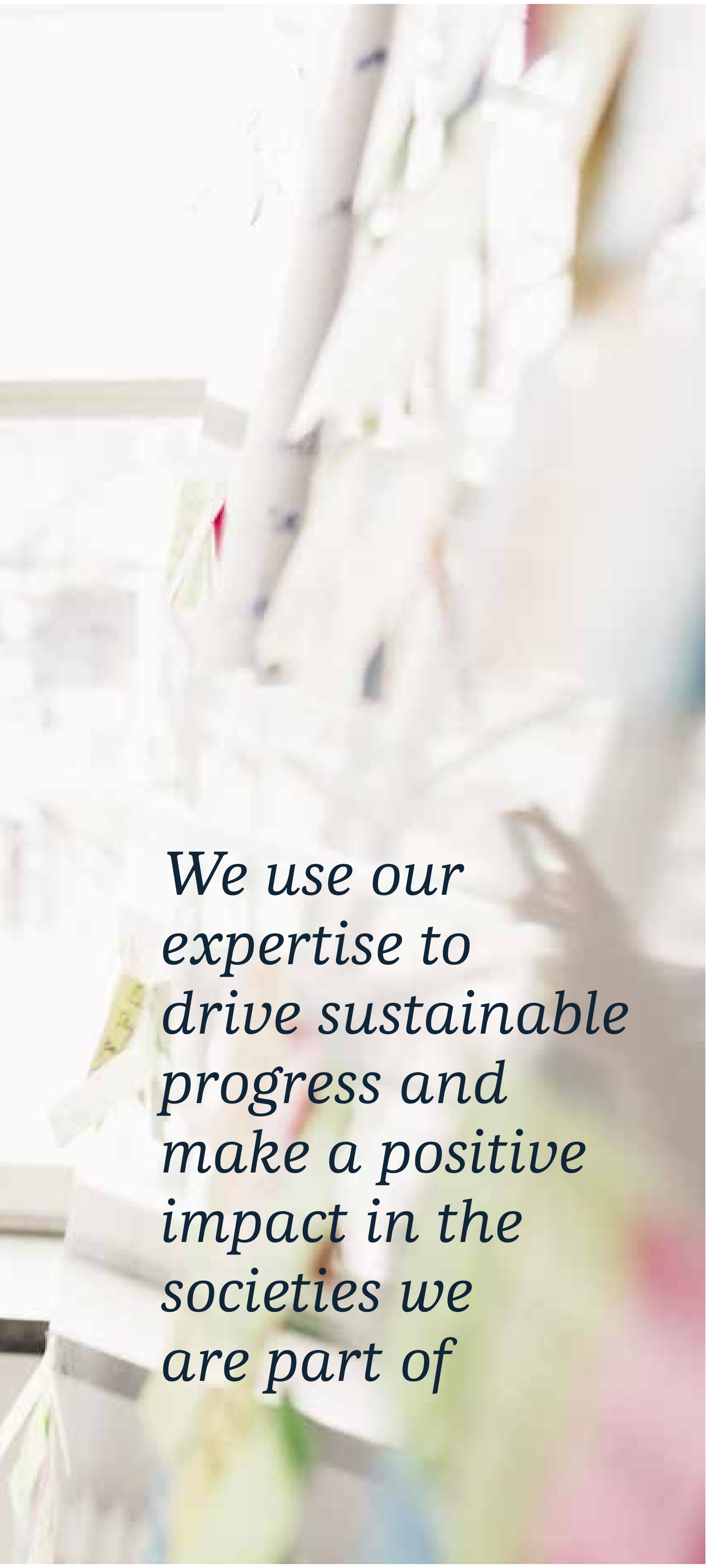


According to the Danish Companies Act, shareholders must notify the company if the voting rights of their shares represent 5% or more of the voting rights of the company's share capital or if the nominal value of their shares represents 5% or more of the share capital. Shareholders must also disclose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

Two shareholders have notified Danske Bank of holding 5% or more of the share capital:

- The A.P. Møller Holding Group holds 20.5% of the share capital.
- At 31 December 2018, BlackRock, Inc. held more than 5% of the share capital. On 29 January 2019, however, the company announced that as of 28 January 2019, it no longer held more than 5% of the share capital and voting rights of Danske Bank A/S.

For more information on Danske Bank's shares and own holdings of shares, see p. 75.



We use our expertise to drive sustainable progress and make a positive impact in the societies we are part of

Corporate responsibility

As the largest financial services provider in Denmark and one of the largest financial institutions in the Nordic region, we recognise that we have a particular responsibility because of our size and our impact on the Nordic economies.

Complying with the law and adhering to international principles for responsible business conduct is fundamental to this responsibility – a responsibility to which we remain fully committed.

We realise that many stakeholders have been prompted to question our understanding of and commitment to honouring our corporate social responsibility as result of the issues related to the terminated portfolio of non-resident customers at our Estonian branch and because it has become clear that we have not lived up to our own standards in that matter. However, this case in no way reflects the bank we want to be or the ambitions we have in that area.

We are driven by an ambition to create value for all our stakeholders and use our expertise to drive sustainable progress and make a positive impact in the societies we are a part of.

More information is available in the independently assured Corporate Responsibility 2018..

Societal Impact & Sustainability strategy
Since 2015, we have been working to integrate corporate responsibility into our core business through five focus areas, as described below. In addition, two strategic themes (Fostering financial confidence and Accessible finance for everyone, every day) have not only defined our initiatives for building financial confidence in the next generations and in growth companies, but also ensure a responsible transition to future financial services. Furthermore, in May 2018 we launched our new Societal Impact & Sustainability Strategy 2025, which builds on our achievements so far.

Focus area: Responsible customer relationships
It is our policy to build long-term responsible customer relationships by providing responsible and sustainable advice and through easy and secure access to financial products and services. It is also our aim to ensure compliance across all business activities by preventing financial crime and eliminating all forms of corruption. In order to mitigate any risk of violating our ESG-related policies and to enable us to build new and innovative services and products, ESG considerations are integrated into our investment and lending decisions.

We work to strengthen ESG integration into our investment processes, products, and advice and in our active ownership activities. In 2018, we developed a new sustainable investment strategy and launched our first report and a new digital platform on active ownership activities disclosing details about our voting at 313 general meetings. We also launched two impact investment funds on climate and water that are committed to creating returns and making a positive societal impact. We have also introduced investment restrictions related to thermal coal, tar sands and nuclear arms.

Over the past couple of years, Danske Bank has launched an extensive anti-money laundering (AML) programme, which has led to major changes in organisational structures, routines and procedures, not least in the wake of the Estonia case and the related investigations. In 2018, we developed eight robots to support the AML professionals in areas such as ongoing due diligence, transaction screening and customer screening.

We work to mitigate the risk of bribery and corruption through our compliance infrastructure, which includes controls, centralisation of processes, training and escalation procedures. Three principles govern the way that we operate: 1) not to accept or solicit bribes in any form; 2) not to make or accept facilitation payments; and 3) not to give or receive gifts above a token value, except for gifts given or received in specific situations – records are kept of all gifts and hospitality received. We have a whistleblower system where employees can report wrongdoing, and in 2019, we will publish a separate policy on anti-corruption.

Focus area: Responsible employer
It is our policy to promote diversity and an inclusive culture, ensure equal opportunity and eliminate the risk of discriminatory treatment. We sustain a healthy and safe working environment and a collaborative culture where our employees feel engaged. We protect our employees' right to freedom of association and collective bargaining, right to privacy and right to raising concerns without fear of retaliation.

To succeed with our corporate strategy, we need access to a diverse pool of candidates. In addition to working to reduce any potential gender bias in recruitment, we also monitor equal pay and report our salary data annually to the business association for banks in Denmark (Finance Denmark).

Increasing the share of female mangers is an area of particular focus for us because we see this as a stepping-stone to unlocking other facets of diversity, such as education, nationality, age, ways of thinking, seniority and experience.

In 2018, the Board of Directors revised the targets for the share of women on the Executive Board, bringing our 2020 target to 25%. Our long-term ambition is 38-40%, which is in line with our target for women in management positions in the Group.

Gender targets & performance (%)

	Performance 2018	Targets 2020
Share of AGM elected Board of Directors members being women	38	38
Share of women on the Executive Board	10	25
Share of women in management positions	37	38-40

Our Employee Engagement score fell over the course of the year, ending at an Engagement Index of 84% against our long-term ambition of 90% by 2020. This decrease is a matter that we take very seriously, and it is our assessment that the decline in 2018 can be attributed to the reorganisation that took place over the course of the year.

Employee-related performance

	2018	2017	2016	2015
Full-time employees (FTE)	20,683	19,768	19,303	19,049
Share of women in workforce (%)	50	49	50	51
Employee engagement	84	85	66	-
Absence due to illness (avg. no. of days)	5,4	5,4	5,3	6

Focus area: Environmental footprint
It is our policy to work systematically to minimise the risk of severe environmental impact of our operations and to reduce our CO_2 emissions through energy and environmental management.

Despite our annual efforts, we have not been able to reach our ambitious 2018 energy target of a 15% reduction in overall energy consumption from the level in 2014. In 2018, there was a minor decrease, which leaves us with an 8% reduction in overall energy consumption in the strategy period.

Danske Bank has been carbon neutral since 2009, which has been achieved by purchasing renewable electricity and carbon credits.

Environmental footprint

	2018	2017	2016	2015
CO_2 emissions (tonnes)	16,396	18,089	18,664	18,836
Energy consumption (MWh) (electricity and heat)	111,046	113,416	113,441	111,708
Paper (tonnes)	603	870	1,161	1,598
Road transport (1,000 km)	11,660	12,485	13,883	13,969
Air transport (1,000 km)	73,013	72,003	67,570	61,392

We integrate environmental considerations into the Group's own portfolio management, and since 2015 we have invested more than DKK 3 billion of our own funds in green bonds.

Focus area: Responsible supplier relationships

It is our policy to work with responsible sourcing by integrating ESG considerations into our procurement processes and by maintaining constructive relations with our suppliers through close dialogue and continued improvement. We expect our suppliers to respect internationally recognised sustainability principles and to set similar standards in their supply chain.

Our Supplier Code of Conduct applies to all suppliers, and our responsible sourcing process ensures that suppliers comply with our sustainability standards.

In 2018, we managed to get 97% of tenders in scope involving Group Procurement through the responsible sourcing process and thereby exceeded our target of 80%.

Selected key actions in 2018:

- Conducted two on-site supplier audits with ESG focus
- Continued to assess and evaluate high-risk suppliers through self-assessment questionnaires
- Implemented GDPR fulfilment requirements in contracts for suppliers handling personal data on behalf of Danske Bank

Focus area: Contributing to society

It is our policy to conduct our business in a responsible and transparent manner and to support financial stability by being solid, balanced and predictable.

Our stand on tax compliance and the risk of tax fraud and evasion is clearly stated in our Tax Policy.

As a natural consequence of the Estonia case, we focused much of our stakeholder dialogue in 2018 on explaining how this could happen and on communicating what we are doing to combat financial crime. At our branches across Denmark, we held 161 dialogue meetings with retail, commercial, corporate and institutional customers, and we maintained ongoing dialogue with authorities and politicians throughout the year.

Selected key actions 2018:

- Trained all employees in identifying risk indicators of tax evasion as part of mandatory e-learning in AML
- Published a study on financial confidence among citizens resident in Denmark, including a Nordic outlook
- Launched a guideline for employee voluntary work

More information

More information is available in the independently assured Corporate Responsibility 2018. The report serves as our Communication on Progress, as required by the UN Global Compact, and ensures compliance with the requirements of the Danish FSA's Executive Order on Financial Reports for Credit Institutions and Investment Firms etc. (subsections 135a and 135b) on corporate responsibility reporting. The report is supplemented by our Corporate Responsibility Fact Book 2018. These reports and further information about our CR initiatives and projects are available at danskebank.com/societal-impact.

Organisation and management

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

In 2018, the Annual General Meeting was held on 15 March.

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

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

Only the General Meeting can amend the Articles of Association. An amendment requires not less than a two-thirds majority of the votes cast and not less than two-thirds of the share capital represented at the general meeting and entitled to vote.

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

On 7 December 2018, an Extraordinary General Meeting was held to elect two new members to the Board of Directors.

Board of Directors
The Board consists of twelve members, eight elected by the General Meeting and four elected by and among the employees.

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

The Nomination Committee operates as a preparatory committee for the Board of Directors with respect to the nomination and appointment of candidates to the Board of Directors and to the Executive Board. Board candidates are nominated by the Board of Directors or the shareholders and are elected by the General Meeting.

At the Annual General Meeting held on 15 March 2018, Urban Bäckström and Martin Tivéus did not seek re-election. The general meeting elected Jens Due Olsen and Ingrid Bonde.

At the Extraordinary General Meeting held on 7 December 2018, the Chaiman of the Board of Directors, Ole Andersen, and the Chairman of the Audit Committee, Jørn P. Jensen, stepped down from the Board of Directors, and Karsten Dybvad and Jan Thorsgaard Nielsen were elected to the Board. At the Board constitutive meeting held immediately after the Extraordinary General Meeting, Karsten Dybvad was elected Chairman and Carol Sergeant and Jan Thorsgaard Nielsen were both elected Vice Chairman of the Board of Directors.

Pages 238-241 provide information on the individual members of the Board of Directors, including their directorships. Note 35 on page 169 provides information on the number of Danske Bank shares held by the members of the Board of Directors, and note 34 on page 163 provides information on the remuneration of the members of the Board of Directors.

Work of the Board of Directors in 2018
In 2018, the Board of Directors held 23 meetings, of which 8 were extraordinary meetings. The Audit Committee held 13 meetings, of which 7 were extraordinary meetings, the Risk Committee held 8 meetings, the Nomination Committee held 3 meetings and the Remuneration Committee held 2 meetings.

The Estonia case has been dealt with mainly by the Audit Committee, but from March to June 2018, an ad hoc committee called the Estonia Committee handled the case. The Estonia Committee held 9 meetings in 2018.

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

Board of Directors' meetings		Board of Directors' Committee meetings				
		Audit	Estonia	Risk	Remune-ration	Nomina-tion
Karsten Dybvad	1/1					
Jan Thorsgaard Nielsen	1/1					
Carol Sergeant	23/23	2/2[a]	9/9	8/8		2/2
Ingrid Bonde	18/20	10/10		6/6		[b]
Lars-Erik Brenøe	23/23	[c]				3/3
Jens Due Olsen	19/20	10/10		6/6		
Rolv Erik Ryssdal	20/23				2/2	
Hilde Tonne	22/23	2/2[a]	9/9		2/2	
Bente Bang	20/20					
Kirsten Ebbe Brich	21/23					
Thorbjørn Lundholm Dahl	20/20					
Charlotte Hoffmann	22/23				2/2	
Ole Andersen	21[d]/22	[c]	9/9	8/8	2/2	3/3
Urban Bäckström	3/3					1/1
Jørn P. Jensen	18/22	12/13	7/9			
Martin Tiveus	1/3			1/2		
Dorte Annette Bielefeldt	3/3					
Carsten Eilertsen	2/3					

a Of the Audit Committee meetings held in 2018 at which the Estonia case was on the agenda, previous Audit Committee member Hilde Tonne participated in one meeting and previous Audit Committee member Carol Sergeant participated in all meetings.
b Non-Nomination Committee member Ingrid Bonde assisted the Nomination Committee at its meetings and with its tasks in the fourth quarter of 2018
c Of the Audit Committee meetings held in 2018 at which the Estonia case was on the agenda, non-Audit Committee member Lars-Erik Brenøe participated in one meeting and non-Audit Committee member Ole Andersen participated in all meetings.
d At the constitutive meeting after the Annual General Meeting, Ole Andersen had press interviews.

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

The aim of the evaluation was to ensure, among other things, that the composition of the Board of Directors as well as the special competencies of each Board member enable the Board of Directors to perform its tasks. As the Board of Directors operates as a collegial body, its overall competencies and experience are the sum of the individual board members' competencies and experience. The composition of the Board of Directors aims to ensure the stable and satisfactory development of Danske Bank for the benefit of its shareholders, customers, employees and other stakeholders. The competencies of the Board of Directors collectively are described in the Competency profile, which is available on danskebank.com. Pages 238-241 provide information on the competencies of the individual Board members.
The results of the 2018 evaluation were generally positive, but with some areas of improvement, which the Board of Directors will explore further.

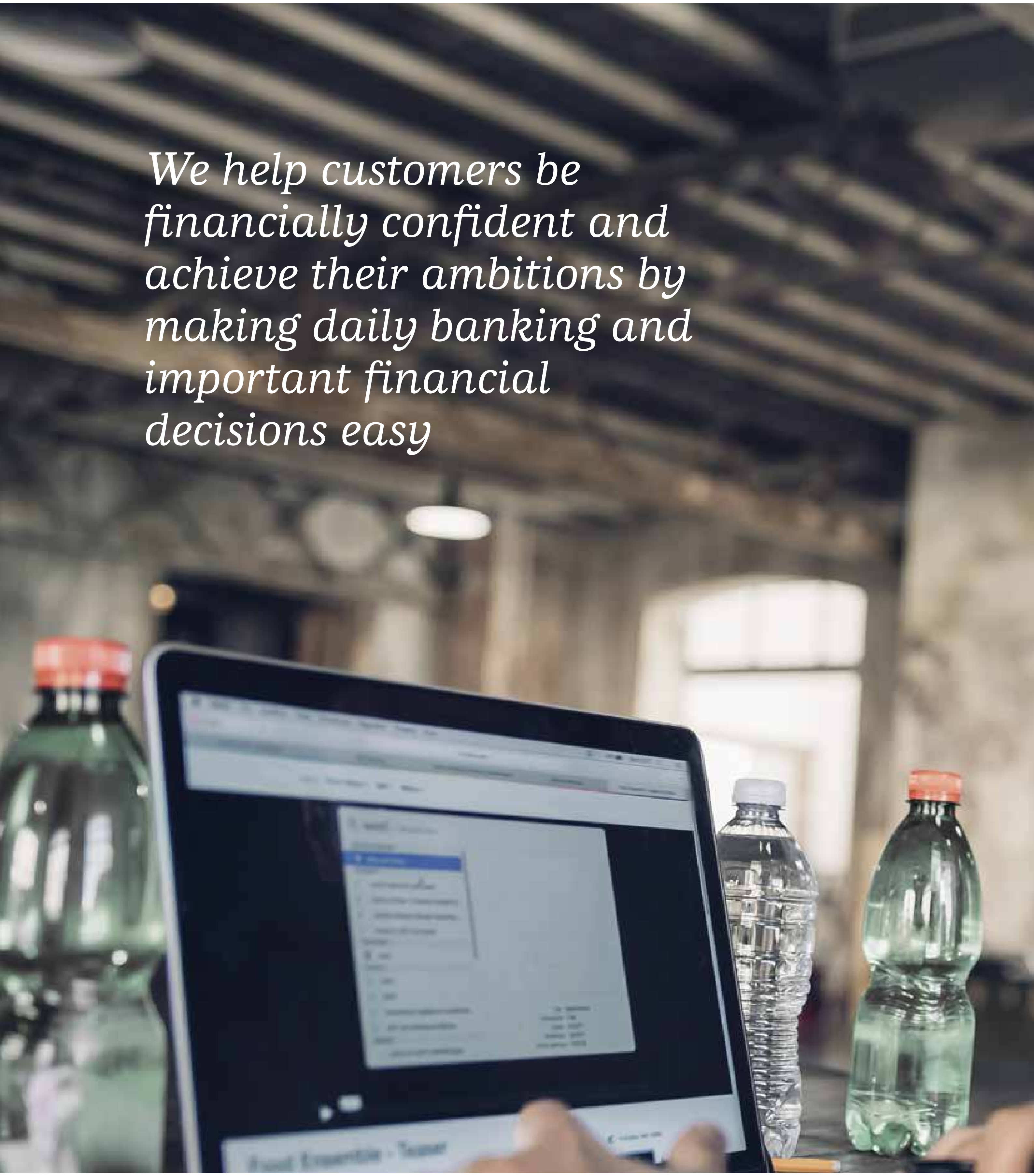
Executive Board
The Executive Board consists of Jesper Nielsen, Interim Chief Executive Officer and Head of Banking DK, Jacob Aarup-Andersen, Head of Wealth Management, Christian Baltzer, Chief Financial Officer; Jim Ditmore, Head of Group Services & Group IT (COO); Carsten Egeriis, Group Chief Risk Officer and Head of Group Risk Management; Henriette Fenger Ellekrog, Head of Group HR; Jakob Groot, Head of Corporates & Institutions; Glenn Söderholm, Head of Banking Nordic; Frederik Gjessing Vinten, Head of Group Development, and Philippe Vollot, Chief Compliance Officer.

On 5 April 2018, Lars Mørch, Member of the Executive Board, resigned. Effective from 21 April 2018, Lars Mørch was no longer a member of the Executive Board. On 6 April 2018, Tonny Thierry Andersen, Member of the Executive Board, resigned. Effective from 2 May 2018, Tonny Thierry Andersen was no longer a member of the Executive Board. On 19 September 2018, Thomas F. Borgen, Member of the Executive Board and Chief Executive Officer of the Danske Bank Group, resigned and he was relieved of his duties on 1 October 2018.

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

The statutory corporate governance report issued in accordance with section 134 of the Danish FSA's Executive Order of Financial Reports for Credit Institutions and Investment Firms etc. is available at danskebank.com/about-us/corporate-governance. The report includes an explanation of Danske Bank's status on all recommendations.

The Corporate Governance Code of the business association for banks in Denmark (Finance Denmark) applies to all member institutions. The Corporate Governance Code is available on finansdanmark.dk. The member institutions must comply with the recommendations or explain why they do not comply. Danske Bank complies with all recommendations set out in the Code. Danske Bank's explanation of the status on all recommendations is included in section E of its Corporate Governance Report 2018.



We help customers be financially confident and achieve their ambitions by making daily banking and important financial decisions easy

Banking DK

In 2018, Banking DK delivered a profit before tax of DKK 7.3 billion, down 6% from 2017. The decrease was due mainly to lower net impairment reversals, and an increase in expenses of 2%, primarily as a result of higher costs for regulatory compliance. Business activity developed positively and income was on par with the 2017 level. Customer satisfaction declined in the wake of the Estonia investigations.

Banking DK
(DKK millions)

	2018	2017	Index 18/17	Q4 2018	Q3 2018	Index Q4/Q3
Net interest income	8,955	8,906	101	2,252	2,245	100
Net fee income	3,400	3,417	100	802	848	95
Net trading income	852	874	97	246	156	158
Other income	234	264	89	63	57	111
Total income	13,442	13,461	100	3,364	3,306	102
Operating expenses	6,860	6,745	102	1,789	1,698	105
Profit before loan impairment charges	6,582	6,715	98	1,575	1,608	98
Loan impairment charges	-758	-1,065	-	-148	-16	-
Profit before tax	**7,340**	**7,780**	**94**	**1,723**	**1,624**	**106**
Loans, excluding reverse transactions before impairments	878,689	869,740	101	878,689	874,789	100
Allowance account, loans	10,790	12,285	88	10,790	10,880	99
Deposits, excluding repo deposits	282,640	278,074	102	282,640	281,747	100
Bonds issued by Realkredit Danmark	732,295	735,481	100	732,295	731,738	100
Allowance account, guarantees	1,393	635	219	1,393	1,630	85
Allocated capital (average)	34,032	34,914	97	33,312	34,028	98
Net interest income as % p.a. of loans and deposits	0.78	0.78		0.78	0.78	
Profit before tax as % p.a. of allocated capital (ROAC)	21.6	22.3		20.7	19.1	
Cost/income ratio (%)	51.0	50.1		53.2	51.4	
Full-time-equivalent staff	3,341	3,380	99	3,341	3,352	100

Fact Book Q4 2018 provides financial highlights at customer type level for Banking DK. Fact Book Q4 2018 is available at danskebank.com/ir.

2018 vs 2017

Business activity at Banking DK developed positively in 2018. The higher level of activity was fuelled primarily by increasing demand for mortgage lending among our personal customers and by generally good activity with our largest commercial customers. The events related to Estonia had an adverse effect on customer satisfaction and our customer base but did not significantly impact financial performance.

Our home loan portfolio grew over the year, supported by the favourable development in the housing market. Especially our unique FlexLife® mortgage loan, introduced a year ago, continued to be a popular choice among existing customers and attracted new customers from other mortgage finance institutions. Demand for our new bank home loan, Danske Bolig Fri, which offers a highly competitive variable-rate alternative to customers, also developed positively. The high popularity of FlexLife® and the demand for Danske Bolig Fri confirm our strong home finance value proposition that caters to all customer preferences.

We maintained good momentum with our business customers and attracted profitable business from existing as well as new customers. In the small business segment in particular, we saw a good inflow of new customers. The positive development reflects our ability to provide strategic advice at each stage of a business's lifecycle as well as our efficient digital service and delivery model.

Despite intense competition and a slight decline in the demand for mortgage loans among homeowners in the largest cities during the year, lending increased 1% from the level in 2017. Overall, our market shares in both the retail and the commercial segments were stable throughout 2018.

Profit before tax fell 6% to DKK 7.3 billion. The decrease was due predominantly to a decline in net impairment reversals of DKK 307 million. The decline reflects a reduced allowance account balance and a management overlay on impairment charges to cover the effects of the summer drought, which adversely affected the agricultural sector.

Income was flat from 2017 as strong mortgage activity was offset by margin pressure from competition and the continuation of negative interest rates.

Operating expenses increased 2% from the level in 2017, due mainly to increasing costs for regulatory compliance.

Credit quality
Credit quality was generally stable. The market was supported by favourable macroeconomic conditions and the low interest rate level.

The net impairment reversals of DKK 758 million related to both retail and commercial loans and reflect strong and stable portfolio credit quality and increasing collateral values.

At Realkredit Danmark, credit quality remained strong and stable throughout 2018, supported by the favourable conditions for the Danish economy.

The loan-to-value (LTV) level fell more than 2 percentage points over the year on the back of increasing collateral values.

Loan-to-value ratio, home loans

	31 December 2018		31 December 2017	
	Average LTV (%)	Net credit exposure (DKK bn)	Average LTV (%)	Net credit exposure (DKK bn)
Retail	61.8	468	64.2	465
Total	**61.8**	**468**	**64.2**	**465**

Credit exposure
Credit exposure rose to DKK 959 billion in 2018. The increase related mainly to higher exposure to private housing cooperatives and non-profit associations in the commercial portfolio.

	Net credit exposure		Impairments (ann.) (%)
(DKK millions)	31 December 2018	31 December 2017	31 December 2018
Retail	501,130	496,776	-0.10%
Commercial	457,779	445,102	-0.07%
Total	**958,909**	**941,879**	**-0.09%**

Q4 2018 vs Q3 2018

Profit before tax increased 6% to DKK 1.7 billion, owing mainly to higher net impairment reversals.

Income rose 2% driven primarily by remortgaging activity.

Operating expenses increased 5% due mainly to additional costs for regulatory compliance in the fourth quarter.

Reversals rose to DKK 148 million from DKK 16 million in the third quarter, which was adversely affected by the negative impact of the summer drought on some agricultural customers.

Lending and deposit volumes were largely flat during the quarter.

Business initiatives
Over the year, we continued to execute our ambition to give customers the best experience by making banking and financial decision-making easy, and to integrate more with the societies we are a part of.

One bank for our customers
With the new Banking DK organisation, we took an important step towards integrating more closely with our customers. As one banking organisation serving both retail and commercial customers, we have the platform for further strengthening customer relations, developing targeted and integrated solutions, and generating synergies.

A focus point is to streamline how we welcome and serve customers who have both personal accounts and business accounts with us. We took the first steps towards promoting even closer cooperation between advisers and specialists. Moreover, we further improved internal adviser tools to strengthen the way in which we serve this particular segment.

At the same time, we continued to free up time for advising customers. For example, we launched a new portal that makes it significantly easier for business customers to order products and services, and we introduced a new tool to help advisers plan meetings more efficiently and identify advisory and product opportunities. Our credit application tool for small business customers that reduces processing time and the time-to-money from weeks to hours also contributed to freeing up time. In 2018, it was used to process around 40% of applications for new credit facilities in this segment.

In addition, we continued to devote substantial resources to further boosting our ability to transform what we already know about our customers' lives and business into advice timed and targeted to suit the individual customer.

Developing our value proposition
Ensuring a competitive value proposition that matches our customers' needs and expectations requires continuous development.

For our personal customers, buying a home is an important financial decision. Our range of home finance solutions is one of the broadest and most competitive in the market. We offer customers tailored solutions, regardless of whether they are looking for flexibility, security or low cost. The launch of our new bank home loan, Danske Bolig Fri, complements our range of mortgage loans and is an attractive alternative for home owners looking for a low variable rate and the option of repaying the loan at par whenever they want.

Our new Nordic partnership with Tryg Forsikring will further strengthen our offering to both retail and commercial customers. Together with Tryg, we can offer innovative insurance products, digital solutions and attractive benefits at competitive prices, and at the same time reap synergies because of Tryg's presence in Denmark, Sweden and Norway.

For our business customers, we introduced Industry Insights reports. These reports support the strategic advice dialogue with customers about their business and the future of their industry, and they have quickly become very popular.

Over the past years, the sustainable development agenda has become increasingly important to our customers, and it plays an integral role in our commitment to promoting sustainability. Together with Wealth Management, we introduced two new impact funds (climate and water) to complement our broad range of investment opportunities. They were well received, and customers have now invested DKK 500 million in the funds.

Accessibility is key to our customers. With our online meeting-booking solution, retail customers can book an online or face-to-face meeting with the adviser of their choice when it suits them. This option has become popular, and we are now testing customers' appetite for meetings outside normal working hours.

Boosting our digital offering
For our business customers, we launched the District platform. District aims to give customers a comprehensive, real-time overview of their financial position, providing more transparency and thus allowing even better financial decision-making. District features all the well-known functionality from Business Online, and new solutions and services will be added on an ongoing basis to meet customers' future needs.

Over the year, we further developed the new version of the Danske Mobile Banking app for our personal customers on the basis of cooperation with our partners and valuable input from users. Using the Profile functionality, customers can now easily view and update personal information, and through our partnership with Danish fintech Spiir, they can get a quick overview of their accounts with other banks. Parents also have the option of signing their children up as customers and ordering accounts and other products for them. We also improved customers' overview of and control over their investments and consumer loans. Among other features, customers can now apply online for a loan increase and fast repayment. Users appreciate an intuitive interface, and we simplified the navigation, design and currency converter, and we introduced a new account entries search function.

MobilePay remains a cornerstone of our digital payment offering to both commercial and retail customers. Over the year, new functionality, such as MobilePay Box and a MobilePay Invoice upgrade, was introduced.

In addition, new ways of executing payments are emerging. With the launch of our FastPay wearable solution, customers can now easily pay with a sim-card-format Mastercard that fits into a wristband, for example. And with Google Pay, they can pay contactless with their Android smartphone or smart watch by adding their Danske Bank Mastercard to the app.

Sunday has become a strong platform for the dialogue with our customers throughout the home search and buying process, and we continued to develop the Sunday universe in 2018. However, to take the customer experience to the next level and develop our home purchase offering to fully support a seamless customer experience, we have decided to integrate the Sunday platform into our Danske Bank home purchase universe. As a consequence, the Sunday brand will be phased out in 2019.

Contributing to society
As the largest bank in Denmark, we recognise the responsibility and obligation we have to help drive sustainable progress and positively impact the society we are part of.

Start-ups and growth businesses are key to ensuring innovation, and our ambition is to help them successfully develop and reach their goals.

In 2018, we launched +impact, a digital platform to help purpose-driven start-ups boost their positive impact on society. The launch was the first step towards creating an eco-system for the start-ups to meet experts as well as potential employees and investors. So far, around 175 start-ups have signed up to get help with their specific challenges, and experts have been very active in helping them. Later in the year, we introduced the Accelerator programme, which offers selected start-ups help to fine-tune their business plan and boost the commercial potential of their products designed to help solve environmental and social issues. The programme attracted many applicants, and the feedback from the selected participants has been very positive.

The initiatives build on existing initiatives such as The Hub, our online platform that helps start-ups recruit the right specialists, access the most efficient tools and raise capital, and Danske Bank Growth, a network of advisers specialising in start-ups.

We have a special responsibility for the next generation. Over the years, our Moneyville game and Pocket Money app have become popular ways for children to get an understanding of money and how to manage it. Furthermore, our advisers continue to regularly visit schools as guest lecturers to teach teenagers about money, personal finances and safe online behaviour.

We are committed to engaging locally with customers and other stakeholders. In 2018, we hosted a series of Danske Byliv events across Denmark that support the agenda of developing local communities. The events were successfully promoted through local Danske Bank Facebook posts and other channels and will continue in 2019.

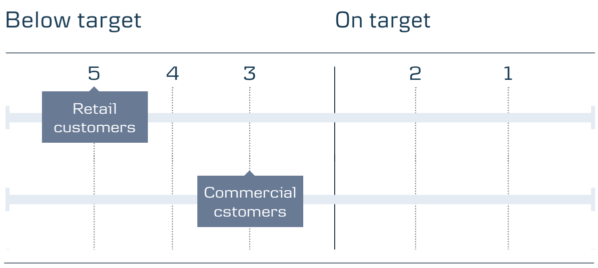
Customer satisfaction
The year was marked by the events related to Estonia, and the announcement of findings from our investigations drew considerable attention from our customers.

We focused intensively on establishing a close dialogue with our customers to apologise for what happened and explain the actions we have taken to prevent something similar from happening again. We met with retail customers and commercial customers all over Denmark at local dialogue meetings, and reached out through letters, our website and other channels. Likewise, we met with NGOs and other stakeholders to address their questions and concerns.

The events in Estonia impacted customers' trust in our business ethics and management, and this affected customer satisfaction adversely. At the end of the year, we were number five among retail customers and number three among commercial customers, and we saw a net decline in the number of customers with a NemKonto account of around 11,000.

The feedback from our customers only encourages us to continue the proactive dialogue to regain their trust and offer them the best experience every time they are in touch with us.

Banking DK



Banking Nordic

Banking Nordic saw good customer activity throughout 2018, resulting in a profit before tax of DKK 5.6 billion – an increase of 9% from the level in 2017. The increase was due partly to higher lending across all market areas, which resulted in higher net interest income. Lower operating expenses and impairment reversals also had a positive effect on profit before tax for Banking Nordic.

Banking Nordic
(DKK millions)

	2018	2017	Index 18/17	Q4 2018	Q3 2018	Index Q4/Q3
Net interest income	7,957	7,572	105	2,011	1,993	101
Net fee income	1,605	1,700	94	406	384	106
Net trading income	302	300	101	74	84	88
Other income	648	1,047	62	126	145	87
Total income	10,512	10,619	99	2,616	2,606	100
Operating expenses	5,029	5,202	97	1,333	1,217	110
Profit before loan impairment charges	5,483	5,417	101	1,283	1,389	92
Loan impairment charges	-159	221	-	-82	-79	-
Profit before tax	**5,642**	**5,196**	**109**	**1,365**	**1,468**	**93**
Loans, excluding reverse transactions before impairments	586,679	561,215	105	586,679	590,280	99
Allowance account, loans	3,746	3,412	110	3,746	3,851	97
Deposits, excluding repo deposits	226,808	225,216	101	226,808	227,730	100
Bonds issued by Realkredit Danmark	11,042	9,826	112	11,042	11,225	98
Allowance account, guarantees	388	126	-	388	404	96
Allocated capital (average)	32,701	32,017	102	32,769	33,192	99
Net interest income as % p.a. of loans and deposits	0.98	0.97		0.99	0.98	
Profit before tax as % p.a. of allocated capital (ROAC)	17.2	16.2		16.7	17.7	
Cost/income ratio (%)	47.8	49.0		51.0	46.7	
Full-time-equivalent staff	2,442	2,723	90	2,442	2,522	97

Fact Book Q4 2018 provides financial highlights at customer type level for Banking Nordic. Fact Book Q4 2018 is available at danskebank.com/ir.

2018 vs 2017
Banking Nordic continued to see good developments in 2018 with increasing customer activity across its markets. The retail business benefited from the continued development of our platform for partnerships. The commercial business saw a positive impact from a strengthening of our offerings to medium-sized and large commercial customers. Overall, however, the financial results were adversely affected by currency effects, as the Norwegian krone and the Swedish krona depreciated vis-à-vis the Danish krone from 2017 to 2018.

The good momentum and activity resulted in an increase in profit before tax of 9% to DKK 5.6 billion. The increase was driven partly by good improvement in net interest income, as well as impairment reversals, primarily in Norway and Finland, and lower costs.

Net interest income grew 5% due to increased volumes. The increase came mainly from Sweden and Finland, while Norway was on par with 2017 due to higher margin pressure in 2018.

Banking Nordic continued to grow its business and expanded the customer portfolio on the back of our partnership agreements and growth relating to our commercial customers. At the end of 2018, we renewed the partnership agreement in Norway with Akademikerne (the union for academics), and the largest union, Tekna, is now also part of the agreement.

Lending increased in all market areas. In Sweden, there were increases in all customer segments, whereas in Norway, the increases were mostly in the retail and medium-sized commercial customer segments. In Finland, the increases were in the medium-sized and large commercial segments. Overall, lending increased 5%.

Net fee income decreased from the level in 2017, due mainly to lower fees in Finland. In Norway. however, the unit managed to grow fees from financing and investment activities. Net trading income was on par with the level in 2017.

In the first quarter of 2018, Krogsveen, the Norwegian real-estate agency chain, was sold. The sale reduced both other income and costs in 2018 from the level in 2017.

Adjusted for Krogsveen, we saw an increase in other income due to good traction within Asset Finance (which includes our leasing activities), which saw solid business momentum in 2018 – not least because of favourable market conditions. In addition, we continued to expand our product offerings in the Nordic markets.

Operating expenses decreased 3%, due primarily to the effect of the sale of Krogsveen. Adjusted for Krogsveen, Banking Nordic saw increasing costs related to regulatory projects and IT investments to improve our value propositions and enhance the customer experience.

Credit quality

Credit quality was generally stable across the Nordic markets, reflecting the current macroeconomic stability and the fact that economic growth is expected to continue.

Loan impairment charges were still at a very low level, amounting to net reversals of DKK 159 million in 2018, driven by the retail business through the sale of debt claims in all countries and positive macroeconomic developments in Norway and Finland. The net reversal trend is indicative of healthy economic conditions.

The loan-to-value (LTV) ratio decreased in Norway and Finland. The increase in Sweden was driven mainly by decreasing collateral values in the early part of the year.

Loan-to-value ratio, home loans

	31 December 2018		31 December 2017	
	Average LTV (%)	Net credit exposure (DKK bn)	Average LTV (%)	Net credit exposure (DKK bn)
Retail Sweden	65.0	87	60.6	80
Retail Norway	62.0	97	62.8	93
Retail Finland	61.1	84	61.2	85
Total	**62.7**	**268**	**61.6**	**258**

Credit exposure

Credit exposure increased from DKK 645 billion at the end of 2017 to DKK 702 billion at the end of 2018. The growth in the retail portfolio stemmed from strategic partnerships in Norway and Sweden, while the growth in the commercial portfolio was linked to exposure increases in Finland and Norway, mainly within commercial property.

	Net credit exposure		Impairments (ann.) (%)
(DKK millions)	31 December 2018	31 December 2017	31 December 2018
Sweden	288,703	256,084	0.03%
Norway	203,751	192,415	-0.11%
Finland	163,010	156,105	-0.04%
Other	46,364	40,839	0.07%
Total	**701,828**	**645,443**	**-0.03%**

Q4 2018 vs Q3 2018

Profit before tax decreased 7% due to higher operating expenses than in the third quarter of 2018.

Total income was on par with the income in the third quarter of 2018.

Net interest income was stable, whereas net fee income increased 6%, due mainly to finance and investment activities.

Operating expenses increased 10%, due, among other things to a year-to-date correction of costs related to the reorganisation earlier in the year.

Lending decreased in DKK from the third to the fourth quarter. In local currency, however, Banking Nordic saw increasing lending as a result of good customer activity and a stable business momentum.

In the third quarter of 2018 the Norwegian unit renewed the partnership agreement with Akademikerne (the union for academics in Norway), and the largest union, Tekna, is now also part of the agreement.

Business initiatives

At Banking Nordic, we worked consistently throughout 2018 on implementing the Nordic Integrator strategy and moving closer to our customers and the societies we are part of. We continued to focus on servicing customers, with the aim of making banking with us easier and more efficient across the Nordic countries. Our ambition is to be our customers' most trusted adviser, based on a single Nordic core with a strong value proposition and an increasingly digitalised service and delivery model.

Nordic growth potential

Our customer-centric approach resulted in strong business momentum across our Nordic markets, attracting business from both new and existing customers. We saw a rise in business volumes, which grew more than the market average, and we thus consolidated our position in the Nordics.

Sweden continued the strong trajectory fuelled by growth in our retail activities, attributable in particular to our partnerships and our strategic ambition of “Making partnerships a growth lever”. In relation to medium-sized and large commercial customers, Sweden has established a stronghold through comprehensive advisory services and leading products and services, which led to continually solid growth.

In Norway, growth in our retail activities was driven primarily by our partnerships. Since the initiation of the partnership agreement with Akademikerne in 2015, the onboarding of customers has contributed considerably to the solid growth, and the renewal of the agreement in the fourth quarter of 2018 was an important building block for further growth. In addition, the largest member association within Akademikerne, Tekna, decided to become part of the agreement from 1 January 2019. This gives us the opportunity to offer our products and services to some 76,000 members. We continued to build on the strong market position within corporate banking as the preferred bank for international solutions, strategic advisory services, cash management, trade finance and capital markets transactions.

Our efficiency efforts in Finland, combined with positive macroeconomic trends and growing markets, contributed to solid improvement across most customer groups. Growth came in particular from our commercial customer segment, for which we continued to improve our capabilities, especially within strategic advisory services. In the retail business, our partnership customer portfolio grew, driven by Frank and Akava. During 2018, the second phase of the collaboration with Akava was launched, with a targeted mortgage and day-to-day banking offering for affiliate union members.

Asset Finance generally experienced healthy growth in all markets. Both macroeconomic and market trends, such as the sharing economy, continued to support growth. During 2018, we continued to invest in this area to support further growth and to develop new digital solutions and services for our customers.

Customer experience

Our customers’ expectations are rising, especially in terms of digitalisation and how easy it is to handle finances and get fast delivery. To meet these expectations, we have simplified both our customer service model and internal processes. Delivery processes have been harmonised and structured across our markets, and to further support expectations of efficient and seamless services, we have digitalised customer agreements and introduced digital signing and track and trace. We have also intensified the focus on ensuring that our customers see us as one bank across markets and customer groups. As a result, the customer experience has improved and is at a solid level across markets and customer groups.

Our large commercial customers with complex needs expect us to deliver tailor-made solutions that match their individual needs. To fulfil the expectations of these customers, we have increased the focus on industry and business understanding and on supporting our customers’ business strategy. In the deciding moments in the life cycle of our commercial customers, we strive to be the preferred strategic financial partner.

Innovation and digitalisation

On the digital side, we saw a continued increase in the use of e-meetings in the retail market in 2018, and e-meetings now account for 45% of all meetings in Sweden. In addition, the solution called Account Aggregator – offered through our partnership with Danish fintech Spiir – was launched in all markets during 2018, giving customers a quick overview of their accounts with other banks in Danske Mobile Banking. The launch of Fast Pay and Google Pay in both Norway and Sweden is evidence of our commitment to increase payment capabilities, while MobilePay is gaining a strong foothold in Finland with high growth figures year-on-year.

Asset Finance, which covers our leasing activities, has developed new vendor IT systems in Denmark and Sweden for car financing for both private individuals and businesses. The new platform is the first phase in becoming more active in the vendor car and equipment business across the Nordic countries.

Societal impact

Sustainability is increasingly important to us, our customers, stakeholders and investors, with banks being expected to play their role in driving the sustainability agenda.

Banking Nordic has a strong focus on entrepreneurship and has formed strong partnerships, for example with Singularity University in Sweden where we create trend reports, bootcamps and customer events such as the Singularity Summit.

Danske Bank’s initiative to support the start-up community, The Hub – which, for example, enables companies to initiate contact with potential investors and employees as well as advisers to share best practise – now has more than 3,000 registered companies in total for Finland, Sweden and Norway. The Hub is thus becoming one of the leading digital platforms for start-ups in the Nordic countries.

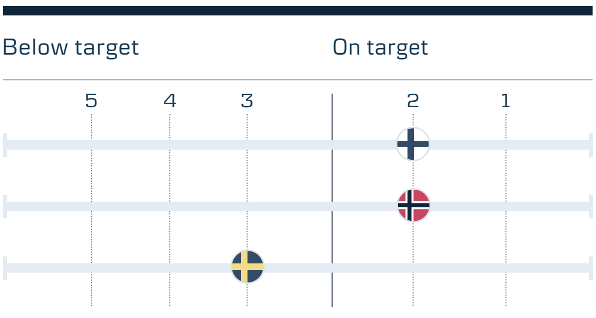
In addition, the initiative called +impact, which is for social entrepreneurs who support one or more of the UN’s sustainable development goals (SDGs), now has 150 registered social entrepreneurs and 147 experts who have supported 178 challenges.

Customer satisfaction
We continued to focus on our goal of delivering the best customer experience by building easy customer journeys and customer-centric solutions.

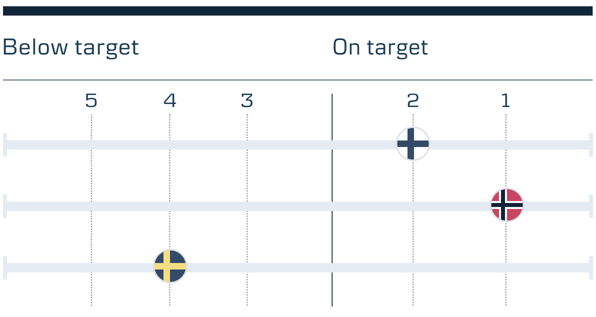
For customer satisfaction, our ambition is to be in the top two on satisfaction among customers in our prioritised segments in all our Nordic markets. The Estonia case has, however, impacted our image negatively, resulting in customer satisfaction challenges in Sweden. In Norway and Finland, satisfaction targets were met.

To drive customer satisfaction improvement and raise the bar for the value we want to provide to our customers, we have launched several new initiatives. These include partnerships with a number of unions as well as fintech companies, which, among other things, give personal customers a full overview of their accounts with different banks, the expansion of our Future Finance offering that allows customers to apply for and be granted a new loan within seconds, and the use of advanced analytics to allow us to identify emerging customer needs and concerns and adjust our interactions accordingly.

Retail customers



Commercial customers



Corporates & Institutions

Corporates & Institutions contributed with a profit before tax of DKK 4.3 billion, a decrease of 34% from 2017, which was characterised by strong performance. The decline was driven by significantly lower trading income, especially in FI&C, whereas income in General Banking increased from 2017 following a continuation of high activity. Operating expenses fell 7% due primarily to lower performance-based compensation.

Corporates & Institutions
(DKK millions)

	2018	2017	Index 18/17	Q4 2018	Q3 2018	Index Q4/Q3
Net interest income	3,928	3,837	102	954	992	96
Net fee income	2,914	3,077	95	754	681	111
Net trading income	2,440	4,943	49	383	529	72
Other income	7	3	233	2	-4	-
Total income	9,289	11,860	78	2,093	2,199	95
Operating expenses	4,689	5,034	93	1,177	1,107	106
Profit before loan impairment charges	4,600	6,826	67	916	1,092	84
Loan impairment charges	278	311	89	175	235	74
Profit before tax	**4,322**	**6,515**	**66**	**741**	**857**	**86**
Loans, excluding reverse transactions before impairments	198,320	199,524	99	198,320	186,627	106
Allowance account, loans	2,223	2,234	100	2,223	2,135	104
Allowance account, credit institutions	13	10	130	13	17	76
Deposits, excluding repo deposits	260,781	282,913	92	260,781	272,480	96
Bonds issued by Realkredit Danmark	18,022	14,373	125	18,022	17,197	105
Allowance account, guarantees	133	135	99	133	564	24
Allocated capital (average)	33,629	37,891	89	32,433	32,663	99
Net interest income as % p.a. of loans and deposits	0.86	0.80		0.84	0.87	
Profit before tax as % p.a. of allocated capital (ROAC)	12.9	17.2		9.1	10.5	
Cost/income ratio (%)	50.5	42.4		56.2	50.3	
Full-time-equivalent staff	1,858	2,136	87	1,858	1,847	101

Total income
(DKK millions)

	2018	2017	Index 18/17	Q4 2018	Q3 2018	Index Q4/Q3
FI&C	2,541	4,871	52	280	623	45
Capital Markets	1,556	1,956	80	403	325	124
General Banking	5,192	5,033	103	1,410	1,250	113
Total income	**9,289**	**11,860**	**78**	**2,093**	**2,199**	**95**

2018 vs 2017

Corporates & Institutions generated a total income of DKK 9.3 billion – a decrease of 22% from the level in 2017, which was characterised by more positive market conditions. The decline in total income was driven mainly by significantly lower trading income.

Challenging conditions in rates markets led to significantly lower trading income in FI&C as income from facilitating customer transactions declined. Trading income was also lower in credit markets due to challenging conditions in the secondary market.

Net interest income increased 2% despite being adversely affected by the transfer of the majority of the portfolio in the Baltic countries to the Non-core unit. The increase in net interest income was driven by a continuation of high refinancing activity across our home markets and increased lending volumes in Denmark and Norway in particular.

Net fee income decreased 5% from the level in 2017, owing mainly to a decline in Equities.

Operating expenses were down 7% from the level in 2017. This was due primarily to lower performance-based compensation, the portfolio transfer, and a continuation of tight cost control.

Loans excluding reverse transactions before impairments decreased 1% and were affected by the transfer of the majority of the portfolio in the Baltic countries to the Non-core unit. Excluding the portfolio transfer, lending increased 6%. Deposits excluding repo deposits decreased 8%, due partly to the portfolio transfer.

Fixed Income & Currencies

Total income in FI&C amounted to DKK 2.5 billion, a decrease of 48% from 2017 when trading income was high due to favourable market conditions.

The majority of the decline in FI&C income was driven by significantly lower revenue in the rates business. For most of 2018, market-making conditions were very challenging in the Nordic rates market, where Danske Bank is a market leader, especially in the EUR and DKK markets. The combination of relatively flat yield curves, low rates volatility, negative interest rates and high competition had a negative impact on the ability to generate income from facilitating customer transactions.

New regulation came into force in 2018 with the introduction of MiFID II, which has contributed to higher transparency in the financial markets. It is still too early to conclude whether this has also led to more competition. Danske Bank supports the development of more transparent markets.

Total income in Liquidity & Securities Finance declined from the high level in 2017, driven mainly by lower revenue from facilitating customer transactions in money markets.

Income in currencies was broadly on par with the level in 2017, supported by a continuation of high customer activity.

Capital Markets

Capital Markets income amounted to DKK 1.6 billion, a decrease of 20% from 2017, driven primarily by lower trading income in credit markets.

Debt Capital Markets (DCM) had a large number of new bond issues, assisting customers in entering the debt capital markets. As a result, fee income was broadly unchanged from the high level in 2017, and we maintained our position as one of the leading banks in the Nordic debt capital market. Trading income declined significantly from the level in 2017, driven by a more subdued level of customer activity in the secondary market following periods of widening credit spreads and challenging market conditions.

Equities income fell from the level in 2017, driven in part by lower fees following the implementation of MiFID II. Corporate finance continued to see good activity.

Loan Capital Markets income increased significantly from the level in 2017, driven by an increased focus on underwrite-to-distribute as part of the strategy to strengthen our Capital Markets franchise.

General Banking

Income from General Banking was negatively affected by the transfer of the majority of the portfolio in the Baltic countries to the Non-core unit. This was, however, offset by one-off income from the sale of assets previously taken over as collateral. The underlying increase in income was 3%, due mainly to a continuation of high refinancing activity across our home markets and increased lending volumes in Denmark and Norway in particular.

Credit quality
Total loan impairments at Corporates & Institutions amounted to DKK 278 million in 2018, against DKK 311 million in 2017, reflecting overall yearly stabilisation within offshore companies active on the Norwegian continental shelf due to moderate improvements in activity and oil prices. In the fourth quarter however, we saw impairment charges against a few single name exposures in the shipping industry.

At the end of the fourth quarter of 2018, total credit exposure from lending activities amounted to DKK 563 billion, a decrease of around 39% from the level at the end of 2017. The decrease is explained mainly by a reclassification of reverse transactions (repos) from loans at amortised cost to loans at fair value as part of the implementation of IFRS 9, thus excluding them from the definition of credit exposure.

	Net credit exposure		Impairments (%)
(DKK millions)	31 December 2018	31 December 2017	31 December 2018
Sovereign	154,101	351,986	0.00%
Financial institutions	73,791	184,157	-0.04%
Corporate	334,651	391,968	0.14%
Other	250	1,165	
Total	**562,793**	**929,275**	**0.07%**

Q4 2018 vs Q3 2018

Profit before loan impairment charges decreased 16% from the level in the third quarter of 2018. Profit before tax decreased 14% as loan impairment charges were slightly lower than in the preceding quarter.

Net trading income fell 28% from the third quarter of 2018, despite the positive effect of one-off income from the sale of assets previously taken over as collateral.

In FI&C, income decreased 55%, primarily because of lower revenues in the rates business, as the challenging market conditions in core rates markets persisted.

In Capital Markets, income increased 24%, driven mainly by a seasonal increase in Corporate Finance.

Operating expenses increased 6%, due mainly to seasonality.

The fourth quarter of 2018 saw net loan impairment charges of DKK 175 million, against impairment charges of DKK 235 million in the third quarter of 2018.

Business initiatives
In our efforts to become the Nordic Integrator, Corporates & Institutions is focusing on initiatives to deliver the best customer experience through relevant and competitive offerings and by making banking with us easier. Our ambition is to be the most trusted financial partner for customers by integrating our services and solutions into their everyday activities.

2018 was characterised by challenging market conditions and low volatility in rates markets; however, FI&C maintained its role as risk facilitator for customers. In Norway, the increase in customer activity within FX and derivatives persisted, and Danish and Swedish mortgage bonds continued to be in demand, not least from the non-Nordic customer base.

Wholesale banking is undergoing rapid technological transformation that also impacts FI&C and gives rise to new opportunities. In order to be able to continue servicing our customers well and reap the benefits of an improved digital offering overall, we initiated a major investment in upgrading our digital markets platform.

In Capital Markets, we extended the reach of our advisory services, and developed in particular our sustainable finance offering. Specifically, we continued to expand our ESG bonds activities, helping, among others, the Republic of Ireland and the Swedish Landshypotek Bank with inaugural green bonds issuance, as well as issuance of the first Hybrid Capital bond for property rental company Akelius.

We also expanded our Loan Capital Markets business and was mandated bookrunner/facility agent/fronting bank for CVC Capital Partners' acquisition of Mehilainen.

Also in Capital Markets, our Corporate Finance and Equities area executed a number of IPOs and equity capital markets transactions. Among other things, Danske Bank acted as Global Coordinator in the IPOs of IT services company Netcompany and HR service provider VMP as well as in the placing of shares in Ambu, a producer of diagnostic and life-supporting devices for hospitals on behalf of Chr. Augustinus Fabrikker. In addition, Corporate Finance won a number of merger and acquisition mandates, including the sale of Attendo's healthcare business and the divestment of Bergvik Skog's Latvian forest holdings.

General Banking continued to develop its offering to help customers safely and easily perform their daily financial transactions. Thus, we customised and rolled out our award-winning cash management and trade finance solutions to a number of new customers, growing our business and winning market shares both in Sweden and Norway. We strengthened our digital innovation setup by unifying our development resources across the Group, and we continued to improve our coverage model to meet our customers as one bank.

Our Investor Services offering, designed to help institutional customers outsource their back and middle office services, thereby optimising administration in connection with their post-trade activities and regulatory compliance requirements, continued to see strong growth and many new customers were onboarded in 2018.

As part of the Nordic Integrator strategy, we are integrating our international units into Corporates & Institutions. The aim is to align and further improve the customer journey across geographical markets, to ensure that our customers experience us as one bank, while simplifying the organisation and improving efficiency internally. We will thus continue our work to be the bridge to the world for Nordic customers and the gateway to the Nordics for international customers with a significant Nordic footprint. The efforts progressed according to plan and will continue in 2019.

As part of our ongoing efforts to strengthen the risk setup, including efforts to combat financial crime, we invested in our first-line risk setup.

Throughout the autumn of 2018, and as a result of the Estonia case, senior and other management members intensified the dialogue with customers on the main findings of the Estonia investigations and addressed their questions. We will maintain transparency and continue the dialogue with our customers in 2019.

Innovation and digitalisation
We continued our efforts to get closer to our customers' everyday activities and provide them with value-adding solutions designed to make their working day easier.

For instance, we continued to develop District, and the roll-out to customers was initiated. District aims to enable corporates to gain a more comprehensive, real-time overview of their financial position, thus allowing even better financial decision-making.

Likewise, we began to significantly upgrade and digitalise our financial markets platform, which will initially result in faster execution and higher accuracy to name a few of the benefits to customers. Once implemented, our aim is to not only create a better customer experience but also to gain a more efficient business unit.

Moreover, we took steps to future-proof our digital research platform by launching an expanded and more intuitive research website, supplemented by new, short and easy-to-listen-to podcasts about the macroeconomy and more personalised research reports. All our initiatives generated good traction and received positive customer feedback.

Societal impact
As a leading Nordic wholesale bank, we recognise our responsibility and obligation to help drive sustainable progress and have a positive impact on the societies we are part of.

Danske Bank helps companies finance their growth, helps facilitate trade, both in and outside the Nordic countries, and provides advisory and financial services that support companies and investors in managing their financial risk. As a result, we recognise our responsibility for contributing to maintaining and developing a well-functioning financial market in the Nordics – for example by helping to ensure a solid market for Nordic mortgage bonds, so that households have access to attractive home financing. Following MiFID II regulation taking effect at the beginning of the year, we have intensified our efforts to facilitate added financial markets transparency and strengthen investor protection.

Sustainability is becoming increasingly important for society, not least when it comes to the development of a low-carbon economy. Corporates & Institutions is committed to helping develop green financing, and in 2018, we expanded our green, social and sustainable bonds offering further – for example by helping a number of customers with green bonds issuance. To better assess environmental, social and governance (ESG) risks associated with our lending operations, we furthermore strengthened the ESG analysis of our lending operations

In an increasingly complex world, combining the talents of a diverse workforce is gaining in importance, also in wholesale banking. To this end, we have set a new recruitment ambition as a means of accelerating our efforts to achieve a more diverse composition of staff in the future.

Customer satisfaction

High customer satisfaction is a key priority for Danske Bank, and detailed customer insights are important to understand and improve the customer experience. We receive customer feedback in the daily encounters with our customers and receive a number of annual peer reviews, conducted by Prospera, an independent market research company in the Nordics.

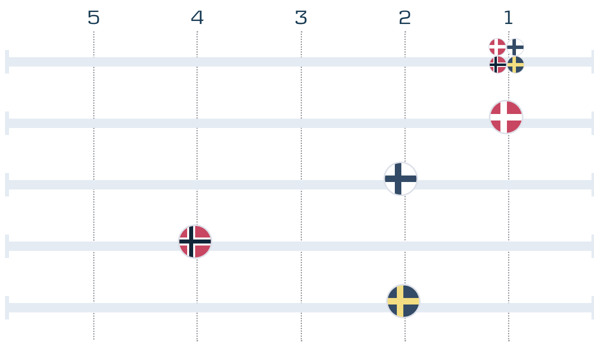
In 2018, we maintained an aggregate number one position in the Nordics across all Prospera reports that we subscribe to. We did, however, see a decline during 2018. Specifically, we maintained a leading position in Denmark and our second place in Sweden, whereas we dropped to second place in Finland. In Norway, we maintained fourth place, albeit with a rising trend. We fully recognise that the Estonia case has had a negative impact on our customers' perception of us, and we will continue to work hard to regain their trust.

Across product categories, we maintained our longstanding number one ranking as the preferred financial provider of Cash Management and Trade Finance in the Nordic region for the fifth and eighth year, respectively.

We improved our M&A adviser position from second to shared first place and maintained a leading position within Foreign Exchange and Interest Rate Swaps for the third and fourth year in a row, respectively. We also improved our position in Nordic Equities from fourth to second place.

Corporates & Institutions

Market position, all (rolling year)



The chart shows current average ranking over a full set of reports for all Prospera surveys to which Corporates & Institutions subscribes in comparison with the main competitors in each geographical market. A number one ranking in a market indicates best average ranking in that market.

Wealth Management

Profit before tax amounted to DKK 3.2 billion, a decrease of 30% from the level in 2017. The performance was adversely affected by uncertainty in the financial markets, causing lower net trading income and lower performance fees. In addition, the risk result in the health and accident business was adversely affected by an increase in claims. The increase in operating expenses was due mainly to regulatory costs and costs regarding the acquisition, integration and operation of SEB Pension Danmark.

Wealth Management
(DKK millions)

	2018	2017	Index 18/17	Q4 2018	Q3 2018	Index Q4/Q3
Net interest income	725	709	102	180	179	101
Net fee income	7,353	7,281	101	2,102	1,828	115
Net trading income	66	403	16	-44	94	-
Other income	-193	174	-	-165	18	-
Total income	7,950	8,567	93	2,073	2,119	98
Operating expenses	4,810	4,082	118	1,448	1,216	119
Profit before loan impairment charges	3,140	4,485	70	625	903	69
Loan impairment charges	-42	-93	-	11	-21	-
Profit before tax	**3,183**	**4,579**	**70**	**615**	**924**	**67**
Loans, excluding reverse transactions before impairments	77,704	75,028	104	77,704	77,464	100
Allowance account, loans	392	434	90	392	374	105
Deposits, excluding repo deposits	66,641	65,849	101	66,641	68,143	98
Bonds issued by Realkredit Danmark	37,494	32,278	116	37,494	37,259	101
Allowance account, guarantees	32	26	123	32	40	80
Allocated capital (average)	15,434	13,894	111	17,446	17,187	102
Net interest income as % p.a. of loans and deposits	0.50	0.50		0.50	0.49	
Profit before tax as % p.a. of allocated capital (ROAC)	20.6	33.0		14.1	21.5	
Cost/income ratio (%)	60.5	47.6		69.9	57.4	
Full-time-equivalent staff	2,201	1,851	119	2,201	2,180	101

Breakdown of assets under management*
(DKK billions)

	2018	2017	Index 18/17	Q4 2018	Q3 2018	Index Q4/Q3
Life conventional	200	155	129	200	201	100
Asset management	927	911	102	927	968	96
Assets under advice	449	464	97	449	499	90
Total assets under management	**1,575**	**1,530**	**103**	**1,575**	**1,668**	**94**

**Assets under Management consists of our life conventional business (Danica Traditionel), asset management (Danica unit-linked and Asset Management) and assets under advice (the investment decision is made by the customer) from retail, commercial and private banking customers. Assets under Management from the acquired SEB Pension Danmark consists of DKK 51 billion from Life conventional and DKK 50 billion from Asset management (unit-linked products).*

Breakdown of net fee income
(DKK millions)

Management fees	6,043	5,737	105	1,699	1,502	113
Performance fees	204	415	49	154	21	-
Risk allowance fees	1,105	1,130	98	249	305	82
Total net fee income	**7,353**	**7,281**	**101**	**2,102**	**1,828**	**115**

2018 vs 2017
Profit before tax amounted to DKK 3.2 billion, a decrease of 30% from the level in 2017. The financial performance was significantly influenced by uncertainty in the financial markets and integration costs. The financial results of SEB Pension Danmark are included in the financial results as from 7 June 2018. In December 2018, Danica Pension announced the sale of the Swedish part of its business. The deal is subject to approval by the authorities, expected in the first half of 2019. Consequently, it will not affect the results for Danica Pension for 2018 except for the expenses associated with the sale.

Net interest income was up 2% to DKK 725 million, driven by an increase in volumes.

Net fee income amounted to DKK 7.4 billion including the effect of SEB Pension Danmark and was up 1% from the level in 2017 despite lower performance fees.

Net trading income amounted to DKK 66 million and fell significantly from the level in 2017, when trading income amounted to DKK 403 million. The reason for the decline was a low investment return in the health and accident business due to difficult market conditions.

Other income amounted to a negative DKK 193 million, against DKK 174 million in 2017, due to a lower risk result in the health and accident business. The negative result stemmed primarily from the acquired SEB Pension Danmark business.

Operating expenses were up 18% from the level in 2017, due mainly to increased regulatory costs, costs related to the acquisition and integration of SEB Pension Danmark, the ordinary operating expenses of SEB Pension Danmark since 7 June 2018.

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

Loan impairment charges amounted to net reversals of DKK 42 million in 2018.

Overall, the loan-to-value (LTV) level decreased around 1 percentage point in 2018.

Loan-to-value ratio, home loans

	31 December 2018		31 December 2017	
	Average LTV (%)	Net credit exposure (DKK bn)	Average LTV (%)	Net credit exposure (DKK bn)
Denmark	58.0	42	60.0	40
Sweden	59.1	4	58.9	4
Norway	60.2	8	59.3	7
Finland	66.0	2	65.5	2
Total	**58.9**	**56**	**60.0**	**53**

Credit exposure
Credit exposure increased to DKK 87 billion in 2018. The increase was driven by growth in all markets with the exception of Finland due to faster debt repayment.

	Net credit exposure		Impairments (ann.) (%)
(DKK millions)	31 December 2018	31 December 2017	31 December 2018
Denmark	57,943	56,818	-0.03%
Sweden	6,886	6,292	0.05%
Norway	11,296	10,628	-0.04%
Finland	3,160	3,415	-0.05%
Luxembourg	8,062	8,028	-0.38%
Total	**87,347**	**85,180**	**-0.05%**

Assets under management
Assets under Management consists of our life conventional business (*Danica Traditionel*), asset management (Danica unit-linked and Asset Management) as well as assets under advice, where the customer makes the investment decision.

Assets under Management, including the acquisition of SEB Pension Danmark, increased DKK 45 billion, primarily because of the acquisition. Excluding SEB Pension Danmark, AuM fell primarily as a result of the market development as well as a few large institutional clients insourcing their mandates. At the end of December 2018, Assets under Management totalled DKK 1,575 billion.

Premiums for Danica Pension amounted to DKK 44.1 billion, against DKK 39.7 billion in 2017. The increase was driven primarily by DKK 5.6 billion in premiums recognised as a result of the acquisition of SEB Pension Danmark and positive developments in Sweden.

For Asset Management, net sales in 2018 amounted to a negative DKK 18.4 billion, against a positive DKK 20.9 billion in 2017. The decline was caused by outflows from a few large institutional clients who insourced mandates.

Investment return on customer funds
In 2018, the financial markets were characterised by geopolitical uncertainty and concerns regarding interest rates. Looking overall at our funds, 57% of investment products generated above–benchmark returns against 70% in 2017. On a 3-year horizon, 69% of all investment products generated above-benchmark results.

% of investment products (GIPS composites) with above-benchmark returns (pre-costs)*

	2018	3-year
All funds	57	69
Equity funds	45	63
Fixed-income funds	81	83
Balanced funds etc.	25	47

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

Customers with *Danica Balance* Mix achieved returns on investments of -9.8% to 0.9%. The return for customers with a Danica Balance medium risk profile with 20 years to retirement was a negative 7.0%.

Customers with the Markedspension product *(Danica Pensionsforsikring)* achieved returns on investments of 9.4% to 0.2%. The return for customers with the *Markedspension* product and a medium risk profile with 20 years to retirement was a negative 6.6%.

Q4 2018 vs Q3 2018

In the fourth quarter of 2018, profit before tax decreased 33% to DKK 0.6 billion. This was due primarily to the health and accident business posting both a lower investment and a lower risk result, which adversely affected trading income and other income. Higher operating expenses also had an effect.

Total income decreased 2% to DKK 2.1 billion.

Net fee income increased due to performance fees from asset management, but net trading income fell due to lower investment income in the health and accident business. Other income fell due to a lower risk result in the health and accident business.

Operating expenses were 19% higher in the fourth quarter, due primarily to the integration expenses of SEB Pension Danmark and costs related to the sale of Danica Pension in Sweden.

Business initiatives
Wealth Management combines our competencies within investment, pension and insurance to help our customers become financially confident.

To realise this strategic ambition, we will move even closer to our retail, commercial and institutional customers by providing proactive, relevant and holistic wealth advice and services that enable them to realise their dreams and ambitions or professional goals. We will further integrate as an organisation by focusing on enhancing our distribution ability across the Group to fully realise our 'One Bank' potential and better serve our customers. And we are raising our ambitions and competencies within sustainable investments to meet the needs of our customers and society – by integrating environmental, social and governance factors into our investments, increasing active ownership and offering new opportunities for sustainable investments.

In 2018, we worked to improve the customer experience, create digital and innovative solutions, support Nordic growth, and integrate societal impact even further into our business through a number of business initiatives.

Customer experience

Acquiring SEB Pension Danmark to create an even stronger pension offering

In June 2018, the acquisition of SEB Pension Danmark was finalised. By combining the strengths of SEB Pension Danmark and Danica Pension, we aim to create an even stronger pension offering and a better customer experience for our 800,000 pension customers.

The integration of SEB Pension Danmark enables us to invest more in moving even closer to our customers, thereby helping them be one step ahead by understanding their needs and reaching out to them with relevant advice. We do that by giving them the overview and confidence they want today and in the future – and we are now even better equipped to realise this ambition.

The process of transferring the customers of SEB Pension Danmark to Danica Pension is expected to be finalised in the first half of 2019.

The sale of Danica Pension's pension activities in Sweden

In December 2018, Danica Pension announced the sale of its pension activities in Sweden.

As part of the sale, it has been agreed that the new owner will offer the same solutions to Danske Bank's customers on unchanged terms, and a partnership agreement between the new owner and Danske Bank will ensure continued product development and offerings to Danske Bank's customers in Sweden. The sale enables Danica Pension to further focus its business on Denmark and Norway, and with the acquisition of SEB Pension Danmark earlier in 2018, Danica is now in an even stronger position to develop the best pension solutions for customers in these two countries.

The transaction price is around SEK 2.6 billion, corresponding to around DKK 1.9 billion. The sale does not affect the results of Danica Pension for 2018, as the purchase price will not fall due for payment until the sale has been finalised. The sale must be approved by the Swedish financial supervisory authority and the Swedish competition authorities, which is expected to take place in the first half of 2019.

New alternative offerings to expand our investment product portfolio

During 2018, we launched two new hedge funds as part of our strategy to be a leading provider in the alternative investments space. We strongly believe that alternative investments will be an increasingly important asset class if we are to ensure stable and attractive risk-adjusted returns for our customers in the future.

The two new hedge funds are managed by Danske Invest and are called Danske Invest SICAV – SIF Global Cross Asset Volatility and Danske Invest SICAV – SIF Fixed Income Global Value Class, and the funds further cement our strong position in the Nordic hedge fund market. Furthermore, our Danske Invest Hedge Fixed Income Relative Value fund was named Best Fixed Income Hedge Fund in the Nordic markets in 2018 by HedgeNordic, and our Danske Invest Hedge Fixed Income Strategies fund was named the best hedge fund in Europe over the last 10 years in the Macro, Fixed Income & Relative Value category.

During 2019, we will launch more alternative investment funds for our customers.

Innovation and digitalisation

Innovating our digital investment solution even further

Last year, Danske Bank's first initiative within digital investment management, June, was created to offer an easy-to-use and affordable investment platform. In December, an updated version of June was launched with four new, screened funds, which are in line with the principles within our strategy on sustainable investments. As part of the updated version, it is now possible to change from one fund to another and initiate an investment check when relevant.

June continued to attract new customers and during 2018, it reached a milestone with +20,000 customers signed up with around DKK 600 million invested. June is currently offered to customers in Denmark, but early in 2019, June will be launched in Sweden.

Democratising investment by introducing the Aktiesparekonto in Denmark
We are constantly working on giving our customers new and easy ways to use our services on their terms, which means incorporating digital tools even further into our offerings.

In December, we opened the pre-signup for a new product, Aktiesparekonto, in Denmark. The Aktiesparekonto is a Danish political initiative to motivate more Danes to take an active interest in investment and savings by offering a favourable tax rate of only 17%, as opposed to the standard rate of 27%.

Through a digital tool, customers can easily determine whether Aktiesparekonto is an interesting investment option for them, either as a standalone solution or integrated into a mix of investment tactics. The product was launched on 2 January 2019, and similar products are available also in Sweden and Norway.

Societal impact
Strengthen our commitment to sustainable investments and moving closer to society
Societal impact and sustainable investments are important focus areas for Danske Bank and we are constantly working on integrating societal impact further into our business model.

In 2018, we strengthened our commitment to sustainable investments with a new, ambitious strategy, which is all about integrating Environmental, Social and Governance (ESG) considerations into the core of our investment processes, products and advice. It is centred around making better-informed investment decisions while identifying and addressing issues of risk, and influencing companies through active dialogue and voting. In addition, we launched our first report on our active ownership activities and a digital platform disclosing how we vote at the general meetings.

Furthermore, together with Banking DK we launched two thematic funds (targeted climate and water) across our markets. The two funds have been well received by customers, who invested DKK 710 million in the funds in 2018.

Customer satisfaction
Asset Management
According to Prospera's latest survey from July 2018, the ranking of Asset Management in Denmark fell to number two. However, in Sweden and Norway, customer satisfaction was increasing, with our ranking in Norway improving from number four to number two, and in Sweden from number twelve to number eight. In Finland, we were ranked number five. Among providers present in all Nordic markets, Asset Management is now ranked number one.

Danica Pension
According to Aalund Research's survey on customer satisfaction, which runs every six months, Danica Pension is number three in Denmark. The latest survey was published in December 2018.

Private Wealth Management
According to a survey made by Prospera in the third quarter of 2018, Private Wealth Management was ranked number five in Denmark, number seven in Finland, number five in Norway and number six in Sweden. We saw a decline in rankings in the four markets from 2017.

In April 2018, Wealth Management implemented organisational changes in order to ensure an even stronger customer focus. We have now established a strong value chain organisation with a more integrated approach from development to customer experience – thus ensuring that we can live up the needs of our very diverse customer base.

Northern Ireland

At DKK 744 million, profit before tax was lower than in 2017, which benefited from loan impairment reversals and a one-off benefit following a change in pension liabilities. The underlying performance in 2018 was positive, with income increasing 1% to DKK 1,978 million.

Northern Ireland
(DKK millions)

	2018	2017	Index 18/17	Q4 2018	Q3 2018	Index Q4/Q3
Net interest income	1,491	1,374	109	383	372	103
Net fee income	392	429	91	94	97	97
Net trading income	82	111	74	22	20	110
Other income	12	48	25	3	3	100
Total income	1,978	1,961	101	502	492	102
Operating expenses	1,207	957	126	319	299	107
Profit before loan impairment charges	770	1,004	77	183	193	95
Loan impairment charges	26	-247	-	-1	-22	-
Profit before tax	**744**	**1,251**	**59**	**185**	**215**	**86**
Loans, excluding reverse transactions before impairments	49,805	46,272	108	49,805	50,902	98
Allowance account, loans	762	757	101	762	757	101
Deposits, excluding repo deposits	62,555	58,971	106	62,555	63,461	99
Allowance account, guarantees	30	7	-	30	101	30
Allocated capital (average)*	6,843	6,215	110	6,905	6,786	102
Net interest income as % p.a. of loans and deposits	1.34	1.32		1.37	1.31	
Profit before tax as % p.a. of allocated capital (ROAC)	10.9	20.1		10.7	12.7	
Cost/income ratio (%)	61.0	48.8		63.5	60.8	
Full-time-equivalent staff	1,322	1,260	105	1,322	1,319	100

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

2018 vs 2017
Profit before tax decreased 41% to DKK 744 million on the basis of loan impairment charges in 2018 against net reversals in 2017. In addition, 2017 costs included a one-off benefit following a DKK 212 million change in pension liabilities.

Profit before loan impairment charges decreased 23% to DKK 770 million, however, the underlying performance was positive, with profit before loan impairment charges up 3% after adjustment for the 2017 one-off pension benefit and the proceeds from disposal of the wealth business.

Total income amounted to DKK 1,978 million and was 1% higher than in 2017. The positive impact of lending growth, higher customer activity and higher UK interest rates was partially offset by lower fee income following the sale of our wealth business.

While uncertainty remains around Brexit, customer activity levels remained healthy. Our business continued to perform well, supported by ongoing improvements to our mortgage finance proposition, including new products and revised processes, as well as further strenghtening of business relations. Business and retail lending and deposit volumes increased.

At DKK 1,207 million, operating expenses were 26% higher than in 2017, which included a one-off benefit following changes to staff pension arrangements.

2018 vs 2017 in local currency
In local currency, profitability is reduced as previously described. Income was 2% higher year-on-year, despite economic uncertainty and discontinued wealth business, supported by lending and deposit growth of 8% and 7%, respectively.

Credit quality
The 2018 charge takes into account the possibility that the United Kingdom may exit the European Union without a withdrawal agreement. The probability of a hard Brexit has been factored into the forward-looking macroeconomic scenarios as part of the application of IFRS 9.

	Net credit exposure		Impairments (ann.) (%)
(DKK millions)	31 December 2018	31 December 2017	31 December 2018
Retail customers	23,012	19,312	-0.03%
Public institutions	14,919	13,163	0.01%
Financial customers	101	189	-0.56%
Commercial customers	31,156	30,356	0.13%
Total	**69,187**	**63,019**	**0.06%**

Q4 2018 vs Q3 2018

Profit before loan impairment charges showed a similar pattern to the third quarter performance, with income reflecting the underlying positive business momentum.

Costs were higher in the fourth quarter owing to the impact of a recent UK court ruling on the provision of guaranteed minimum pensions within defined benefit pension schemes. As a result, Danske Bank has increased its pension liabilities, resulting in an additional cost in the fourth quarter of 2018 of DKK 19 million.

Business initiatives
Our vision in Northern Ireland is to be recognised as the best bank for customers, employees, stakeholders and society. In a challenging environment, we continue to execute our strategy to digitally transform the bank, improve the customer experience and streamline internal operations.

Customer activity
2018 was a strong year for our mortgage business as new mortgage lending increased 26% on 2017. The latest research indicates that Danske Bank is now providing one in four first-time buyer mortgages and one in five of all mortgages in Northern Ireland. We have more mortgage consultants based in Northern Ireland than any other bank and have also invested in the creation of a new team of relationship managers dedicated to serving the independent mortgage broker network.

Business lending was also up year-on-year, and we are pleased to be piloting and rolling out digital credit decisioning in this segment. This has been very well received so far, transforming the credit journey for both business customers and our business relationship managers. In most cases, credit decisions using the digital facility are made in minutes, as opposed to days.

In the fourth quarter of 2018, we announced that on 27 February 2019, Danske Bank in Northern Ireland will launch a plastic/polymer £10 note into local circulation. It will be the first time Danske Bank has introduced such a note since, as Northern Bank, we became the first ever UK bank to issue a ‘plastic’ note in December 1999 to mark the new millennium.

Innovation and digitalisation
Digital innovation continues at a pace, and it is expected to accelerate further in 2019. This is due to both increasing customer expectations and the launch of open banking.

In 2018, we saw further adoption of our digital channels, with more than four million digital logons per month and a 35% increase in digital transactions year-on-year. We are leveraging the capabilities and expertise of the Group to develop a wide range of digital offerings for the Northern Irish market. New offerings for 2018 included the introduction of a new customer app as well as new mobile payment options – Samsung Pay and Garmin Pay.

We also launched a dedicated fintech co-creation space on the ground floor of our Belfast headquarters, the Catalyst Belfast Fintech Hub. To complement this, we introduced thehub.io, an online portal to help the growing number of start-up businesses in Northern Ireland to connect with investors, peers and potential new recruits across Europe.

Another example of ongoing digital investment was our focus on upgrading key branches to make them more digitally interactive and conducive to good customer experiences. Alongside this programme, we have closed a number of branches in response to the continuing changes in customer behaviour.

Macroeconomic environment
In the third quarter of 2018, the Bank of England raised UK interest rates for only the second time in ten years from 0.5% to 0.75%. The record-low interest rate environment has had an adverse impact on all banks in the UK, and the central bank's indication of further rate hikes in the near future, albeit on a gradual basis, will have a positive impact on earnings.

The Brexit departure date has been set at 29 March 2019, with many commentators expecting economic uncertainty to increase as the date approaches. While we are planning for a wide range of potential outcomes, uncertainty relating to Brexit has so far had a relatively small impact, with lending to retail customers being largely unaffected. While some corporate deals may have been delayed, corporate and business lending has remained at satisfactory levels.

Societal impact
During 2018, Danske Bank received the CORE award from Business in the Community – benchmarking us as the highest placed bank in Northern Ireland in terms of corporate responsibility activity.

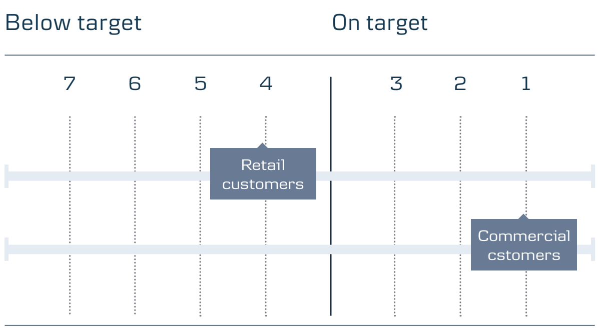
It was a year in which we also became a registered dementia-friendly bank and the first bank to become JAM Card friendly. The JAM Card is a programme aimed at helping customers with learning difficulties and autism.

We also received two gender diversity charter marks in recognition of our strong work during the year on equality, diversity and inclusion.

We educated more than 5,200 children through our Smart schools' programmes, and our employees gave over 2,000 hours of volunteering time to help various community initiatives.

Customer satisfaction
During 2018, we maintained leading business and personal market share positions and continued to focus on improving our customer service. In the business segment, we were the overall leader throughout the year. In personal banking, despite the increase in the score from 2017, we remained in fourth position – behind three of the national UK banks.

Northern Ireland



Non-core

Profit before tax for 2018 was a negative DKK 282 million. Total lending stood at DKK 14.9 billion at the end of 2018, against DKK 5.4 billion at the end of 2017. The increase related to the transfer of Baltic customers to the Non-core unit at 1 April 2018, which was made as a result of the repositioning of the Group's business activities in the Baltic countries. The winding-up of the Non-core portfolios is proceeding according to plan.

Non-core
(DKK millions)

	2018	2017	Index 18/17	Q4 2018	Q3 2018	Index Q4/Q3
Total income	213	169	126	38	78	49
Operating expenses	632	890	71	329	127	259
Profit before loan impairment charges	-419	-722	-	-292	-49	-
Loan impairment charges	-137	-710	-	-5	-5	-
Profit before tax	**-282**	**-12**	-	**-286**	**-44**	-
Loans, excluding reverse transactions before impairments	14,906	5,380	277	14,906	16,158	92
Allowance account, loans	784	653	120	784	786	100
Deposits, excluding repo deposits	2,399	1,925	125	2,399	4,600	52
Allowance account, guarantees	32	27	119	32	18	178
Allocated capital (average)	2,115	2,604	81	2,408	2,707	89
Net interest income as % p.a. of loans and deposits	1.14	2.63		0.82	1.40	
Profit before tax as % p.a. of allocated capital (ROAC)	-13.3	-0.5		-47.5	-6.5	
Cost/income ratio (%)	296.7	526.6		865.8	162.8	
Full-time-equivalent staff	259	122	212	259	332	78

Loan impairment charges
(DKK millions)

Non-core banking*	-137	-796	-	30	-46	-
Non-core conduits etc.	-	86	-	-36	41	-
Total	**-137**	**-710**	-	**-5**	**-5**	-

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

2018 vs 2017

The unit posted a loss before tax of DKK 282 million, against a loss of DKK 12 million in 2017. The loss before tax increased primarily as a result of fewer loan impairment reversals.

Operating expenses decreased from DKK 890 million to DKK 632 million. The decrease was due to lower costs related to portfolio sales. This effect was, however, partly offset by the transfer of Baltic activities to Non-core in the second quarter of 2018.

Net credit exposure totalled DKK 18.4 billion, against DKK 8.2 billion at the end of 2017. The increase in Non-core banking related to the transfer of Baltic customers to the Non-core unit in the second quarter of 2018.

Total lending amounted to DKK 14.9 billion and consisted mainly of exposure to commercial and personal customers at Non-core Baltics, as well as conduits. The loan book will mature according to contractual terms.

In Non-core Baltics, all daily banking activities are being discontinued, and the sale of new products has ceased. The remaining customer accounts are being closed as the statutory notification to customers has been given. The process is well underway and will largely be completed during the first quarter of 2019.

Deposit balances decreased as expected, primarily as a result of the discontinuation of the daily banking activities of Non-core Baltic customers.

The Non-core conduits portfolio amounted to DKK 3.9 billion, against DKK 4.6 billion at the end of 2017. The portfolio consists mainly of liquidity facilities for conduits. The credit quality of the portfolio was stable.

	Net credit exposure		Expected credit loss	
	31 Dec. 20187	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
Non-core banking*	14,516	3,610	394	201
-of which personal customers	4,816	3,610	153	-
-of which commercial customers	7,620	-	240	-
-of which public Institutions	2,081	-	2	-
Non-core conduits etc.	3,916	4,583	422	479
Total	**18,432**	**8,193**	**816**	**680**

** The increase in net credit exposure in Non-core banking is related to the transfer of Baltic customers to the Non-core unit at 1 April 2018. Comparative figures have not been restated.*

Total impairments amounted to a net reversal of DKK 137 million, against a net reversal of DKK 710 million in 2017. Most of the reversals in 2017 related to reversals of charges at Non-core banking, including a portfolio of Irish residential mortgage loans sold in the fourth quarter of 2017. The reversal in 2018 primarily reflected continued reversals and work-outs, mainly in Non-core Ireland and, to some extent, Non-core Baltics.

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

Q4 2018 vs Q3 2018

Profit before tax was a negative DKK 286 million, against a negative DKK 44 million in the third quarter of 2018. The higher loss in the fourth quarter of 2018 was primarily due to a value adjustment of DKK 200 million recognised in the fourth quarter of 2018.

Loan impairment charges amounted to a net reversal of DKK 5 million, the same as in the third quarter of 2018. The Non-core banking portfolio saw continued net reversals, primarily relating to the Non-core Ireland portfolio.

Other Activities

Other Activities includes Group Treasury and Group support functions as well as eliminations. Group Treasury is responsible for the Group's Internal Bank, liquidity management and funding. Net interest income primarily reflects the elimination of the interest expense on equity accounted additional tier 1 capital, reported as an interest expense in the business segments, differences at the Internal Bank between actual and allocated funding costs using the Group's funds transfer pricing model, as well as income related to the Group's liquidity portfolio.

Other Activities
(DKK millions)

	2018	2017	Index 18/17	Q4 2018	Q3 2018	Index Q4/Q3
Net interest income	515	1,410	37	115	71	162
Net fee income	-261	-241	-	-80	-62	-
Net trading income	933	456	205	258	353	73
Other income	7	55	13	-9	15	-
Total income	1,194	1,680	71	283	378	75
Operating expenses	2,416	702	-	178	1,829	10
Profit before loan impairment charges	-1,222	978	-	106	-1,452	-
Loan impairment charges	5	-	-	3	4	75
Profit before tax	**-1,227**	**978**	**-**	**103**	**-1,455**	**-**

Profit before tax
(DKK millions)

	2018	2017	Index 18/17	Q4 2018	Q3 2018	Index Q4/Q3
Group Treasury	223	1,273	18	-29	79	-
Own shares	500	-127	-	214	155	138
Additional tier 1 capital	782	787	99	193	198	97
Group support functions	-2,731	-955	-	-274	-1,888	-
Total Other Activities	**-1,227**	**978**	**-**	**103**	**-1,455**	**-**

2018 vs 2017

Other Activities posted a loss before tax of DKK 1,227 million, against a profit before tax of DKK 978 million in 2017, primarily as a result of the expense for the DKK 1.5 billion donation. A decrease in net interest income also had a negative effect, which was partly offset by an increase in net trading income.

Net interest income amounted to DKK 515 million, against DKK 1,410 million in 2017. The decrease in 2018 was driven primarily by the Internal Bank, where lower funding rates continued to reduce the allocation of liquidity costs.

Net trading income amounted to DKK 933 million, against DKK 456 million in 2017, and benefited from the elimination against retained earnings of losses on the Group's holdings of own shares. The positive effect was partly offset by the allocation to the business units of accrued income on some loans, previously retained at Group Treasury, and by lower income on fair value bond portfolios held in Group Treasury.

Q4 2018 vs Q3 2018

The unit posted a profit before tax of DKK 103 million, against a loss before tax of DKK 1,455 million in the third quarter. The result in the third quarter was primarily owing to the expense for the DKK 1.5 billion donation.

Net interest income amounted to DKK 115 million, against DKK 71 million in the third quarter. The increase was driven primarily by the Internal Bank.

Net trading income amounted to DKK 258 million, against DKK 353 million in the third quarter, with a negative market value adjustment of the private equity portfolio as the main reason.

Definition of alternative performance measures

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

Throughout the Management's report, performance is assessed on the basis of the financial highlights and segment reporting, which represent the financial information regularly provided to management. The differences between the financial highlights and the IFRS financial statements relate to certain changes in the presentation. Net profit is the same in the financial highlights and in the IFRS income statement. However, in 2018 an adjusting item related to the implementation of IFRS 9 is included. Loans granted by Realkredit Danmark (RD) are measured at fair value (both under IAS 39 and under IFRS 9). After the implementation of IFRS 9, the IFRS 13 estimate of the fair value of the credit risk on RD loans is based on the expected credit loss model developed in connection with the Group's implementation of IFRS 9. The impact from the expected credit loss impairment model on these loans at 1 January 2018 is recognised as a change in an accounting estimate in the IFRS income statement. To recognise the changes in RD due to the expected credit loss impairment model in IFRS 9 similarly to all the others IFRS 9 changes in the Group and to better reflect the actual performance in 2018, the impact is recognised as a reduction in shareholders' equity together with the other changes from the implementation of IFRS 9. Therefore, net profit in the financial highlights is DKK 312 million higher than net profit in the IFRS income statement. Note 3 to the financial statements describes the differences between the financial highlights and the IFRS financial statements, and each line item in the financial highlights is reconciled with the consolidated financial statements prepared under IFRS.

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

Ratios and key figures	Definition
Dividend per share (DKK)	The dividend is the dividend related to net profit for the current year and paid to shareholders the subsequent year. Accordingly, for 2018, it is the dividend paid in 2019.
Earnings per share (DKK)	As IFRS, but with net profit, as disclosed in the financial highlights. Hence and as explained above, earnings in the IFRS income statement is increased by the impact of DKK 312 million related to the change in the model used to estimate the fair value of the credit risk on RD loans at 1 January 2018.
Return on average shareholders' equity (% p.a.)	Net profit as disclosed in the financial highlights divided by the average of the quarterly average shareholders' equity (beginning and end of each quarter) within the year. Net profit and shareholders' equity are stated as if the equity-accounted additional tier 1 capital was classified as a liability. In the nominator, net profit is reduced by interest expenses of DKK 609 million net of tax (2017: DKK 613 million), and the denominator represents equity, excluding additional tier 1 capital and other non-controlling interests equal to a reduction in the average of the quarterly average of equity of DKK 18.396 million (2017: 14,375 million). To better reflect the actual performance in the period, another key figure representing the return on average shareholders' equity adjusted for the forfeited gross income from the non-resident portfolio in Estonia is also disclosed in the executive summary. This key figure is calculated similarly but with net profit increased by DKK 1.5 billion.
Net interest income as % p.a. of loans and deposits	Net interest income in the financial highlights divided by the daily average of loans and deposits. All amounts are from the financial highlights. The daily average of loans and deposits is DKK 25,781 million higher than calculating the ratio by applying the average of loans and deposits at the beginning and at the end of the year. The purpose of the key figure is to show if the growth in net interest income follows the growth in loans and deposits.
Cost/income ratio (%)	Operating expenses divided by total income. All amounts are from the financial highlights.
Book value per share	Shareholders' equity (that is, excluding equity-accounted additional tier 1 capital) divided by the number of shares outstanding at the end of the period.
Loan impairment charges as % of loans and guarantees	This ratio is calculated on the basis of loan impairment charges and loans and guarantees in core segments. The nominator is the loan impairment charges of DKK -607 million from the financial highlights. The denominator is the sum of Loans at amortised cost of DKK 935.8 billion, Repo loans of DKK 172.2 billion, Loans at fair value of DKK 787.2 billion and guarantees of DKK 84.5 billion at the beginning of the year, as disclosed in the column "Lending activities – core" in the "Breakdown of credit exposure" table in the notes to the financial statements. The ratio is calculated for each business unit.
Allowance account as % of loans and guarantees	This ratio is calculated on the basis of the allowance account and loans and guarantees in core segments. The nominator is the allowance account of DKK 21 billion at the end of the period, as disclosed in the "Allowance account in core activities broken down by segment" table in the notes to the financial statements. The denominator is the sum of the allowance account of DKK 21 billion, Loans at amortised cost of DKK 963 billion, Loans at fair value of DKK 793.4 billion, and guarantees of DKK 80.8 billion, at the end of the period, as disclosed in the column "Lending activities –core" in the "Breakdown of credit exposure" table in the notes to the financial statements. The ratio is calculated for each business unit.


We are driven by an ambition to create value for all our stakeholders

Financial statements

Income statement – Danske Bank Group

Note	(DKK millions)	2018	2017
5	Interest income calculated using the effective interest method	24,661	27,886
5	Other interest income	35,106	30,609
5	Interest expense	30,746	28,631
	Net interest income	29,022	29,863
6	Fee income	17,312	17,572
6	Fee expenses	6,932	6,749
5	Net trading income	-10,237	19,332
7	Other income	4,777	5,181
7	Income from holdings in associates	451	566
8	Net premiums	25,963	25,935
8	Net insurance benefits	13,400	41,119
9	Operating expenses	28,020	25,877
	Profit before loan impairment charges	18,936	24,705
11	Loan impairment charges	-387	-1,582
	Profit before tax	19,322	26,288
21	Tax	4,633	5,388
	Net profit for the year	**14,689**	**20,900**
	Portion attributable to		
	shareholders of Danske Bank A/S (the Parent Company)	13,908	20,114
	additional tier 1 capital holders	781	786
	Net profit for the year	**14,689**	**20,900**
	Earnings per share (DKK)	16.5	22.2
	Diluted earnings per share (DKK)	16.5	22.1
	Proposed dividend per share (DKK)	8.5	10.0

Statement of comprehensive income – Danske Bank Group

Note	(DKK millions)	2018	2017
	Net profit for the year	14,689	20,900
	Other comprehensive income		
	Items that will not be reclassified to profit or loss		
	Remeasurement of defined benefit pension plans	-291	14
20	Tax	42	-92
	Items that will not be reclassified to profit or loss	**-249**	**-78**
	Items that are or may be reclassified subsequently to profit or loss		
	Translation of units outside Denmark	-374	-473
	Hedging of units outside Denmark	309	425
	Unrealised value adjustments of bonds at fair value (OCI)	-21	17
	Realised value adjustments of bonds at fair value (OCI)	-18	-74
20	Tax	-129	-82
	Items that are or may be reclassified subsequently to profit or loss	**-233**	**-187**
	Total other comprehensive income	**-482**	**-265**
	Total comprehensive income for the year	**14,207**	**20,635**
	Portion attributable to		
	shareholders of Danske Bank A/S (the Parent Company)	13,427	19,849
	additional tier 1 capital holders	781	786
	Total comprehensive income for the year	**14,207**	**20,635**

Balance sheet – Danske Bank Group

Note	(DKK millions)	2018	2017
	Assets		
	Cash in hand and demand deposits with central banks	40,997	82,818
14	Due from credit institutions and central banks	225,600	333,975
12	Trading portfolio assets	415,818	449,292
13	Investment securities	276,424	324,618
15	Loans at amortised cost	986,240	1,112,752
16	Loans at fair value	1,057,340	787,223
17	Assets under pooled schemes and unit-linked investment contracts	93,988	112,065
18	Assets under insurance contracts	377,369	296,867
23	Assets held for sale	60,247	426
19	Intangible assets	11,224	7,177
21	Tax assets	2,981	1,419
23	Other assets	30,239	30,897
	Total assets	**3,578,467**	**3,539,528**
	Liabilities		
20	Due to credit institutions and central banks	248,601	242,887
12	Trading portfolio liabilities	390,226	400,596
20	Deposits	1,059,119	1,046,858
22	Issued bonds at fair value	759,588	758,375
22	Issued bonds at amortised cost	285,629	405,080
17	Deposits under pooled schemes and unit-linked investment contracts	97,840	119,901
18	Liabilities under insurance contracts	417,279	322,726
23	Liabilities in disposal groups held for sale	58,467	-
21	Tax liabilities	8,880	8,634
23	Other liabilities	40,117	37,097
22	Non-preferred senior bonds	26,353	-
22	Subordinated debt	23,092	29,120
	Total liabilities	**3,415,191**	**3,371,272**
	Equity		
	Share capital	8,960	9,368
	Foreign currency translation reserve	-745	-681
	Reserve for bonds at fair value (OCI)	90	130
	Retained earnings	133,056	135,731
	Proposed dividends	7,616	9,368
	Shareholders of Danske Bank A/S (the Parent Company)	148,976	153,916
	Additional tier 1 capital holders	14,299	14,339
24	**Total equity**	**163,276**	**168,256**
	Total liabilities and equity	**3,578,467**	**3,539,528**

Statement of capital – Danske Bank Group

Changes in equity

(DKK millions)	Share capital	Foreign currency translation reserve	Reserve for bonds at fair value (OCI)	Retained earnings	Proposed dividends	Total	Additional tier 1 capital	Total
	Shareholders of Danske Bank A/S (the Parent Company)							
Total equity at 31 December 2017	9,368	-681	130	135,731	9,368	153,916	14,339	168,256
Effect from changes in accounting policies (IFRS 9)	-	-	-	-1,655	-	-1,655	-	-1,655
Restated total equity at 1 January 2018	9,368	-681	130	134,076	9,368	152,261	14,339	166,601
Net profit for the year	-	-	-	13,908	-	13,908	781	14,689
Other comprehensive income								
Remeasurement of defined benefit pension plans	-	-	-	-291	-	-291	-	-291
Tax effect from remeasurement of defined benefit pension plans	-	-	-	42	-	42	-	42
Translation of units outside Denmark	-	-374	-	-	-	-374	-	-374
Hedging of units outside Denmark	-	309	-	-	-	309	-	309
Unrealised value adjustments	-	-	-21	-	-	-21	-	-21
Realised value adjustments	-	-	-18	-	-	-18	-	-18
Tax	-	-	-	-129	-	-129	-	-129
Total other comprehensive income	-	**-65**	**-39**	**-378**	-	**-482**	-	**-482**
Total comprehensive income for the year	-	**-65**	**-39**	**13,530**	-	**13,427**	**781**	**14,207**
Transactions with owners								
Paid interest on additional tier 1 capital	-	-	-	-	-	-	-784	-784
Dividends paid	-	-	-	517	-9,368	-8,851	-	-8,851
Proposed dividends	-	-	-	-7,616	7,616	-	-	-
Share capital reduction	-409	-	-	409	-	-	-	-
Acquisition of own shares and additional tier 1 capital	-	-	-	-48,247	-	-48,247	-37	-48,284
Sale of own shares and additional tier 1 capital	-	-	-	40,181	-	40,181	-	40,181
Share-based payments	-	-	-	93	-	93	-	93
Tax	-	-	-	112	-	112	-	112
Total equity as at 31 December 2018	**8,960**	**-745**	**90**	**133,056**	**7,616**	**148,976**	**14,299**	**163,276**

On 5 February 2018, the Group initiated a share buy-back programme of DKK 10 billion. The share buy-back programme was discontinued on 4 October 2018. The total number of shares acquired was 33,769,000 shares for a total amount of DKK 6,930 million.

On 18 April 2018, the share capital was reduced by DKK 408,741,010 through cancellation of 40,874,101 shares from Danske Bank's holding of own shares acquired under the 2017 share buy-back programme.

Statement of capital – Danske Bank Group

Changes in equity

(DKK millions)	Share capital	Foreign currency translation reserve	Reserve for available-for-sale assets	Retained earnings	Proposed dividends	Total	Additional tier 1 capital	Total
	Shareholders of Danske Bank A/S (the Parent Company)							
Total equity at 1 January 2017	9,837	-633	187	134,028	8,853	152,272	14,343	166,615
Net profit for the year	-	-	-	20,114	-	20,114	786	20,900
Other comprehensive income								
Remeasurement of defined benefit pension plans	-	-	-	14	-	14	-	14
Tax effect from remeasurement of defined benefit pension plans						-	-	-
Translation of units outside Denmark	-	-473	-	-	-	-473	-	-473
Hedging of units outside Denmark	-	425	-	-	-	425	-	425
Unrealised value adjustments	-	-	17	-	-	17	-	17
Realised value adjustments	-	-	-74	-	-	-74	-	-74
Tax	-	-	-	-174	-	-174	-	-174
Total other comprehensive income	**-**	**-48**	**-57**	**-160**	**-**	**-265**	**-**	**-265**
Total comprehensive income for the year	**-**	**-48**	**-57**	**19,954**	**-**	**19,849**	**786**	**20,635**
Transactions with owners								
Issuance of additional tier 1 capital, net of transaction costs	-	-	-	-	-	-	-	-
Paid interest on additional tier 1 capital	-	-	-	-	-	-	-786	-786
Dividends paid	-	-	-	521	-8,853	-8,332	-	-8,332
Dividends proposed	-	-	-	-9,368	9,368	-	-	-
Share capital reduction	-469	-	-	469	-	-	-	-
Cost of share capital increase	-	-	-	-	-	-	-	-
Acquisition of own shares and additional tier 1 capital	-	-	-	-51,642	-	-51,642	-176	-51,818
Sale of own shares and additional tier 1 capital	-	-	-	41,447	-	41,447	173	41,620
Share-based payments	-	-	-	150	-	150	-	150
Tax	-	-	-	172	-	172	-	172
Total equity as at 31 December 2017	**9,368**	**-681**	**130**	**135,731**	**9,368**	**153,916**	**14,339**	**168,256**

On 3 February 2017, the Group initiated a share buy-back programme of DKK 10 billion. The share buy-back programme was completed on 31 January 2018. At the end of 2017, the Group had acquired 39,632,505 shares for a total amount of DKK 9,173 million under the share buy-back programme based on figures at trade date.

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

Statement of capital – Danske Bank Group

Dividend

The Board of Directors is proposing a dividend of DKK 8.50 per share (2017: DKK 10.00), or a total of DKK 7,616 million (2017: DKK 9,368 million), of which DKK 287 million relates to shares acquired under the share buy-back programme for 2018, to be paid out of the net profit for the Parent Company of DKK 14,691 million (2017: DKK 20,829 million).

Earnings per share (DKK millions)	2018	2017
Net profit for the year attributable to the shareholders of the parent company	13,908	20,114
Number of shares issued at 1 January	936,827,722	983,712,835
Share capital reduction (share buy-back programme)	40,874,101	46,885,113
Average number of own shares held by the Group (including share buy-back programme)	24,724,690	21,403,800
Average number of shares outstanding	871,228,931	915,423,922
Number of dilutive shares issued for share-based payments	536,052	557,291
Adjusted average number of shares outstanding after share capital reduction, including dilutive shares	**871,764,982**	**915,981,212**
Earnings per share (DKK)	16.5	22.2
Diluted earnings per share (DKK)	16.5	22.1

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

Number of shares outstanding	2018	2017
Issued at 31 December	895,953,621	936,827,722
Holding of own shares	41,158,233	42,776,900
Shares outstanding at 31 December	**854,795,388**	**894,050,822**

Holding of own shares	Number 2018	Number 2017	Value 2018	Value 2017
Share buy-back programme	33,769,000	37,498,000	4,353	9,060
Trading portfolio	2,746,086	1,848,110	354	447
Investment on behalf of customers	4,643,147	3,430,790	599	829
Total	**41,158,233**	**42,776,900**	**5,305**	**10,336**

Danske Bank Group accounts for all shares issued by Danske Bank A/S and held by Danske Bank Group as own shares that are eliminated in the statement of changes in shareholders' equity. The disclosures above clarify the purpose of the acquisitions made by Danske Bank Group of its own shares. The holding of own shares related to the share buy-back programme consists of the shares that were acquired until the share buy-back programme for 2018 was discontinued on 4 October 2018.

(DKK millions)	Share buy-back programme	Trading portfolio	Investment on behalf of customers	Total 2018	Total 2017
Holding as 1 January	9,060	447	829	10,336	10,378
Acquisition of own shares	7,825	40,024	397	48,247	51,642
Sale of own shares	-	39,974	206	40,181	41,447
Value adjustment	-3,332	-142	-421	-3,895	1,100
Cancellation of own shares	9,201	-	-	9,201	11,337
Holding at 31 December	**4,353**	**354**	**599**	**5,305**	**10,336**

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

On 5 February 2018, the Group initiated a share buy-back programme of DKK 10 billion. The programme was discontinued on 4 October 2018 with a total amount of DKK 6.9 billion of shares bought back.

Statement of capital – Danske Bank Group

Total capital and total capital ratio

(DKK millions)	2018	2017
Total equity	163,276	168,256
Revaluation of domicile property at fair value	269	267
Tax effect of revaluation of domicile property at fair value	-32	-32
Total equity calculated in accordance with the rules of the Danish FSA	163,513	168,491
Additional tier 1 capital instruments included in total equity	-14,133	-14,158
Accrued interest on additional tier 1 capital instruments	-166	-169
Tax on accrued interest on additional tier 1 capital instruments	37	37
Common equity tier 1 capital instruments	149,250	154,202
Adjustment to eligible capital instruments	-225	-1,060
IFRS 9 reversal due to transitional rules	1,544	-
Prudent valuation	-779	-759
Prudential filters	-356	-211
Proposed dividends	-7,616	-9,368
Intangible assets of banking operations	-7,466	-7,100
Deferred tax on intangible assets	201	377
Deferred tax assets that rely on future profitability excluding temporary differences	-329	-335
Defined benefit pension plan assets	-1,270	-1,343
Statutory deduction for insurance subsidiaries	-5,987	-1,349
Other statutory deductions	-141	-308
Common equity tier 1 capital	**126,827**	**132,744**
Additional tier 1 capital instruments	23,677	18,574
Statutory deduction for insurance subsidiaries	-	-169
Tier 1 capital	**150,505**	**151,150**
Tier 2 capital instruments	9,161	19,343
Statutory deduction for insurance subsidiaries	-	-169
Total capital	**159,666**	**170,324**
Total risk exposure amount	**748,104**	**753,409**
Common equity tier 1 capital ratio (%)	17.0	17.6
Tier 1 capital ratio (%)	20.1	20.1
Total capital ratio (%)	21.3	22.6

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

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

Risk Management 2018 provides more details about the Group's total capital, the total risk exposure amount and the Group's solvency need. The report is available at danskebank.com/investorrelations/reports and is not covered by the statutory audit.

Cash flow statement – Danske Bank Group

Note	(DKK millions)	2018	2017
	Cash flow from operations		
	Profit before tax	19,322	26,288
	Tax paid	-5,427	-5,482
39	Adjustment for non-cash operating items	1,997	-1,093
	Total	15,892	19,713
	Changes in operating capital		
	Amounts due to/from credit institutions and central banks	7,154	-31,337
	Trading portfolio	23,104	-17,318
	Acquisition/sale of own shares and additional tier 1 capital	-277	-241
	Other financial instruments	43,615	26,854
	Loans at amortised cost and fair value	-143,218	9,177
	Deposits	12,262	102,993
	Issued bonds at amortised cost and fair value	-117,701	31,643
	Assets/liabilities under insurance contracts	17,051	-3,720
	Other assets/liabilities	-2,547	10,628
	Cash flow from operations	**-144,665**	**148,392**
	Cash flow from investing activities		
	Acquisition/sale of businesses	-5,000	291
	Acquisition of intangible assets	-1,120	-1,022
	Acquisition of tangible assets	-549	-623
	Sale of tangible assets	10	74
	Cash flow from investing activities	**-6,659**	**-1,280**
	Cash flow from financing activities		
39	Issues of subordinated debt	4,748	5,087
39	Redemption of subordinated debt	-10,928	-12,577
39	Issues of non-preferred senior bonds	25,816	-
	Dividends	-8,851	-8,332
	Share buy-back programme*	-7,825	-9,958
	Paid interest on additional tier 1 capital	-784	-786
	Cash flow from financing activities	**2,176**	**-26,566**
14	Cash and cash equivalents at 1 January	413,593	297,078
	Foreign currency translation	393	-4,031
	Change in cash and cash equivalents	-149,150	120,546
	Cash and cash equivalents, end of period	**264,836**	**413,593**
	Cash and cash equivalents, end of period		
	Cash in hand	8,799	9,051
	Demand deposits with central banks	32,198	73,766
	Amounts due from credit institutions and central banks within three months	223,839	330,776
	Total	**264,836**	**413,593**

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

Note 39 provides further information on the cash flow statement.

Notes – Danske Bank Group

1. Basis of preparation

(a) General

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

At 1 January 2018, the Group implemented IFRS 9, Financial Instruments, and IFRS 15, Revenue from Contracts with Customers.

Further information on the implementation of IFRS 9, IFRS 15 and changes to other IFRSs etc., including the impact on the opening balance sheet at 1 January 2018, can be found in note 2. Except for these changes, the Group has not changed its significant accounting policies from those applied in Annual Report 2017.

For changes in the segment reporting, see note 3.

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

Monetary assets and liabilities in foreign currency are translated at the exchange rates at the balance sheet date. Exchange rate adjustments of monetary assets and liabilities arising as a result of differences in the exchange rates at the transaction date and at the balance sheet date are recognised in the income statement. Non-monetary assets and liabilities in foreign currency that are subsequently revalued at fair value are translated at the exchange rates at the date of revaluation. Exchange rate adjustments are included in the fair value adjustment of an asset or liability. Other non-monetary items in foreign currency are translated at the exchange rates at the transaction date. The accounting treatment of foreign currency translation of units outside Denmark is described in note 24.

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

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

(b) Significant accounting estimates

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

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

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

At 1 January 2018, the Group implemented the three-stage 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. If the credit risk has not increased significantly, the impairment charge equals the expected credit losses resulting from default events that are possible within the next 12 months (stage 1). If the credit risk has increased significantly, the loan is more than 30 days past due, or the loan is in default or otherwise impaired, the impairment charge equals the lifetime expected credit losses (stages 2 and 3).

The expected credit loss is calculated for all individual facilities as a function of probability of default (PD), exposure at default (EAD) and loss given default (LGD) and incorporates forward-looking information. The estimation of expected credit losses involves forecasting future economic conditions over a number of years. Such forecasts are subject to management judgement and those judgements may be sources of measurement uncertainty that have a significant risk of resulting in a material adjustment to a carrying amount within the next financial year. The incorporation of forward-looking elements reflects the expectations of the Group's senior management and involves the creation of scenarios (base-case, upside and downside scenarios), including an assessment of the probability for each scenario. The purpose of using multiple scenarios is to model the non-linear impact of assumptions about macroeconomic factors on the expected credit losses. The base-case scenario enters with a probability of 70%, the upside scenario with a probability of 15% and the downside scenario with a probability of 15%. On the basis of these assessments, the allowance account at 31 December 2018 amounted to DKK 21.2 billion. If the base-case scenario was assigned a probability of 100%, the allowance account would decrease DKK 0.4 billion. The allowance account would increase DKK 3.4 billion, if the downside scenario was assigned a probability of 100%. If instead the upside scenario was assigned a probability of 100%, the allowance account would decrease DKK 0.6 billion. However, it shall be noted that the expected credit losses in the individual scenarios does not represent expected credit loss (ECL) forecasts.

According to the Group's definition of a significant increase in credit risk, i.e. when a loan is transferred from stage 1 to stage 2, facilities with an initial PD below 1% are transferred to stage 2 if the facility's 12-month PD has increased by at least 0.5 of a percentage point and the facility's lifetime PD has doubled since origination. If instead an increase in the facility's 12-month PD by at least 0.25 of a percentage point combined with a doubling of lifetime PD was considered a significant increase in credit risk, the allowance account would increase by DKK 0.1 billion.

Notes – Danske Bank Group

1. Basis of preparation continued

(b) Significant accounting estimates

The Group applies post-model adjustments of DKK 4.5 billion. Around half of all the adjustments relate to high-risk industries such as Agriculture and Oil & gas, where the Group has no specific expected credit loss models in place, and consequently makes supplementary calculations in order to ensure sufficient impairment coverage. Furthermore, adjustments are made to take into account non-linear downside risks, such as related to the property market in Copenhagen where the macroeconomic forecasts used in the models are based on the Danish property market as a whole and adjustments are therefore made to reflect the fact that a further specific downside risk currently exist for properties in Copenhagen. Finally, post-model adjustments are made for portfolios where the Group's quality assurance teams have identified gaps in the credit risk assessment process that could lead to an underestimation of the expected credit losses.

Note 15 and the section on credit risk in the risk management notes provide more details on expected credit losses. At 31 December 2018, loans accounted for about 57% of total assets (31 December 2017: 54%).

Fair value measurement of financial instruments

Measurements of financial instruments that are only to a limited extent based on observable market data, such as the measurement of unlisted shares and certain bonds for which there is no active market, are subject to significant estimates. The estimated fair value of illiquid bonds significantly depends on the credit spread estimate. A credit spread widening of 50bp would have caused the fair value of the bonds to decrease DKK 110 million (31 December 2017: DKK 80 million). The Group makes fair value adjustments to cover changes in counterparty risk (CVA and DVA) and to cover expected funding costs (FVA) on derivatives, bid-offer spreads on the net open position of the portfolio of assets and liabilities with offsetting market risk recognised at mid-market prices, and model risk on level 3 derivatives. At 31 December 2018, the adjustments totalled DKK 1.1 billion (31 December 2017: DKK 0.9 billion), including the adjustment for credit risk on derivatives that are credit impaired. Note 31 provides more details.

Measurement of goodwill and customer rights

Goodwill is tested for impairment once a year or more frequently if indications of impairment exist. Impairment testing requires management to estimate the future cash flows. A number of factors affect the value of such cash flows, including discount rates, changes in the economic outlook, customer behaviour and competition. At 31 December 2018, goodwill amounted to DKK 7.8 billion (31 December 2017: DKK 5.3 billion). In June 2018, the Group acquired SEB Pension Danmark. The acquisition led to an increase in goodwill in Wealth Management of DKK 2.4 billion and in customer relations of DKK 1.3 billion. For further information, see note 36. The total carrying amount of goodwill in Wealth Management is DKK 4.2 billion (31 December 2017: DKK 1.8 billion), of which DKK 1.8 billion relates to Danske Capital's activities in Finland. The excess value (the amount by which the cash-generating unit's recoverable amount exceeds the carrying amount) in the latest annual impairment test for Wealth Management, Danske Capital and Wealth Management, Danica Pension, which was performed in the fourth quarter of 2018, amounted to DKK 1.3 billion (2017: DKK 0.3 billion) and DKK 0.3 billion, respectively. Note 19 provides information on changes in key assumptions that would cause the excess value to be zero. The remaining goodwill of DKK 3.6 billion (2017: DKK 3.5 billion) relates to Corporates & Institutions, and the excess value is DKK 33.2 billion (2017: DKK 26.8 billion). Note 19 provides more information on impairment testing and sensitivity to changes in assumptions.

Measurement of liabilities under insurance contracts

Measurement of liabilities under insurance contracts is based on actuarial computations that rely on assumptions about a number of variables, including mortality and disability rates, and on the discount rate. Assumptions about future mortality rates are based on the Danish FSA's benchmark, while other assumptions are based on data from the Group's own portfolio of insurance contracts. In 2018, the Danish FSA changed the assumptions about future mortality rates to the effect that these are to be calculated based on the last 20 years (previously the last 30 years). The adjustment has reduced net profit before tax by DKK 83 million. Notes 2(a) and 18 provide further information on the measurement of insurance liabilities. The risk management notes contain a sensitivity analysis for life insurance.

Recognition of deferred tax assets and liabilities

Recognition of deferred tax requires management to assess the probability and amount of future profit. Deferred tax assets arising from unused tax losses are recognised to the extent that such losses can be offset against tax on future profit over the next five years. At 31 December 2018, deferred tax assets from recognised tax loss carry-forwards amounted to DKK 0.3 billion (31 December 2017: DKK 0.3 billion). The tax base of unrecognised tax loss carry-forwards, relating primarily to the Group's banking operations in Ireland, amounted to DKK 2.9 billion (31 December 2017: DKK 2.9 billion). The full deferred tax liability arising from international joint taxation was recognised and amounted to DKK 5.8 billion (31 December 2017: DKK 5.8 billion). Note 21 provides more information about deferred tax.

Notes – Danske Bank Group

1. Basis of preparation continued

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

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

Financial instruments – general

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

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

The following section describes the general classification and measurement of financial instruments subsequent to the implementation of IFRS 9 at 1 January 2018. The classification is shown in the table below.

Financial instruments and obligations under insurance contracts, classification and measurement end of 2018

	Amortised cost	Fair value OCI	Fair value through profit or loss					
(DKK billions)	Held to collect assets/ Liabilities	Held to collect and sell financial assets**	Held for trading	Managed at fair value	FVPL due to SPPI test	Desig-nated	Interest rate hedge *	Total
Assets								
Cash in hand and demand deposits with central banks	41	-	-	-	-	-	-	41
Due from credit institutions and central banks	169	-	-	57	-	-	-	226
Derivatives	-	-	236	-	-	-	8	244
Bonds	142	74	166	59	-	-	-	442
Shares	-	-	5	1	-	-	-	6
Loans	985	-	-	262	795	-	1	2,044
Assets under pooled schemes and unit-linked investment contracts	-	-	-	94	-	-	-	94
Assets under insurance contracts	-	-	-	354	-	-	-	354
Total financial assets, 1 January 2018	**1,337**	**74**	**408**	**828**	**795**	**-**	**9**	**3,451**
Liabilities								
Due to credit institutions and central banks	62	-	-	-	-	186	-	249
Trading portfolio liabilities	-	-	389	-	-	-	2	390
Deposits	888	-	-	-	-	172		1,059
Bonds issued by Realkredit Danmark	-	-	-	-	-	741	-	741
Other issued bonds	281					18	5	304
Deposits under pooled schemes and unit-linked investment investment contracts	-	-	-	-	-	98	-	98
Liabilities under insurance contracts ***	-	-	-	-	-	417	-	417
Non-preferred senior bonds	26						-	26
Subordinated debt	23	-	-	-	-	-	-	23
Loan commitments and guarantees	2	-	-	-	-	-	-	2
Total financial liabilities, 1 January 2018	**1,282**	**-**	**389**	**-**	**-**	**1,632**	**7**	**3,310**

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

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

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

Notes – Danske Bank Group

1. Basis of preparation continued

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

Classification and measurement of financial assets and financial liabilities under IFRS 9 – general

Under IFRS 9, financial assets are classified on the basis of the business model adopted for managing the assets and on their contractual cash flow characteristics (including embedded derivatives, if any) are grouped into one of the following measurement categories:

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

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

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

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

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

The business model assessment

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

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

Notes – Danske Bank Group

1. Basis of preparation continued

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

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

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

However, loans granted under Danish mortgage finance law are funded by issuing listed mortgage bonds with matching terms. Such loans are granted by the Realkredit Danmark subsidiary only. Borrowers may repay such loans by delivering the underlying bonds. This represents an option to prepay at fair value that can be both above and below the principal amount plus accrued interest. Therefore, this prepayment option is not consistent with the SPPI test, and the loans are mandatorily recognised at FVPL. In October 2017, IFRS 9 was amended to allow for prepayment features with negative compensation. The amended IFRS 9 does not change this assessment since changes in the fair value of the underlying bonds include other elements than the effect of changes in the relevant benchmark interest rate.

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

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

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

The Group designates the following financial liabilities at FVPL:

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

Hedge accounting
The Group uses derivatives to hedge the interest rate risk on some fixed-rate assets and fixed-rate liabilities measured at amortised cost and on some bonds measured at fair value through other comprehensive income. Hedged risks that meet the criteria for fair value hedge accounting are treated accordingly. The interest rate risk on the hedged assets and liabilities is measured at fair value through profit or loss. At end-2018, hedging derivatives measured at fair value accounted for about 0.2% of total assets and about 0.05% of total liabilities (31 December 2017: 0.2% and 0.03%, respectively). For further information on hedge accounting, see note 12.

Notes – Danske Bank Group

1. Basis of preparation continued

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

Financial instruments and obligations under insurance contracts, classification and measurement end of 2017

In accordance with the transitional requirements of IFRS 9, comparative figures are not restated as retrospective application of the impairment requirements is not possible without the use of hindsight. The classification and measurement of financial instruments under IAS 39 at 31 December 2017 is shown in the table below. For further information on the general classification and measurement of financial instruments under IAS 39, please see section 1(b) in Annual Report 2017.

	Fair value				Amortised cost			
	Directly through profit or loss							
(DKK billions)	Held-for-trading	Designated	Interest rate hedge*	Available-for-sale**	Hold-to-maturity	Loans	Liabilities	Total
Assets								
Cash in hand and demand deposits with central banks	-	-	-	-		83	-	83
Due from credit institutions and central banks	-	-	-	-		334	-	334
Derivatives	249	-	8	-	-	-	-	257
Bonds	173	98	-	79	147	-	-	497
Shares	19	1	-	-	-	-	-	20
Loans at amortised cost	-	-	2	-	-	1,111	-	1,113
Loans at fair value	-	787	-	-	-	-	-	787
Assets under pooled schemes and unit-linked investment contracts	-	112	-	-	-	-	-	112
Assets under insurance contracts	-	273	-	-	-	-	-	273
Total financial assets, 2017	**441**	**1,271**	**10**	**79**	**147**	**1,528**	**-**	**3,476**
Liabilities								
Due to credit institutions and central banks	-	-	-	-	-	-	243	243
Trading portfolio liabilities	401	-	-	-	-	-	-	401
Deposits	-	-	-	-	-	-	1,047	1,047
Bonds issued by Realkredit Danmark	-	758	-	-	-	-	-	758
Deposits under pooled schemes and unit-linked investment contracts	-	120	-	-	-	-	-	120
Liabilities under insurance contracts***	-	323	-	-	-	-	-	323
Other issued bonds	-	-	5	-	-	-	400	405
Subordinated debt	-	-	-	-	-	-	29	29
Loan commitments and guarantees	-	-	-	-	-	-	1	1
Total financial liabilities, 2017	**401**	**1,201**	**5**	**-**	**-**	**-**	**1,720**	**3,327**

*The interest rate risk on some fixed-rate financial assets and liabilities is hedged by derivatives (fair value hedging). The interest rate risk on some fixed-rate bonds available for sale is also hedged by derivatives. The fair value represents changes in the fair value of the interest rate risk on the hedged item, i.e. not a full fair value of the hedged item.

**Unrealised gains and losses are booked under Other comprehensive income, and realised gains and losses are recycled to the income statement.

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

Notes – Danske Bank Group

1. Basis of preparation continued

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

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

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

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

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

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

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

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

Income from insurance business
Insurance activities are consolidated in the various income statement items. Insurance premiums are recognised under Net premiums. Net insurance benefits in the income statement consists of benefits disbursed under insurance contracts and the annual change in insurance obligations not deriving from additional provisions for benefit guarantees and changes to the collective bonus potential. The return on earmarked assets is allocated to the relevant items in the income statement. The return to policyholders is recognised under Net trading income as are changes to additional provisions for benefit guarantees. Note 5 provides more information.

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

The risk allowance is determined in accordance with the Danish FSA's executive order on the contribution principle. The contribution principle regulates how earnings are allocated between policyholders and the life insurance company's shareholders' equity and defines the maximum payment to shareholders' equity (the risk allowance). The contribution principle was changed on 1 January 2016. If the contribution rules do not allow recognition of the full risk allowance in a given period, the amount that cannot be recognised can no longer be recovered in subsequent periods through the use of a shadow account. The risk allowance included in the shadow account at 31 December 2015 may be recovered over a five years period following after 2015.

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

Notes – Danske Bank Group

1. Basis of preparation continued

(d) Financial highlights

The financial highlights and reporting for each segment shown in note 3 are used in the Management's report and represent the financial information regularly provided to management. The Reclassification column in note 3 shows the reconciliation between the presentation in the financial highlights and the presentation in the consolidated financial statements prepared under IFRS and includes the following:

Sale of operating lease assets where the Group acts as a lessor

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

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

FI&C and Capital Markets (both part of Corporates & Institutions) and Group Treasury (part of Other Activities)

In the IFRS income statement, income from FI&C, Capital Markets and Group Treasury is presented as Net interest income, Net fee income, Net trading income and Other income, depending on the type of income. The distribution of income between the various income line items can vary considerably from one year to the next, depending on the underlying transactions and market conditions. To better reflect income in those areas, the following reclassifications are made in the financial highlights:

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

Danica Pension

In the IFRS income statement, income and expenses in Danica Pension (part of Wealth Management) is consolidated on a line-by-line basis. In the financial highlights, the following reclassifications are made to better reflect income from the services provided to customers:

- The risk allowance and income from the unit-link business are presented as Net fee income
- The return on assets related to the health and accident business is presented as Net trading income
- The risk and guarantee result, the net income from the health and accident business and the income from recharge to customers of certain expenses are presented as Other income
- All costs, except external investment costs, are presented under Operating expenses

Non-core

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

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

The impact of the IFRS 9 expected credit loss impairment model on loans granted by Realkredit Danmark

Loans granted by Realkredit Danmark (RD) are measured at fair value (both under IAS 39 and under IFRS 9). From 1 January 2018, the IFRS 13 estimate of the fair value of the credit risk on loans granted by Realkredit Danmark is based on the expected credit loss model developed in connection with the Group's implementation of IFRS 9. The impact from the expected credit loss impairment model on these loans at 1 January 2018 is recognised as a change in an accounting estimate in the IFRS income statement. To recognise the changes in RD due to the expected credit loss impairment model in IFRS 9 similarly to all other IFRS 9 changes in the Group and to better reflect the actual performance in 2018, the impact is recognised as a reduction in shareholders' equity in the financial highlights together with the other changes from the implementation of IFRS 9. For 2018, reclassification therefore include this adjusting item, and profit before tax, tax and net profit for the year is not the same in the financial highlights and the IFRS income statement.

Notes – Danske Bank Group

2. Changes and forthcoming changes to accounting policies and presentation

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

At 1 January 2018, the Group implemented IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from Contract with Customers). The implementation of IFRS 15 had no impact on shareholders' equity, assets or liabilities. Note 6 includes additional disclosures required by IFRS 15. IFRS 9 is applied retrospectively with the cumulative impact recognised in shareholders' equity at 1 January 2018. Comparative information has not been restated.

The key impact of the implementation of IFRS 9 is:

- The introduction of the new expected credit loss model has increased the allowance account by DKK 2,572 million. Of this, DKK 2,172 million relates to financial instruments at amortised cost (including financial guarantees and loan commitments) and DKK 400 million to loans at fair value (loans granted by Realkredit Danmark). The latter represents the change to the IFRS 13 estimate of the fair value of the credit risk on RD loans (measured at fair value through profit or loss under IAS 39 and IFRS 9) that from 1 January 2018 is based on the expected credit loss model developed in connection with the Group's implementation of IFRS 9.
- The business model assessment resulted in loans, including reverse transactions, in the Group's trading units (FI&C and Capital Markets of C&I) being measured at fair value through profit or loss instead of as previously at amortised cost. If only the financial assets are measured at fair value through profit or loss, an accounting mismatch exists. Therefore, deposits, including repo transactions, and issued bonds in these business units are designated at fair value through profit or loss instead of as previously at amortised cost. The remeasurement reduced the carrying amount of financial assets by DKK 68 million and financial liabilities by DKK 171 million at 1 January 2018.
- The effect of DKK 1,967 million, net of tax, reduced shareholders' equity at 1 January 2018. The impact from expected credit loss impairment on loans at amortised cost and remeasurement due to reclassifications, net of tax, of DKK 1,655 million is recognised as a reduction in shareholders' equity at 1 January 2018, while the impact on the fair value of the credit risk on loans at fair value, net of tax, of DKK 312 million is recognised as a change in an accounting estimate in the IFRS income statement in 2018. However, in the segment reporting, financial highlights and throughout the Management's report, the total impact from IFRS 9, including the impact on loans at fair value, is recognised as a reduction in shareholders' equity at 1 January 2018.
- The implementation of the ECL impairment model (for loans at amortised cost) will be phased-in in the capital statement from 2018 to 2022 in accordance with EU capital requirements regulation adopted in 2017. This phasing-in of IFRS 9 reduced the CET1 capital ratio at 1 January 2018 by 0.1 percentage points. The fully phased-in impact will be a reduction of the CET1 capital ratio of 0.2 percentage points.

Further, the disclosure requirements for financial instruments in IFRS 7 (Financial Instruments: Disclosure) and IAS 1 (Presentation of Financial Statements) were amended as part of the IFRS 9 project. The amendments have been implemented in the consolidated financial statements 2018.

The Group has also implemented amendments to various standards effective as at 1 January 2018, including amendments to IFRS 2 (Share-based Payments), IAS 28 (Investments in Associates and Joint Ventures) and IAS 40 (Investment Properties). Further, the Group has implemented IFRIC 22 (Foreign Currency Transactions and Advance Considerations). The implementation of these changes had no impact on the Group's financial statements.

The impact from changes in accounting policies is recognised in shareholders' equity in the opening IFRS balance sheet at 1 January 2018 and the comparative information has not been restated. The impact on the opening balance sheet is shown in the table below. The reclassifications of financial instruments between measurement categories in IFRS 9 and the impact from the expected credit loss impairment model are shown separately. The latter excludes the impact on loans granted by Realkredit Danmark. All other changes, i.e. remeasurement from amortised cost to fair value, the tax impact and minor adjustments in Danica Pension related to the accounting for the profit margin (see note 18), are presented together.

Notes – Danske Bank Group

2. Changes in accounting policies implemented at 1 January 2018 continued

(DKK millions)	31 December 2017	Reclassification	Remeasurement (ECL)	Other remeasurements	1 January 2018 IFRS
Assets					
Cash in hand and demand deposits with central banks	82,818	-	-	-	82,818
Due from credit institutions and central banks at amortised cost[1]	333,975	-48,941	-33	-	285,001
Due from credit institutions and central banks at fair value[1]	-	48,941	-	-12	48,929
Trading portfolio assets	449,292	-	-	-	449,292
Investment securities	324,618	-	-2	-	324,616
Loans at amortised cost	1,112,752	-173,255	-717	-	938,780
Loans at fair value	787,223	173,255	-	-56	960,422
Assets under pooled schemes and unit-linked investment contracts	112,065	-	-	-	112,065
Assets under insurance contract	296,867	-	-	-	296,867
Intangible assets	7,177	-	-	-	7,177
Tax assets	1,419	-	-	208	1,627
Other assets	31,324	-	-	-	31,324
Total assets	**3,539,528**	**-**	**-752**	**140**	**3,538,916**
Liabilities					
Due to credit institutions and central banks at amortised cost[2]	242,887	-156,505	-	-	86,382
Due to credit institutions and central banks at fair value[2]	-	156,505	-	-69	156,436
Trading portfolio liabilities	400,596	-	-	-	400,596
Deposits at amortised cost[3]	1,046,858	-149,820	-	-	897,038
Deposits at fair value[3]	-	149,820	-	-50	149,770
Issued bonds at fair value	758,375	66,052	-	-52	824,375
Issued bonds at amortised cost	405,080	-66,052	-	-	339,028
Deposits under pooled schemes and unit-linked investment contracts	119,901	-	-	-	119,901
Liabilities under insurance contracts	322,726	-	-	-	322,726
Tax liabilities	8,634	-	-	-206	8,428
Other liabilities	37,097	-	1,420	-	38,517
Subordinated debt	29,120	-	-	-	29,120
Total liabilities	**3,371,272**	**-**	**1,420**	**-377**	**3,372,315**
Equity					
Share capital	9,368	-	-	-	9,368
Foreign currency translation reserve	-681	-	-	-	-681
Reserve for available-for-sale financial assets	130	-	-	-	130
Retained earnings	135,731	-	-2,172	517	134,076
Proposed dividends	9,368	-	-	-	9,368
Shareholders of Danske Bank A/S (the Parent Company)	153,916	-	-2,172	517	152,261
Additional tier 1 capital holders	14,339	-	-	-	14,339
Total equity	**168,256**	**-**	**-2,172**	**517**	**166,601**
Total liabilities and equity	**3,539,528**	**-**	**-752**	**140**	**3,538,916**

[1] Presented in the balance sheet as Due from credit institutions and central banks
[2] Presented in the balance sheet as Due to credit institutions and central banks
[3] Presented in the balance sheet as Deposits

Notes – Danske Bank Group

2. Changes in accounting policies implemented at 1 January 2018 continued

The classification under IFRS 9 and the previous IAS 39 classification is summarised in the table below:

Classification under IFRS 9 compared to IAS 39

Balance sheet line item (IAS 39)	Original carrying amount under IAS 39	Original measurement category, IAS 39	New measurement category, IFRS 9	New carrying amount under IFRS 9	Balance sheet line item (IFRS 9)
Financial assets					
Cash in hand and demand deposits with central banks	82,818	Loans and receivables	Amortised cost	82,818	Cash in hand and demand deposits with central banks
Due from credit institutions and central banks	285,034	Loans and receivables	Amortised cost	285,001	Due from credit institutions and central banks
Due from credit institutions and central banks	48,941	Loans and receivables	Fair value through profit or loss [1]	48,929	Due from credit institutions and central banks
Trading portfolio assets	449,292	Fair value through profit or loss	Fair value through profit or loss (held for trading)	449,292	Trading portfolio assets
Investment securities – fair value	99,058	Fair value through profit or loss	Fair value through profit or loss	99,058	Investment securities - fair value
Investment securities – bonds available-for-sale	78,863	Available for sale	Fair value through OCI	78,863	Investment securities - fair value through OCI
Investment securities – bonds hold-to-maturity	146,697	Hold to maturity	Amortised cost	146,695	Investment securities - amortised cost
Loans at amortised cost	939,497	Loans and receivables	Amortised cost	938,780	Loans at amortised cost
Loans at amortised cost	173,255	Loans and receivables	Fair value through profit or loss [1]	173,199	Loans at fair value
Loans at fair value - Danish mortgage loans	787,223	Fair value through profit or loss (designated)	Fair value through profit or loss [2]	786,823	Loans at fair value
Assets under pooled schemes and unit-linked investment contracts	112,065	Fair value through profit or loss (designated)	Fair value through profit or loss [3]	112,065	Assets under pooled schemes and unit-linked investment contracts
Assets under insurance contracts	296,867	Fair value through profit or loss (designated)	Fair value through profit or loss [3]	296,867	Assets under insurance contracts
Financial liabilities					
Due to credit institutions and central banks	86,382	Amortised cost	Amortised cost	86,382	Due to credit institutions and central banks
Due to credit institutions and central banks	156,505	Amortised cost	Fair value through profit or loss (designated) [4]	156,436	Due to credit institutions and central banks
Deposits	897,038	Amortised cost	Amortised cost	897,038	Deposits
Deposits	149,820	Amortised cost	Fair value through profit or loss (designated) [4]	149,770	Deposits
Bonds issued by Realkredit Danmark	758,375	Fair value through profit or loss (designated)	Fair value through profit or loss (designated)	758,375	Issued bonds at fair value
Other issued bonds	339,028	Amortised cost	Amortised cost	339,028	Issued bonds at amortised cost
Other issued bonds	66,052	Amortised cost	Fair value through profit or loss (designated) [4]	66,000	Issued bonds at fair value

Notes:

[1] Consists of reverse transactions and other loans in FI&C and Capital Markets (the trading units in C&I) that were previously classified as loans and receivables. The business model has been assessed to be neither 'Hold to collect' nor 'Hold to collect and sell' as the assets are managed at fair value. The items are therefore mandatorily recognised at fair value through profit or loss under IFRS 9.

[2] Loans issued by Realkredit Danmark has an option to prepay at fair value that does not pass the SPPI test and are mandatorily recognised at fair value through profit or loss under IFRS 9.

[3] Assets under pooled schemes and unit-linked investment contract/Assets under insurance contracts were previously designated at fair value through profit or loss. The business model has been assessed to be neither 'Hold to collect' nor 'Hold to collect and sell' as the assets are managed at fair value. The assets are therefore mandatorily recognised at fair value through profit or loss under IFRS 9.

[4] Deposits related to repo transactions, other deposits and issued bonds in FI&C and Capital Markets (the trading units in C&I) were previously classified as financial liabilities at amortised cost. The liabilities are part of the portfolio of financial assets and liabilities that are managed at fair value, cf. note 1, and accordingly the financial liabilities are designated at fair value under IFRS 9.

Notes – Danske Bank Group

(b) Standards and interpretations not yet in force

The IASB has issued two new IFRSs (IFRS 16 and IFRS 17) and amended several standards (IFRS 3, IFRS 9, IAS 1, IAS 8, IAS 12, IAS 19, IAS 23 and IAS 28) that have not yet come into force. Similarly, the IFRIC has issued a new interpretation (IFRIC 23) that has not yet come into force. Danske Bank Group has not early adopted any of these changes. The sections below explain the IFRS changes that are likely to affect the Group's future financial reporting. For the changes not described below, no significant impact is expected.

Amendment to IFRS 9, Financial Instruments (Prepayment Options with Negative Compensation)

In October 2017, IASB issued an amendment to IFRS 9. The amendment relates to the SPPI test in IFRS 9, and the requirement that a prepayment option will only be consistent with 'basic lending features' if the prepayment amount represents the principal amount outstanding plus accrued interest and may include a reasonable additional compensation for early termination (i.e. the party exercising the option cannot receive a compensation for the early termination). The word 'additional' is deleted. Subsequent to the amendment, a compensation that reflects changes in the relevant benchmark interest rate will be consistent with the SPPI test, regardless of whether the compensation is positive or negative.

The amendment will be effective from 1 January 2019, at which date the Group will implement the standard. The prepayment option included in loans granted by Realkredit Danmark continues to be inconsistent with the SPPI test, thus no significant impact from the implementation of the amendment is expected.

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, Leases. IFRS 16 replaces IAS 17, Leases, and will imply only insignificant changes to the accounting for lessors. For lessees, the accounting will change significantly, as all leases (except short-term leases and small asset leases) will be recognised in the balance sheet as a lease liability and a right-of-use asset. Initially, the lease liability and the right-of-use asset are measured at the present value of future lease payments (defined as economically unavoidable payments). The right-of-use asset is subsequently depreciated in a way similar to depreciation of other assets, such as tangible assets, i.e. typically on a straight-line basis over the lease term.

IFRS 16 will be effective from 1 January 2019, at which date the Group will implement the standard. The implementation of IFRS 16 will have no impact on shareholders' equity at 1 January 2019. Note 40 shows the expected impact from the application of IFRS 16 at 1 January 2019, including changes to the Group's accounting policies.

IFRS 17, Insurance Contracts

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

The standard will be effective 1 January 2021. However, in November 2018, the IASB proposed to defer the effective date by one year to 1 January 2022. IFRS 17 has not yet been adopted by the EU. The standard may have a significant impact on the financial statements due to the new principles for calculating insurance provisions and for the presentation in the income statement and balance sheet. The Group is currently analysing the impact on the Group's financial statements.

Amendment to IAS 12, Income Taxes (Annual Improvements to IFRS Standards 2015 - 2017 Cycle)

In December 2017, the IASB issued amendments to four standards (IFRS 3, IFRS 11, IAS 12 and IAS 23) as part of its Annual Improvements to IFRS Standards 2015 – 2017 cycle. The amendment to IAS 12 implies that income tax consequences of dividends are to be recognised in profit or loss if the transactions that generated distributable profit are recognised in profit or loss.

The amendment to IAS 12 will be effective from 1 January 2019, at which date the Group will implement the amendment. The distribution of interest on the Group's equity accounted additional tier 1 capital is deductible for tax purposes, and the tax income of DKK 172 million in 2018 will be recognised in the income statement instead of directly in equity when the interest is distributed to the capital holders. Comparative information will be restated.

Notes – Danske Bank Group

3. Business model and business segmentation

(a) Business model and business segmentation

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

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

Since 2 May 2018, the Group has consisted of the business segments Banking DK, Banking Nordic, Corporates & Institutions, Wealth Management, Northern Ireland, Non-core and Other Activities. The business segments are reflected in the Group's internal and external financial reporting from the third quarter of 2018.

Banking DK serves retail and commercial customers in Denmark. The unit offers retail customers' advice tailored to their financial needs and is a leading provider of daily banking, home financing, investment and retirement planning solutions. For commercial customers, the unit provides targeted advice and solutions based on the size and situation of the customers' business. Services include strategic advice on, for instance, international expansion and acquisitions. The unit offers digital solutions to facilitate daily operations, including cross-border transfers and cash management.

Banking Nordic serves retail and commercial customers in Sweden, Norway and Finland, providing customer offerings similar to those of Banking DK. In addition, the unit encompasses the Group's global asset finance activities, such as lease activities.

Corporates & Institutions is the wholesale banking division of the Group. It serves all of the Group's corporate and institutional customers by offering expertise within financing, financial markets, general banking, investment services and corporate finance advisory services. In addition, the unit operates globally, supported by global product areas and local customer coverage, and acts as a bridge to the world for Nordic customers as well as a gateway into the Nordics for international customers. The unit bridges the financial needs of the institutional and corporate sectors, connecting issuers and investors. The unit is organised in four areas: a customer unit, named General Banking, and three product areas; named Capital Markets, Fixed Income & Currencies (FI&C) and Transaction Banking & Investor Services.

Wealth Management serves private individuals, companies and institutional investors in the markets in which the Group operates. The unit offers a broad range of products and services within wealth and asset management, investments, pension savings and insurance. The unit encompasses expertise from Danica Pension, Danske Invest, Asset Management and Private Banking.

Northern Ireland serves retail and commercial customers through a network of branches and business centres in Northern Ireland alongside digital channels.

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

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

Accounting policy

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

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

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

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

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

Notes – Danske Bank Group

3. Business model and business segmentation continued

Presentation in the financial highlights and in the segment reporting

The financial highlights and the reporting for each segment shown in the tables below are similar to the information provided in the Management's report and represent the financial information regularly provided to management.

An explanation of the items making up the differences between the presentation in the financial highlights and the segment reporting and the presentation in the IFRS financial statements is provided in note 1(d). The reconciliation between the two different presentations is shown in the 'Reclassification' column in the note below.

Changes to financial highlights and the segment reporting in 2018

The presentation in the financial highlights and the segment reporting has been changed to reflect the following changes:

- Income on derivatives with customers is split between the business segment to which the customer belongs and FI&C (part of Corporates & Institutions) as payment for performing the trade. Historically, this income has been presented as Net trading income in FI&C, and as Net interest income, Net fee income or Net trading income, depending on the type of derivative, in all other business segments. Effective from 1 January 2018, the presentation of customer income on derivatives in FI&C has been aligned with the presentation in the other business segments as this better reflects the type of income and the fact that the income is customer-driven.

Comparative figures for 2017 have been restated to reflect the change in presentation. These changes do not affect the presentation in the IFRS income statement.

(DKK millions)	Highlights 2017	Profit share of derivatives in FI&C (C&I)	Adjusted highlights 2017
Net interest income	23,430	376	23,806
Net fee income	15,304	360	15,664
Net trading income	7,823	-736	7,087
Other income	1,591	-	1,591
Total income	48,149	-	48,149
Operating expenses	22,722	-	22,722
Profit before loan impairment charges	25,427	-	25,427
Loan impairment charges	-873	-	-873
Profit before tax, core	26,300	-	26,300
Profit before tax, non-core	-12	-	-12
Profit before tax	**26,288**	**-**	**26,288**

The new business segments structure became effective on 2 May 2018 and has been reflected in the financial reporting from the third quarter of 2018. Comparative information has been restated to reflect the new organisation. The main changes from the former reportable business segment structure are:

- Banking DK and Banking Nordic integrates the former Personal Banking and Business Banking units in a country based structure.
- Germany, Poland and Russia have been transferred from the former Business Banking unit to Corporates & Institutions.

As of 1 April 2018, Baltic customers who do not have business interests in the Nordics were transferred to the Non-core unit. Comparative information has not been restated. Baltic customers who have a business interest in the Nordics have been transferred to Corporates & Institutions.

Notes – Danske Bank Group

3. Business model and business segmentation continued

Business segments 2018

(DKK millions)	Banking DK	Banking Nordic	C&I	Wealth Man.	Northern Ireland	Non-core	Other Activities	Eliminations	Financial highlights	Reclassification	IFRS financial statements
Net interest income	8,955	7,957	3,928	725	1,491	-	415	100	23,571	5,451	29,022
Net fee income	3,400	1,605	2,914	7,353	392	-	-257	-4	15,402	-5,023	10,379
Net trading income	852	302	2,440	66	82	-	540	394	4,676	-14,913	-10,237
Other income	234	648	7	-193	12	-	143	-137	716	4,512	5,228
Net premiums	-	-	-	-	-	-	-	-	-	25,963	25,963
Net insurance benefits	-	-	-	-	-	-	-	-	-	13,400	13,400
Total income	13,442	10,512	9,289	7,950	1,978	-	841	353	44,365	2,590	46,955
Operating expenses	6,860	5,029	4,689	4,810	1,207	-	2,579	-163	25,011	3,009	28,020
Profit before loan impairment charges	6,582	5,483	4,600	3,140	770	-	-1,738	516	19,354	-419	18,936
Loan impairment charges	-758	-159	278	-42	26	-	5	-	-650	263	-387
Profit before tax, core	7,340	5,642	4,322	3,183	744	-	-1,743	516	20,004	-682	19,322
Profit before tax, Non-core	-	-	-	-	-	-282	-	-	-282	282	-
Profit before tax	**7,340**	**5,642**	**4,322**	**3,183**	**744**	**-282**	**-1,743**	**516**	**19,722**	**-400**	**19,322**
Tax	-	-	-	-	-	-	4,721	-	4,721	-88	4,633
Net profit for the year	**7,340**	**5,642**	**4,322**	**3,183**	**744**	**-282**	**-6,464**	**516**	**15,001**	**-312**	**14,689**
Loans, excluding reverse transactions	867,899	582,933	196,096	77,312	49,043	-	26,623	-30,468	1,769,438	14,122	1,783,560
Other assets	280,835	57,464	2,807,787	619,700	29,164	-	2,894,953	-4,895,221	1,794,683	224	1,794,907
Total assets in Non-core	-	-	-	-	-	14,346	-	-	14,346	-14,346	-
Total assets	**1,148,734**	**640,397**	**3,003,883**	**697,012**	**78,207**	**14,346**	**2,921,576**	**-4,925,689**	**3,578,467**	**-**	**3,578,467**
Deposits, excluding repo deposits	282,640	226,808	260,781	66,641	62,555	-	6,985	-11,914	894,495	2,399	896,894
Other liabilities	832,719	381,049	2,710,148	613,604	9,550	-	2,897,687	-4,913,775	2,530,982	1,615	2,532,596
Allocated capital	33,375	32,540	32,954	16,767	6,102	-	27,237	-	148,976	-	148,976
Total liabilities in Non-core	-	-	-	-	-	4,014	-	-	4,014	-4,014	-
Total liabilities and equity	**1,148,734**	**640,397**	**3,003,883**	**697,012**	**78,207**	**4,014**	**2,931,909**	**-4,925,689**	**3,578,467**	**-**	**3,578,467**
Profit before tax as % of allocated capital (avg.)	21.6	17.3	12.9	20.6	10.9	-	-6.1	-	13.0	-	12.8
Cost/income ratio (%)	51.0	47.8	50.5	60.5	61.0	-	306.7	-	56.4	-	59.7
Full-time-equivalent staff, end of period	3,341	2,442	1,858	2,201	1,322	259	9,260	-	20,683	-	20,683

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

The reclassifications are explained in note 1(d).

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

The difference between the financial highlights and the IFRS financial statements regarding profit before tax and tax corresponds to the impact on the fair value of the loans granted by Realkredit Danmark from the new expected credit loss model developed in connection with the Group's implementation of IFRS 9.

Notes – Danske Bank Group

3. Business model and business segmentation continued

Business segments 2017

(DKK millions)	Banking DK	Banking Nordic	C&I	Wealth Man.	Northern Ireland	Non-core	Other Activities	Eliminations	Financial highlights	Reclassifi-cation	IFRS financial statements
Net interest income	8,906	7,572	3,837	709	1,374	-	1,360	49	23,806	6,057	29,863
Net fee income	3,417	1,700	3,077	7,281	429	-	-233	-7	15,664	-4,840	10,824
Net trading income	874	300	4,943	403	111	-	645	-188	7,087	12,245	19,332
Other income	264	1,047	3	174	48	-	745	-690	1,591	4,156	5,747
Net premiums	-	-	-	-	-	-	-	-	-	25,935	25,935
Net insurance benefits	-	-	-	-	-	-	-	-	-	41,119	41,119
Total income	13,461	10,619	11,860	8,567	1,961	-	2,517	-836	48,149	2,434	50,582
Operating expenses	6,745	5,202	5,034	4,082	957	-	868	-167	22,722	3,155	25,877
Profit before loan impairment charges	6,715	5,417	6,826	4,485	1,004	-	1,649	-670	25,427	-722	24,705
Loan impairment charges	-1,065	221	311	-93	-247	-	-	-	-873	-710	-1,582
Profit before tax, core	7,780	5,196	6,515	4,579	1,251	-	1,649	-670	26,300	-12	26,288
Profit before tax, Non-core	-	-	-	-	-	-12	-	-	-12	12	-
Profit before tax	**7,780**	**5,196**	**6,515**	**4,579**	**1,251**	**-12**	**1,649**	**-670**	**26,288**	**-**	**26,288**
Loans, excluding reverse transactions	857,454	557,804	197,291	74,595	45,514	-	15,510	-25,143	1,723,025	4,726	1,727,751
Other assets	296,045	57,608	3,356,661	482,214	27,091	-	3,178,190	-5,586,193	1,811,617	159	1,811,776
Total assets in Non-core	-	-	-	-	-	4,886	-	-	4,886	-4,886	-
Total assets	**1,153,500**	**615,412**	**3,553,952**	**556,809**	**72,605**	**4,886**	**3,193,700**	**-5,611,336**	**3,539,528**	**-**	**3,539,528**
Deposits, excluding repo deposits	278,074	225,216	282,913	65,849	58,971	-	15,537	-14,708	911,852	1,925	913,777
Other liabilities	839,924	358,941	3,236,024	477,382	6,779	-	3,148,244	-5,596,628	2,470,665	1,169	2,471,834
Allocated capital	35,502	31,255	35,015	13,578	6,856	-	31,711	-	153,917	-	153,917
Total liabilities in Non-core	-	-	-	-	-	3,094	-	-	3,094	-3,094	-
Total liabilities and equity	**1,153,500**	**615,412**	**3,553,952**	**556,809**	**72,605**	**3,094**	**3,195,492**	**-5,611,336**	**3,539,528**	**-**	**3,539,528**
Profit before tax as % of allocated capital (avg.)	22.3	16.2	17.2	33.0	20.1	-	5.9	-	17.2	-	17.2
Cost/income ratio (%)	50.1	49.0	42.4	47.6	48.8	-	34.5	-	47.2	-	51.2
Full-time-equivalent staff, end of period	3,380	2,723	2,136	1,851	1,260	122	8,296	-	19,768	-	19,768

Comparative figures have been restated, as described above.

In 2018 there is a difference between the financial highlights and the IFRS financial statement regarding profit before tax and tax, corresponding to the impact on the IFRS 13 estimate of the fair value of loans granted by Realkredit Danmark from the expected credit loss model developed in connection with the Group's implementation of IFRS 9. The line items 'Tax' and 'Net profit for the year' are therefore included for 2018, however as there are no differences in 2017, they are not included in 2017.

Notes – Danske Bank Group

3. Business model and business segmentation continued

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

The 'Reclassification' column in the tables above shows the reconciliation between the presentation in the financial highlights and the segment reporting and the presentation in the IFRS financial statements. The reclassifications are explained in note 1(d).

Reclassifications 2018

(DKK millions)	IFRS financial statements	Sale of operating lease assets	FI&C, Capital Markets and Group Treasury	Danica Pension	Non-core	IFRS 9 impact	Reclassification	Financial highlights
Net interest income	29,022	-	-918	-4,345	-188	-	-5,451	23,571
Net fee income	10,379	-	226	4,814	-17	-	5,023	15,402
Net trading income	-10,237	-	642	14,278	-6	-	14,913	4,676
Other income	5,228	-2,994	51	-1,567	-2	-	-4,512	716
Net premiums	25,963	-	-	-25,963	-	-	-25,963	-
Net insurance benefits	13,400	-	-	-13,400	-	-	-13,400	-
Total income	46,955	-2,994	-	617	-213	-	-2,590	44,365
Operating expenses	28,020	-2,994	-	617	-632	-	-3,009	25,011
Profit before loan impairment charges	18,936	-	-	-	419	-	419	19,354
Loan impairment charges	-387	-	-	-	137	-400	-263	-650
Profit before tax, core	19,322	-	-	-	282	400	682	20,004
Profit before tax, Non-core	-	-	-	-	-282	-	-282	-282
Profit before tax	19,322	-	-	-	-	400	400	19,722
Tax	4,633	-	-	-	-	88	88	4,721
Net profit for the period	**14,689**	**-**	**-**	**-**	**-**	**312**	**312**	**15,001**

Reclassification 2017

(DKK millions)	IFRS financial statements	Sale of operating lease assets	FI&C, Capital Markets and Group Treasury	Danica Pension	Non-core	Reclassification	Financial highlights
Net interest income	29,863	-	-1,458	-4,425	-175	-6,057	23,806
Net fee income	10,824	-	370	4,462	9	4,840	15,664
Net trading income	19,332	-	1,180	-13,424	-	-12,245	7,087
Other income	5,747	-2,678	-93	-1,383	-2	-4,156	1,591
Net premiums	25,935	-	-	-25,935	-	-25,935	-
Net insurance benefits	41,119	-	-	-41,119	-	-41,119	-
Total income	50,582	-2,678	-	413	-168	-2,434	48,149
Operating expenses	25,877	-2,678	-	413	-890	-3,155	22,722
Profit before loan impairment charges	24,705	-	-	-	722	722	25,427
Loan impairment charges	-1,582	-	-	-	710	710	-873
Profit before tax, core	26,288	-	-	-	12	12	26,300
Profit before tax, Non-core	-	-	-	-	-12	-12	-12
Profit before tax	**26,288**	**-**	**-**	**-**	**-**	**-**	**26,288**

In 2018 there is a difference between the financial highlights and the IFRS financial statement regarding profit before tax and tax, corresponding to the impact on the IFRS 13 estimate of the fair value of loans granted by Realkredit Danmark from the expected credit loss model developed in connection with the Group's implementation of IFRS 9. The line items 'Tax' and 'Net profit for the year' are therefore included for 2018, but as there are no differences in 2017, they are not included in 2017.

Notes – Danske Bank Group

3. Business model and business segmentation continued

Banking DK 2018

(DKK millions)	Retail	Commercial	Total
Net interest income	5,112	3,843	8,955
Net fee income	2,531	868	3,400
Net trading income	532	320	852
Other income	232	2	234
Total income	8,408	5,034	13,442
Operating expenses	4,883	1,977	6,860
Profit before loan impairment charges	3,525	3,057	6,582
Loan impairment charges	-279	-480	-758
Profit before tax	**3,804**	**3,536**	**7,340**
Loans, excluding reverse transactions	483,648	384,251	867,899
Deposits, excluding repo deposits	208,308	74,332	282,640
Net interest income as % p.a. of loans and deposits	0.74	0.84	0.78
Cost/income ratio (%)	58.1	39.3	51.0

Banking DK 2017

(DKK millions)	Retail	Commercial	Total
Net interest income	5,160	3,746	8,906
Net fee income	2,478	939	3,417
Net trading income	561	312	874
Other income	260	4	264
Total income	8,459	5,001	13,461
Operating expenses	4,864	1,882	6,745
Profit before loan impairment charges	3,596	3,120	6,715
Loan impairment charges	-65	-1,000	-1,065
Profit before tax	**3,661**	**4,120**	**7,780**
Loans, excluding reverse transactions	482,659	374,795	857,454
Deposits, excluding repo deposits	200,046	78,028	278,074
Net interest income as % p.a. of loans and deposits	0.76	0.83	0.78
Cost/income ratio (%)	57.5	37.6	50.1

Notes – Danske Bank Group

3. Business model and business segmentation continued

Banking Nordic by country 2018

(DKK millions)	Sweden	Norway	Finland	Other*	Total
Net interest income	3,112	2,237	1,606	1,003	7,957
Net fee income	474	341	1,018	-227	1,605
Net trading income	139	118	48	-4	302
Other income	1	38	42	568	648
Total income	3,725	2,734	2,714	1,339	10,512
Operating expenses	1,494	1,329	1,696	510	5,029
Profit before loan impairment charges	2,231	1,406	1,018	829	5,483
Loan impairment charges	43	-188	-16	3	-159
Profit before tax	**2,187**	**1,594**	**1,034**	**826**	**5,642**
Loans, excluding reverse transactions	234,112	167,654	142,540	38,627	582,933
Deposits, excluding repo deposits	64,546	75,398	86,615	249	226,808
Net interest income as % p.a. of loans and deposits	1.04	0.92	0.70	2.58	0.98
Cost/income ratio (%)	40.1	48.6	62.5	38.1	47.8

*Other mainly consists of the Group's global asset finance activities, such as lease activities.

Retail	Sweden	Norway	Finland
Net interest income as % p.a. of loans and deposits	0.85	0.70	0.64
Loans, excluding reverse transactions	91,999	104,354	90,473
Deposits, excluding repo deposits	28,813	28,062	55,055

Commercial	Sweden	Norway	Finland
Net interest income as % p.a. of loans and deposits	1.17	1.19	0.80
Loans, excluding reverse transactions	142,112	63,300	52,067
Deposits, excluding repo deposits	35,733	47,336	31,560

Notes – Danske Bank Group

3. Business model and business segmentation continued

Banking Nordic by country 2017

(DKK millions)	Sweden	Norway	Finland	Other*	Total
Net interest income	2,803	2,339	1,465	964	7,572
Net fee income	491	320	1,129	-240	1,700
Net trading income	143	115	47	-5	300
Other income	6	384	117	540	1,047
Total income	3,443	3,158	2,759	1,259	10,619
Operating expenses	1,454	1,594	1,672	482	5,202
Profit before loan impairment charges	1,989	1,563	1,087	777	5,417
Loan impairment charges	-86	308	-4	3	221
Profit before tax	**2,075**	**1,256**	**1,091**	**774**	**5,196**
Loans, excluding reverse transactions	220,527	162,564	137,423	37,290	557,804
Deposits, excluding repo deposits	67,622	73,369	84,040	185	225,216
Net interest income as % p.a. of loans and deposits	0.97	0.99	0.66	2.57	0.97
Cost/income ratio (%)	42.2	50.5	60.6	38.3	49.0

*Other mainly consists of the Group's global asset finance activities, such as lease activities.

Retail	Sweden	Norway	Finland
Net interest income as % p.a. of loans and deposits	0.86	0.90	0.62
Loans, excluding reverse transactions	85,284	99,228	91,380
Deposits, excluding repo deposits	28,687	25,510	52,882

Commercial	Sweden	Norway	Finland
Net interest income as % p.a. of loans and deposits	1.05	1.10	0.74
Loans, excluding reverse transactions	135,243	63,336	46,043
Deposits, excluding repo deposits	38,935	47,859	31,158

Notes – Danske Bank Group

3. Business model and business segmentation continued

(b) Total income broken down by type of product (DKK millions)	2018	2017
Corporate and commercial banking	12,991	13,226
Home finance and savings	11,385	11,590
Trading	5,723	8,476
Day-to-day banking	3,904	3,777
Asset management	5,874	6,793
Leasing	4,401	3,845
Life conventional	944	804
Other	1,734	2,071
Total	**46,955**	**50,582**

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

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

(c) Geographical segmentation

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

Total income from external customers (DKK millions)	2018	2017
Denmark	25,578	27,204
Sweden	7,317	8,428
Norway	5,331	5,966
Finland	4,194	4,654
UK	2,586	2,498
Ireland	158	417
Other	1,790	1,415
Total	**46,955**	**50,582**

Notes – Danske Bank Group

4. Activities by country

Under CRD IV, a financial institution must disclose, by country in which it operates through a subsidiary or a branch, information about income, number of employees, profit before tax, tax and public subsidies received. This information is not comparable to the geographical segmentation presented in note 3(c), in which segmentation is based on the customer's country of residence. The Group has not received any public subsidies that relate to the Group's activities as a financial institution.

2018	Income* (DKK millions)	Full-time-equivalent staff	Profit before tax (DKK millions)	Tax on profit (DKK millions)
Denmark	52,293	10,371	8,940	-2,323
Finland	5,187	1,797	1,309	-237
Sweden	3,978	1,471	4,459	-1,027
Norway	8,706	1,177	2,545	-651
United Kingdom	3,138	1,417	1,016	-247
Ireland	327	58	164	-1
Estonia	179	238	43	3
Latvia	83	47	22	-26
Lithuania	106	2,892	55	-1
Luxembourg	1,102	84	201	-54
Russia	289	66	63	-12
Germany	109	25	54	-19
Poland	133	60	64	-13
USA	740	24	355	-19
India	2	956	38	-7
China	-	-	-6	-
Total	**76,371**	**20,683**	**19,322**	**-4,633**

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

2017	Income* (DKK millions)	Full-time-equivalent staff	Profit before tax (DKK millions)	Tax on profit (DKK millions)
Denmark	53,156	9,857	13,234	-2,809
Finland	5,515	1,706	2,071	-414
Sweden	4,447	1,406	5,402	-1,128
Norway	7,595	1,446	2,717	-589
United Kingdom	2,836	1,365	1,419	-267
Ireland	448	54	916	-15
Estonia	197	317	52	-9
Latvia	84	72	20	-13
Lithuania	130	2,381	-14	-11
Luxembourg	808	81	170	-47
Russia	188	63	70	-15
Germany	116	33	56	-18
Poland	107	57	59	-12
USA	576	24	69	-31
India	1	907	48	-12
Total	**76,203**	**19,768**	**26,288**	**-5,388**

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

Notes – Danske Bank Group

4. Activities by country continued

Danske Bank carries out its activities in the countries listed below under a variety of names, of which the main ones are: Danske Bank (banking, trading and wealth management activities) carried out in all countries, except for mortgage finance activities in Denmark, which are carried out under the Realkredit Danmark A/S name, Danica Pension (life insurance), and Danske Leasing A/S (leasing). Note 36 discloses the company names of the Group's significant subsidiaries.

Activities in the individual countries

Activities in Denmark include: Banking, trading, wealth management, life insurance, leasing and other activities.
Activities in Finland include: Banking, trading, wealth management and leasing.
Activities in Sweden include: Banking, trading, wealth management, life insurance and leasing.
Activities in Norway include: Banking, trading, wealth management, leasing, life insurance and other activities.
Activities in the United Kingdom include: Banking, trading and leasing.
Activities in Ireland include: Banking.
Activities in Estonia include: Banking and leasing activities.
Activities in Latvia include: Banking and leasing activities.
Activities in Lithuania include: Banking, leasing and other activities.
Activities in Luxembourg include: Banking and wealth management.
Activities in Russia include: Banking.
Activities in Germany include: Banking.
Activities in Poland include: Banking.
Activities in the USA include: Trading.
Activities in India include: Other activities.
Activities in China include: Representation office.

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

Notes – Danske Bank Group

5. Net interest and net trading income

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

Accounting policy

Interest income and expenses

Interest income and expenses arising from interest-bearing financial instruments measured at amortised cost or at fair value through Other comprehensive income are recognised according to the effective interest method on the basis of the cost of the individual financial instrument. Interest includes amortised amounts of fees that are an integral part of the effective yield on a financial instrument, such as origination fees, and amortised differences between the cost and the redemption price, if any. Interest on financial instruments included in stage 3 (for the calculation of expected credit losses) is recognised on the basis of the impaired value. The interest rate risk on most financial portfolios recognised at amortised cost is hedged by derivatives using fair value hedge accounting. Note 12 provides more information on hedge accounting. Interest income calculated using the effective interest method and presented as a separate line item in the income statement excludes the impact from hedge accounting.

Further, interest income and expenses includes interest on financial instruments measured at fair value through profit or loss, except interest on assets and deposits under pooled schemes and unit-linked investment contracts which is recognised under Net trading income. Such interest income is presented under the line item Other interest income, while the line item Interest expenses includes all interest expenses.

Net trading income

Net trading income includes realised and unrealised capital gains and losses on *financial assets and financial liabilities recognised at fair value through profit or loss* as well as exchange rate adjustments and dividends. However, the fair value adjustments of the credit risk on loans granted by Realkredit Danmark are presented under Loan impairment charges. Further, the fair value adjustment of own credit risk on financial liabilities in the Group's trading units (FI&C and Capital Markets part of C&I) designated at fair value through profit or loss is presented in Other comprehensive income. Net trading income includes the fair value adjustments of own credit risk on bonds issued by Realkredit Danmark, as an accounting mismatch between the fair value adjustment of the loans and the bonds in Realkredit Danmark would otherwise exist (see further information in note 16).

Realised gains and losses on *financial assets at amortised cost,* e.g. loans, are recognised under Net trading income when the financial asset is derecognised, unless the derecognition relates to a credit risk event/forbearance measure, in which case the gain or loss is presented under Loan impairment charges (see note 15). Otherwise, the derecognition gain or loss on the financial asset is calculated as the difference between the carrying amount (gross of expected credit losses) and the repayment amount. For *financial assets (bonds) at fair value through other comprehensive income*, gains or losses further include amounts previously recognised in other comprehensive income. For *financial liabilities at amortised cost*, the gain or loss is the difference between the carrying amount and the redemption price including cost related to the redemption, if any.

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

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

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

Notes – Danske Bank Group

5, Net interest and net trading income continued

2018 (DKK millions)	Interest income	Interest expense	Net interest income	Net trading income	Total
Financial portfolios at amortised cost					
Due from/to credit institutions and central banks	-298	260	-558	-60	-618
Loans and deposits	22,727	2,964	19,764	-125	19,639
Bonds held to collect (investment securities)	810	-	810	-	810
Issued bonds, including non-preferred senior	-	4,851	-4,851	481	-4,370
Subordinated debt	-	1,671	-1,671	203	-1,468
Other financial instruments	184	56	128	-	128
Total	**23,423**	**9,802**	**13,621**	**499**	**14,120**
Financial portfolios at fair value (OCI)					
Bonds held to collect and sell (investment securities)	-89	-	-89	1	-88
Total	**-89**	**-**	**-89**	**1**	**-88**
Financial portfolios at fair value through profit or loss					
Due from/to credit institutions and central banks	-715	1,528	-2,243	-	-2,243
Loans and deposits	15,397	-1,061	16,458	-123	16,335
Trading portfolio assets and liabilities	6,456	-	6,456	-474	5,982
Bonds (investment securities)	612	-	612	-630	-19
Issued bonds	-	9,424	-9,424	-	-9,424
Assets and deposits under pooled schemes and unit-linked investment contracts	-	-	-	117	117
Assets and liabilities under insurance contracts	8,747	5,116	3,631	-9,627	-5,996
Total	**30,497**	**15,007**	**15,490**	**-10,737**	**4,752**
Total net interest and net trading income	**53,831**	**24,809**	**29,022**	**-10,237**	**18,784**
2017 (DKK millions)					
Financial portfolios at amortised cost					
Due from/to credit institutions and central banks	-275	1,705	-1,980	31	-1,949
Repo and reverse transactions	-1,269	-311	-957	-	-957
Loans and deposits	21,439	1,497	19,942	-322	19,620
Hold-to-maturity investments	2,012	-	2,012	-	2,012
Other issued bonds	-	3,534	-3,534	3,380	-155
Subordinated debt	-	1,129	-1,129	571	-558
Other financial instruments	368	4,219	-3,851	63	-3,788
Total	**22,275**	**11,773**	**10,501**	**3,722**	**14,224**
Financial portfolios at fair value					
Loans at fair value and bonds issued by Realkredit Danmark	17,673	11,247	6,426	-	6,426
Trading portfolio	6,366	-	6,366	5,288	11,654
Investment securities	2,934	-	2,934	-1,622	1,312
Assets and deposits under pooled schemes and unit-linked investment contracts	-	-	-	-145	-145
Assets and liabilities under insurance contracts	3,636	-	3,636	12,089	15,725
Total	**30,609**	**11,247**	**19,362**	**15,610**	**34,972**
Total net interest and net trading income	**52,884**	**23,021**	**29,863**	**19,332**	**49,195**

In 2018 and 2017, negative interest income and expenses relate primarily to repo transactions. For 2018, negative interest income amounted to DKK 3,321 million (of which DKK 2,735 million relates to financial assets (primarily repo transactions) at fair value through profit or loss) and negative interest expenses to DKK 2,615 million (of which DKK 1,873 million relates to financial liabilities (primarily repo transactions) at fair value through profit or loss). For 2017, negative interest income amounted to DKK 2,947 million (of which DKK 2,240 million relates to repo transactions) and negative interest expenses to DKK 2,664 million (of which DKK 2,000 million relates to repo transactions). In the table above, these amounts are offset against interest income and interest expenses, respectively. However, in the income statement, negative interest income is recognised as interest expenses and negative interest expenses as interest income.

Notes – Danske Bank Group

5. Net interest and net trading income continued

Changes to the hedged interest rate risk are recognised under net trading income and shown under the hedged balance sheet items in the table above, whereas value adjustments of hedging derivatives are recognised under net trading income under the trading portfolio. Net trading income includes dividends from shares of DKK 3,759 million (2017: DKK 2,302 million) and foreign exchange adjustments of DKK 687 million (2017: DKK 1,742 million).

Net trading income from insurance contracts includes the return on assets of DKK -13,251 million (2017: DKK 13,994 million), adjustment of additional provisions of DKK 228 million (2017: DKK -59 million), adjustment of the collective bonus potential of DKK 2,379 million (2017: DKK 158 million) and tax on pension returns of DKK 1,017 million (2017: DKK -2,004 million).

Notes – Danske Bank Group

6, Fee income and expenses

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

Accounting policy

Fee income

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

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

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

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

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

Fee expense

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

(a) Presentation by activity

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

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

A description of each activity by business segment is provided below:

Banking units

Fee income in the banking units relates to Banking DK, Banking Nordic, General Banking in C&I, Private Banking in Wealth Management and Northern Ireland, and it primarily relates to the provision of general banking services to customers, i.e.:

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

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

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

C&I

Net fee income in C&I relates to income derived from General Banking (see above description of Banking units) and from FI&C and Capital Markets.

Fee income derived from FI&C is reclassified to net trading income in the segment reporting, however, FI&C's share of margins on customer derivatives is presented as part of fee income (note 3 provides further information). Except for margins on customer derivatives, fee income consists mainly of fees received for services provided at a point in time.

Notes – Danske Bank Group

6, Fee income and expenses continued

Fee income in Capital Markets primarily consists of:

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

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

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

Wealth Management
Fee income in Wealth Management relates to Asset Management, Danica Pension and Private Banking (see above description of Banking units). Fee income for asset management services is recognised over time when the service is provided to the customer provided that it is probable that a significant reversal of the consideration will not occur. Such income relates to investment, pension and insurance activities.

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

Net fee income by business segment

(DKK millions)	2018
Banking DK	3,400
Banking Nordic	1,605
Corporates & Institutions	2,914
Wealth Management	7,353
Northern Ireland	392
Other Activities	-261
Total	**15,402**

Net fee income by fee type

(DKK millions)	2018
Investment	5,666
Pension and Insurance	3,610
Money transfers, account fees and cash management	2,759
Lending and Guarantees	2,126
Capital markets	1,241
Total	**15,402**

Net fee income	15,402
Reclassifications	-5,023
IFRS - net fee income	**10,379**
Fee expense	6,932
IFRS - gross fee income	**17,312**

Notes – Danske Bank Group

6. Fee income and expenses continued

(a) Fee income (DKK millions)	2017
Financing (loans and guarantees)	1,939
Investment (securities trading and advisory services)	2,764
Services (insurance and foreign exchange trading)	585
Fees generated by activities	**5,288**
Financing (guarantees)	670
Investment (asset management and custody services)	7,655
Services (payment services and cards)	3,959
Fees generated by portfolios	**12,284**
Total	**17,572**

(b) Fee expenses (DKK millions)	2017
Financing (property valuation)	173
Investment (securities trading and advisory services)	844
Services (referrals)	75
Fees generated by activities	**1,093**
Financing (guarantees)	20
Investment (asset management and custody services)	2,684
Services (payment services and cards)	2,952
Fees generated by portfolios	**5,655**
Total	**6,749**

In 2018, fees for financial instruments not recognised at fair value, such as loans and issued bonds, are recognised as fee income or expense from lending and guarantee activities. In 2017, such fees are recognised as financing fee income and expenses. Such income amounted to DKK 2,002 million (2017: DKK 2,007 million), whereas expenses amounted to DKK 27 million (2017: DKK 24 million).

Notes – Danske Bank Group

7. Income from holdings in associates and Other income

Income from associates includes the Group's proportionate share of the net profit or loss of and any gain or loss on the sale of associated companies. Other income includes rental income and lease payments under operating leases, fair value adjustments of investment property, amounts received on the sale of lease assets and gains and losses on the sale of other tangible assets, such as domicile and investment properties.

Accounting policy

Income from lease assets and investment property

Income from lease assets and investment property includes income from assets let under operating leases. Income is recognised on a straight line basis over the period of the lease term. The accounting policy for lease assets and investment property is further described in note 23.

Income from real-estate brokerage

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

Income from associates

Income from associates is described under the relevant balance sheet line item. Notes 23 and 37 provide more information. The gain or loss on the sale of associates is the difference between the selling price and the carrying amount, including goodwill, if any, of such sale.

(a) Income from holdings in associates

Fair value adjustment of associates held by the Group's insurance business (which is treated as a venture capital organisation) is recognised under Net trading income.

(b) Other income (DKK millions)	2018	2017
Income from lease assets and investment property	3,742	3,834
Income from real-estate brokerage	117	669
Other income	918	678
Total	**4,777**	**5,181**

Notes – Danske Bank Group

8. Insurance contracts

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

Contracts that do not entail significant insurance risk are recognised as investment contracts with premiums recognised directly in the balance sheet. Note 16 provides more information on the accounting for investment contracts.

Accounting policy

Net premiums

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

Net insurance benefits

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

(a) Net premiums (DKK millions)	2018	2017
Regular premiums, life insurance	3,544	1,883
Single premiums, life insurance	692	560
Regular premiums, unit-linked products	10,960	10,246
Single premiums, unit-linked products	9,044	12,004
Premiums, health and accident insurance	1,692	1,391
Reinsurance premiums paid	-112	-96
Change in unearned premiums provisions	143	-53
Total	**25,963**	**25,935**

(b) Net insurance benefits (DKK millions)	2018	2017
Benefits paid	27,274	21,310
Reinsurers' share received	-140	-68
Claims and bonuses paid	1,966	1,645
Change in outstanding claims provisions	271	-134
Change in life insurance provisions	-16,067	18,330
Change in profit margin	96	36
Total	**13,400**	**41,119**

(c) Further explanation

Insurance premiums received are carried under Net premiums, whereas benefits paid and changes to insurance obligations, including an increase in provisions due to premiums received during the year, are carried under Net insurance benefits. Net premiums and insurance benefits do not include the entire income stream related to insurance contracts. Changes to provisions caused by fair value adjustment of expected payments are carried under Net trading income. The return on assets earmarked for insurance contracts is carried under Net interest income and Net trading income. The net interest income and trading income disclosed in note 5 contain DKK -5,996 million relating to insurance contracts (2017: DKK 15,725 million) and DKK 3,802 million (2017: DKK 1,811 million) relating to net interest income on deposits and own issued bonds and fair value adjustments that are eliminated in the consolidated financial statements.

Notes – Danske Bank Group

9. Operating expenses

Operating expenses includes staff costs, administrative expenses and depreciation, amortisation and impairment charges on tangible and intangible assets. Note 18 provides more information on intangible assets.

Accounting policy

Staff costs

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

Share-based payment

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

Pension obligations

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

Amortisation, depreciation and impairment charges

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

(a) Staff costs, administrative expenses, depreciations and impairment charges (DKK millions)	2018	2017
Staff costs	14,296	13,706
Administrative expenses	7,946	8,489
Donation related to the Estonian case	1,500	-
Amortisation/depreciation of intangible and tangible assets	4,277	3,681
Total	**28,020**	**25,877**

Staff costs	2018	2017
Salaries	10,556	10,357
Share-based payments	93	150
Pension, defined contribution plans	1,168	878
Pension, defined benefit plans	217	228
Severance payments	437	292
Financial services employer tax and social security costs	1,826	1,802
Total	**14,296**	**13,706**

Remuneration Report 2018, which is expected to be published on 15 March 2019 at danskebank,com/remuneration, provides a detailed description of remuneration paid.

Total salary costs amounted to DKK 12.5 billion (2017: DKK 11.9 billion), with variable remuneration accounting for 5.4% of this amount (2017: 8.0%). Note 34 provides more information on share-based payments.

Notes – Danske Bank Group

9. Operating expenses continued

(b) Pension plans

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

At 31 December 2018, the net present value of pension obligations was DKK 15,801 million (31 December 2017: DKK 16,821 million), and the fair value of plan assets was DKK 16,763 million (31 December 2017: DKK 18,025 million). The present value of obligations under defined benefit pension plans less the fair value of pension assets is recognised for each plan under Other assets and Other liabilities. Pension plan net assets amounted to DKK 1,592 million (2017: DKK 1,905 million) and pension plan net liabilities amounted to DKK 631 million (2017: DKK 701 million).

During 2018, the Group initiated an Enhanced Transfer value project related to the pension scheme in Ireland. The Group made an offer to deferred members aimed at transfering the Group's pension liability from the scheme to an alternative pension arrangement. For members that accepted the offer, a pension liability of DKK 271 million was derecognised and a settlement gain of DKK 32 million was recognised in the fourth quarter of 2018. During 2017, the defined benefit pension plan at the Northern Ireland unit was amended to the effect that no benefits will accrue from the third quarter of 2018. Going forward, staff covered by the current plan will be able to participate in a defined contribution plan (master trust) to which Danske Bank pays fixed cash contributions. The amendment led to a curtailment gain in 2017 of DKK 339 million, which was recognised in the income statement as a past service cost. In addition, the Group purchased a bulk annuity buy-in policy covering pension liabilities of DKK 1,992 million in relation to the defined benefit plan in Ireland. This led to a loss on plan assets in 2017 of DKK 435 million, which was recognised in Other comprehensive income, as the liabilities under IFRS were lower than the premium paid. The Group recognises the service cost and interest on the net defined benefit pension asset/liability in the income statement, whereas actuarial gains or losses are recognised under Other comprehensive income.

The calculation of the net obligation is based on valuations made by external actuaries. These valuations rely on assumptions about a number of variables, including discount and mortality rates and salary increases. The measurement of the net obligation is particularly sensitive to changes in the discount rate. The discount rate is determined by reference to yields on high-quality corporate bonds with terms matching the terms of the pension obligations. If the discount rate was lowered half a percentage point, the gross pension obligation would increase DKK 1.3 billion (2017: DKK 1.6 billion). The amount would be recognised under Other comprehensive income.

10. Audit fees

Audit fees (DKK millions)	2018	2017
Audit firms appointed by the general meeting		
Fees for statutory audit of the consolidated and parent company financial statements	20	18
Fees for other assurance engagements	6	5
Fees for tax advisory services	1	-
Fees for other services	5	5
Total	**32**	**28**

Fees for non-audit services provided by Deloitte Statsautoriseret Revisionspartnerselskab to the Group amounted to DKK 7 million (2017: DKK 5 million) and covered various assurance reports, review procedures with respect to recognition of profit in core capital, advisory in regards of automation of processes and other general accounting and tax advisory services.

Notes – Danske Bank Group

11. Loan impairment charges

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

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

Accounting policy
The accounting policy for when a loan impairment charge is recognised and how the charge is determined is described under the relevant balance sheet line items. Notes 15, 16 and 23 provide more information.

Loan impairment charges

(DKK millions)	2018	2017
ECL impairment on Due from credit institutions and central banks	-28	
ECL impairment on Loans at amortised cost	-466	
ECL impairment on Loan commitments and guarantees etc.	-85	
ECL impairment, total	**-579**	
Fair value credit risk adjustment on Loans at fair value	192	
Total	**-387**	**-1,582**

(DKK millions)	2018	2017
Fair value credit risk adjustment on loans at fair value	400	
ECL on new assets	3,085	
ECL on assets derecognised	-4,027	
Impact of net remeasurement of ECL (incl. changes in models)	484	
New and increased impairment charges		4,745
Reversals of impairment charges		-5,654
Write-offs charged directly to income statement	710	334
Received on claims previously written off	-749	-706
Interest income, effective interest method	-289	-301
Total	**-387**	**-1,582**

Further information on changes in the allowance account can be found in note 15.

From 1 January 2018, the IFRS 13 estimate of the fair value of the credit risk on loans granted by Realkredit Danmark is based on the expected credit loss model developed in connection with the Group's implementation of IFRS 9. The impact at 1 January 2018 is recognised as a change in an accounting estimate and included in the line item 'Fair value credit risk adjustment on Loans at fair value' in the table above.

Notes – Danske Bank Group

12. Trading portfolio assets and liabilities

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

Accounting policy

The trading portfolio is recognised at fair value through profit or loss. Realised and unrealised capital gains and losses and dividends are recognised in the income statement under Net trading income. Fair value is the amount for which a financial asset can be sold or a financial liability be transferred to a knowledgeable, willing third party. Note 30 provides information about fair value measurement and fair value adjustments.

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

(a) Trading portfolio assets (DKK millions)	2018	2017
Derivatives with positive fair value	244,274	256,891
Listed bonds	166,331	173,580
Unlisted bonds		-
Listed shares	4,790	18,624
Unlisted shares	423	197
Total	**415,818**	**449,292**
(b)Trading portfolio liabilities (DKK millions)		
Derivatives with negative fair value	240,992	244,688
Obligations to repurchase securities	149,234	155,908
Total	**390,226**	**400,596**

Notes – Danske Bank Group

12. Trading portfolio assets and liabilities continued

(c) Explanation of derivatives

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

- swaps
- forwards and futures
- options

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

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

Derivatives are recognised and measured at fair value. Some of the Group's loans, deposits, issued bonds, etc. in the Group's banking units and Group Treasury carry fixed rates. Generally, such fixed-rate items are recognised at amortised cost. Further, the Group classifies certain bonds as 'hold to collect and sell' (2017: 'available-for-sale') financial assets. Unrealised value adjustments of such bonds are recognised under Other comprehensive income. The Group uses fair value hedge accounting if the interest rate risk on fixed-rate financial assets and liabilities or bonds measured at fair value through other comprehensive income is hedged by derivatives.

Derivatives	2018			2017		
(DKK millions)	Notional amount	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value
Currency contracts						
Forwards and swaps	8,052,099	77,091	95,426	9,675,821	85,366	87,229
Options	134,716	868	875	147,021	719	863
Interest rate contracts						
Forwards/swaps/FRAs	23,760,853	123,338	109,505	19,275,318	123,957	117,609
Options	3,267,783	28,267	26,716	2,336,200	28,099	26,841
Equity contracts						
Forwards	162,809	2,225	2,443	161,671	2,872	2,938
Options	135,822	3,825	3,650	205,845	4,830	5,335
Other contracts						
Commodity contracts	3,963	312	318	32,225	1,728	1,683
Credit derivatives bought	2,108	374	20	23,990	201	1,126
Credit derivatives sold	1,992	13	367	10,825	669	156
Total derivatives held for trading purposes		**236,315**	**239,319**		**248,441**	**243,779**
Hedging derivatives						
Currency contracts	55,827	123	90	59,851	16	38
Interest rate contracts	398,908	7,835	1,582	407,770	8,434	871
Total derivatives		**244,274**	**240,992**		**256,891**	**244,688**

Notional amounts and positive and negative fair values of derivatives are offset if certain criteria are fulfilled. Note 29 provides more information.

Notes – Danske Bank Group

12. Trading portfolio assets and liabilities continued

(d) Explanation of hedge accounting

Hedge of interest rate risk

The Group manages the fixed interest rate risk on financial assets and liabilities measured at amortised cost as a combination of economic hedges (matching of interest rate risk from assets and liabilities at amortised cost across the Group's banking units) and hedges using interest rate swaps. The interest rate is considered fixed if the interest rate resets to a reference rate with a term longer than three months. Group Treasury is responsible for the risk management of the interest rate risk (the so-called interest rate risk in the banking book). In the risk management process, economic hedges are established and/or identified. This includes the acquisition of 'hold to collect' fixed interest rate bonds in Group Treasury and the identification of fixed-rate loans extended by the Group's banking units to hedge the fixed interest rate risk on liabilities (including core demand deposits). Interest rate risk on fixed-rate liabilities (such as long dated funding via bond issuance) is generally hedged by interest rate swaps and the interest rate risk on certain fixed-rate assets can be hedged using derivatives as well. The interest rate risk and the credit risk reflects the majority of the changes in the fair value of fixed interest rate financial assets and liabilities.

For hedged assets and liabilities to which a fixed rate of interest applies for a specified period of time starting at the commencement date of the agreement, future interest payments are split into basis interest and a customer margin and into periods of time. By entering into swaps or forwards with matching payment profiles in the same currencies and for the same periods, the Group hedges the risk at portfolio level from the commencement date of the hedged items. The fair values of the hedged interest rate risk and the hedging derivatives are measured at frequent intervals to ensure that changes in the fair value of the hedged interest rate risk lie within a band of 80-125% of the changes in the fair value of the hedging derivatives. Portfolios of hedging derivatives are adjusted if necessary.

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

The Group uses the option in IFRS 9 to continue to use the fair value hedge accounting provisions in IAS 39. With effective hedging, the hedged interest rate risk on hedged assets and liabilities is measured at fair value and recognised as a value adjustment of the hedged items. Value adjustments are presented in the income statement under Net trading income. Any ineffective portion of a hedge that lies within the range for effective hedging is therefore also included under Net trading income.

The tables below shows the hedging derivatives and the hedged fixed interest rate financial instruments.

Notes – Danske Bank Group

12. Trading portfolio assets and liabilities continued

Hedging derivatives	Nominal amount	Carrying amount		Changes in fair value used for calculating hedge ineffectiveness
(DKK millions)		Assets	Liabilities	
Interest rate swaps, 2018	454,735	7,958	1,672	-264
Interest rate swaps, 2017	467,621	8,450	909	-3,607

Hedged fixed interest rate risk	Carrying amount of hedged items		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item		Change in fair value used for calculating hedge ineffectiveness
(DKK millions)	Assets	Liabilities	Assets	Liabilities	
2018					
Amounts due from credit institutions	1,010		2		-
Loans	46,623		1,366		-349
Bonds 'held to collect and sell'	2210		140		-17
Amounts due to credit institutions		15,111		23	-60
Deposits		224		-	7
Issued bonds		270,223		4,615	767
Non-preferred senior debt		26,477		286	-286
Subordinated debt		13,441		333	203
Total, 2018	**49,844**	**325,475**	**1,508**	**5,258**	**263**
2017					
Amounts due from credit institutions	765		2		-2
Loans	56,523		1,802		-360
Bonds available for sale	1,777		157		-43
Amounts due to credit institutions		15,026		-37	32
Deposits		2,094		7	38
Issued bonds		342,336		5,369	3,380
Subordinated debt		24,588		536	571
Total, 2017	**59,065**	**384,044**	**1,961**	**5,875**	**3,616**

Hedge ineffectiveness recognised in the income statement, 2018	-1
Hedge ineffectiveness recognised in the income statement, 2017	7

Hedge of foreign exchange risk of net investments in foreign entities

The net investment in foreign currency units includes the net assets and goodwill of the units as well as holdings of subordinated loan capital. During 2018, the Group granted perpetual loans in the currency of the foreign unit to its branches in Sweden, Norway and Finland for a total of DKK 33,367 million. The loans represent the capital allocated to these units. The settlement of the loans is neither planned nor likely to occur in the foreseeable future and they are a part of the net investment in those units. Previously, only the subsidiary Northern Bank was granted an additional tier 1 capital instrument that together with shareholders' equity in Northern Bank is considered part of the net investment in Northern Bank.

The Group hedges the foreign exchange risk of net investments in branches and subsidiaries outside Denmark by establishing financing arrangements in the matching currencies. The Group does not hedge the expected financial results of units outside Denmark or other future transactions. The foreign exchange adjustments of the investments are recognised under Other comprehensive income together with the foreign exchange adjustments of the financing arrangements designated as hedging of exchange rate fluctuations. The statement of comprehensive income shows the translation amounts. At the end of 2018, the carrying amount of financing arrangements in foreign currency used to hedge net investments in units outside Denmark amounted to DKK 52,299 million (31 December 2017: DKK 39,818 million).

Notes – Danske Bank Group

13. Investment securities

Investment securities consists of bonds and shares held by non-trading units in the Group. It consists primarily of the liquidity portfolio managed by Group Treasury. The liquidity portfolio includes different portfolios with different business models. Some portfolios are managed on a fair value basis and mandatorily measured at fair value through profit or loss under IFRS 9 (2017: designated at fair value through profit or loss), whereas other portfolios are either 'hold to collect and sell' (2017: available for sale) and measured at fair value through other comprehensive income or 'hold to collect' (2017: hold to maturity) and measured at amortised cost.

Accounting policy

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

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

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

This category comprises bonds only, and primarily bonds listed in a liquid market, as the Group does not use the option to designate equity instruments at FVOCI. The bonds are held within a business model for the purpose of collecting contractual cash flows and selling (hold to collect and sell). The bonds have cash flows that are solely payments of principal and interest on the principal amount outstanding (i.e. that passes the SPPI test in IFRS 9). FVOCI results in the assets being recognised at fair value in the balance sheet and at amortised cost in the income statement, including the recognition of expected credit losses as described in note 15. Gains and losses, except for expected credit losses and foreign exchanges gains and losses, are therefore recognised in other comprehensive income until the bond is derecognised. When a fixed interest rate risk is hedged in a hedge that qualifies for fair value hedge accounting, the fair value changes of the hedged interest risk are presented in the income statement under Net trading income. When bonds are sold unrealised value adjustments recognised under Other comprehensive income are reclassified to the income statement and presented under Net trading income. The Group recognises interest income according to the effective interest method, including amortisation of the difference between cost and the redemption value over the term to maturity of the bonds.

Financial assets measured at amortised cost (AMC)

This category consists of bonds held within a business model for the purpose of collecting the contractual cash flows (hold to collect) and with cash flows that are solely payments of principal and interest on the principal amount outstanding (i.e. that pass the SPPI test in IFRS 9). The bonds are measured at amortised cost. Interest income is recognised according to the effective interest method, including amortisation of the difference between cost and the redemption value over the term to maturity of the bonds. The bonds are subject to the expected credit model in IFRS 9 as described in note 15. The interest rate risk on fixed-rate bonds are not hedged.

(a) Investment securities (DKK millions)	2018	2017
Financial assets at fair value through profit or loss		
Listed bonds	58,602	97,599
Unlisted bonds	-	-
Listed shares	40	63
Unlisted shares	1,078	1,396
Total financial assets at fair value through profit or loss	**59,720**	**99,058**
Bonds hold to collect and sell (FVOCI)		
Listed bonds	74,284	78,863
Total bonds hold to collect and sell (FVOCI)	**74,284**	**78,863**
Total at fair value	**134,004**	**177,921**
Bonds hold to collect (AMC)		
Listed bonds	142,420	146,697
Unlisted bonds		-
Total investment securities	**276,424**	**324,618**

Notes – Danske Bank Group

13. Investment securities continued

(b) Further explanation

Investment securities consists of the liquidity portfolio held by Group Treasury. The liquidity portfolio is part of the balance sheet management to optimise the balance sheet composition, to hedge the interest rate risk in the banking book and to manage the Group's liquidity need. The management of the interest rate risk in the banking book is carried out through a combination of hedges with derivatives and partly through matching the duration on the fixed interest rate deposits (the interest risk on core deposits) with bond holdings with a matching duration. The latter is carried out through the acquisition of portfolios of bonds. The implementation of IFRS 9 did not lead to reclassifications between the different measurement categories.

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

This portfolio includes the part of the liquidity bond portfolio that is actively traded although less frequently than what is required to be classified as a held-for-trading portfolio. These bonds are held in a business model being neither 'hold to collect' nor 'hold to collect and sell' and are therefore mandatorily recognised at fair value through profit or loss under IFRS 9. In 2017, this bond portfolio was designated at FVPL.

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

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

This portfolio includes the part of the liquidity bond portfolio where both the collection of the contractual cash flows and sales are an integral part of achieving the objectives with the acquired bond portfolio. Further, the bonds included in the portfolio have contractual cash flows that pass the SPPI test. In 2017, this bond portfolio was classified as available-for-sale.

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

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

Financial assets measured at amortised cost (AMC)

This portfolio includes the part of the liquidity bond portfolio that is held in a business model being 'hold to collect', i.e. with the purpose of generating a return until maturity. Further, the bonds included in the portfolio have contractual cash flows that pass the SPPI test. In 2017, this bond portfolio was classified as hold-to-maturity.

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

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

The bonds are primarily Danish mortgage bonds, government bonds and government-guaranteed bonds. Some 99% of the portfolio is rated AA or higher (2017: 98%), while the remaining portfolio has investment grade ratings.

SPPI test applied for bonds at FVOCI or AMC

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

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

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

Notes – Danske Bank Group

14. Due from credit institutions

From 1 January 2018, the item due from credit institutions includes both balances that are measured at amortised cost and balances that are measured at fair value through profit or loss, depending on the business model for the management of the amounts due from credit institutions. The change is due to the implementation of IFRS 9. In 2017, all amounts due from credit institutions were measured at amortised cost.

Accounting policy

For balances due from credit institutions in the Group's banking units (Banking DK, Banking Nordic, General Banking in C&I, Private Banking in Wealth Management, Northern Ireland and Non-core), the business model is hold to collect. As the contractual cash flows represent basic lending feature, these balances are measured at amortised cost. For further information on the accounting policy etc., see note 15.

For balances due from credit institutions in the Group's trading units (FI&C and Capital Markets in C&I) the business model is neither 'hold to collect' nor 'hold to collect and sell' and these balances are mandatorily recognised at fair value through profit or loss. For further information on the accounting policy, see note 16.

Due from credit institutions and central banks

(DKK millions)	2018	2017
Due from credit institutions and central banks measured at fair value through profit or loss:		
Reverse transactions	56,342	-
Other amounts due	636	-
Total at fair value through profit or loss	**56,978**	**-**
Due from credit institutions and central banks measured at amortised cost:		
Reverse transactions	-	56,314
Other amounts due	168,637	277,671
Allowance account	15	10
Total at amortised cost	**168,622**	**333,975**
Due from credit institutions and central banks, total	**225,600**	**333,975**

Due from credit institutions and central banks includes amounts due within three months and totalled DKK 223,839 million at the end of 2018 (31 December 2017: DKK 330,776 million). This amount is included under Cash and cash equivalents in the cash flow statement.

Notes – Danske Bank Group

15. Loans at amortised cost

In general, the loans in the Group's banking units (Banking DK, Banking Nordic, General Banking in C&I, Private Banking in Wealth Management, Northern Ireland and Non-core) are held with the objective of collecting the contractual cash flows. Therefore, most of the Group's loans in the banking units are classified as 'hold to collect' under IFRS 9. Further, the loans have basic lending features with the contractual cash flows solely representing repayment of principal and interest on the principal amount outstanding (the SPPI test). Therefore, the loans in the Group's banking units are recognised at amortised cost. The only exception is loans granted by Realkredit Danmark (see note 16) that are recognised at fair value, as the contractual cash flows do not represent basic lending features only, i.e. they do not pass the SPPI test in IFRS 9.

The implementation of IFRS 9 changed the classification of loans in the Group's trading units (FI&C and Capital Markets in C&I) as the business model for those loans is not 'hold to collect'. Accordingly, these loans were reclassified to Loans at fair value as at 1 January 2018, see further in note 16.

Accounting policy

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

Impairment for expected credit losses

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:

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

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

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

(b) Loans at amortised cost (DKK millions)	2018	2017
Reverse transactions	-	172,224
Other loans	1,002,152	957,239
Allowance account	15,912	16,710
Total at amortised cost	**986,240**	**1,112,752**

Loans included payments due under finance leases of DKK 28,771 million at the end of 2018 (31 December 2017: DKK 28,597 million).

(c) Further explanation

At 1 January 2018, the Group implemented IFRS 9. The comparative information has not been restated as retrospective application of the impairment requirements is not possible without the use of hindsight. Loans at amortised cost consist of loans held in a business model being 'hold to collect' and with contractual cash flows that pass the SPPI test. For loans at amortised cost, the major change from IAS 39 to IFRS 9 is the calculation of expected credit losses (either as 12 month expected credit losses or lifetime expected credit losses depending on whether facilities are in stages 1, 2 or 3) and the inclusion of forward-looking elements.

Classification and measurement – business model assessment

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

In the Group's banking units (Banking DK, Banking Nordic, General Banking in C&I, Private Banking in Wealth Management, Northern Ireland and Non-core), the management and reporting of performance are based on collecting the contractual cash flows, and loans are only very infrequently sold. Therefore, the business model has been assessed as being 'hold to collect'.

Notes – Danske Bank Group

15. Loans at amortised cost continued

Once a year, the Group assesses if past sales are consistent with the business model for loans in the Group's banking unit being 'hold to collect'. In general, if sales are below 5% of the size of a portfolio the sales are considered to be insignificant. Larger sales are considered individually in relation to consistency with the business model. The following sales are consistent with the business model being 'hold to collect':

- Loans are sold after having previously been transferred to one of the Group's debt collection units
- Loans are sold to manage credit concentration risk (specific countries or industries)
- Loans to customers that have refocused there activities out of the Nordic region, i.e. the customers are no longer Nordic customers
- The sale of loans that are no longer profitable, e.g. due to changes in the regulatory environment or the like

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

For each loan in the Group's banking units, it is assessed if the contractual cash flows are consistent with the SPPI test. The principal amount reflects the fair value at initial recognition less any subsequent changes, e.g. due to repayment. The interest represents consideration for the time value of money, credit risk, other basic lending risks and a margin consistent with basic lending features, only. If the cash flows introduce more than de minimis exposure to risk or volatility that is not consistent with basic lending features, the loan is mandatorily recognised at fair value through profit or loss. Features that are not genuine do not affect the classification. A feature is not genuine if it affects the contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur.

In general, the SPPI test of the Group's portfolios of loans covers, for instance, the following elements:

- Compensation for the time value of money. For some of the Group's variable-rate loans, the market standard for these loans is that the reset frequency and the tenor of the reference rate do not match. It has been assessed that the mismatch does not significantly modify the compensation for the time value of money. No loans have interest rates that are leveraged or linked to, for instance, the development in share prices etc.
- Prepayment options are consistent with the SPPI test, if the prepayment amount represents the principal amount outstanding and accrued interest and may include a reasonable compensation for early repayment. This is generally the case with the Group's loans, except loans granted by Realkredit Danmark (see further below).
- Extension options are consistent with the SPPI test if the cash flows during the extension period represent cash flows that are solely payments of principal and interest on the principal amount outstanding. Only very few loans include a contractual right for the customer to extend the loan, and for such loans, the interest rate will be updated to the current market rate for such loans.
- Compensation for credit risk and other basic lending risks. The interest rate includes a credit margin to compensate the Group for the credit risk, and it may be fixed initially. The Group does not incorporate profit sharing agreements, for example by contractual terms that increase the credit margin if the customer's earnings increase.
- Non-recourse features. In general, the Group does not grant loans that legally are non-recourse. However, in some cases a financial asset represents an investment in particular assets or cash flows in which case the contractual cash flows are not solely payments of principal and interest on the principal amount outstanding. This could be the case when the Group's claim is limited to specified assets of a debtor or the cash flows from specified assets, e.g. related to loans granted to a company/a special purpose entity with limited assets and with no guarantee from the owner/parent company. The Group only grants such loans if the cash flows from the underlying asset(s) are large compared to the contractual cash flows from the loans. Therefore, non-recourse-like features are limited and excluded from the assessment.
- Non-payment is not considered a breach of contract. The Group does not grant loans where non-payment would not constitute a breach of contract.

Loans granted under Danish mortgage finance law are funded by issuing listed mortgage bonds with matching terms. Such loans are granted by the Realkredit Danmark subsidiary only. Borrowers may repay such loans by delivering the underlying bonds. This represents an option to prepay at fair value that can be both above and below the principal amount plus accrued interest and include other elements than the effect of changes in the relevant benchmark interest rate. The loans do not pass the SPPI test and are mandatorily recognised at fair value through profit or loss, see further in note 16.

Financial instruments in scope of the expected credit loss impairment model in IFRS 9

Impairment charges for expected credit losses apply to all financial assets recognised at amortised cost or at fair value through other comprehensive income, lease receivables and certain loan commitments and financial guarantee contracts. Therefore, the Group's expected credit loss model also applies to bond portfolios included in the line item Investment securities, except for the bonds that are recognised at fair value through profit or loss.

Notes – Danske Bank Group

15. Loans at amortised cost continued

Significant increase in credit risk (transfer from stage 1 to stage 2)

The classification of facilities between stages 1 and 2 for the purpose of calculating expected credit losses depends on whether the credit risk has increased significantly since initial recognition. The assessment of whether credit risk has increased significantly since initial recognition is performed by considering the change in the risk of default occurring over the remaining life of the facility and incorporating forward-looking information. A facility is transferred from stage 1 to stage 2 based on observed increases in the probability of default:

- For facilities originated below 1% in PD: An increase in the facility's 12-month PD of at least 0.5 percentage points and a doubling of the facility's lifetime PD since origination.
- For facilities originated above 1% in PD: An increase in the facility's 12 month PD of 2 percentage points or a doubling of the facility's lifetime PD since origination.

In addition, facilities that are more than 30 days past due are moved to stage 2. Finally, customers subject to forbearance measures are placed in stage 2, if the Group, in the most likely outcome, expects no loss, or if the customers are subject to the two-year probation period for performing forborne exposures.

Stage 3 (credit-impaired facilities)

A facility is transferred from stage 2 to stage 3 when it becomes credit-impaired. A facility becomes credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows have occurred. This includes observable data about (a) significant financial difficulty of the issuer or the borrower; (b) a breach of contract, such as a default or past due event; (c) the borrower, for financial or contractual reasons relating to the borrower's financial difficulty, having been granted a concession that would not otherwise have been considered; (d) it is becoming probable that the borrower will enter into bankruptcy or other financial restructuring; and (e) the purchase or origination of a financial asset at a high rate of discount that reflects the incurred credit loss. It may not be possible to identify a single individual event – instead, the combined effect of several events may cause financial asset to become credit-impaired. Credit-impaired facilities are placed in rating category 10 or 11. For customers in rating category 10, the stage 3 classification applies only to customers where a loss is expected in the most likely scenario. For rating category 11 (default), all facilities are classified as stage 3 exposures.

Definition of default

The definition of default used in the measurement of expected credit losses and the assessment to determine movements between stages is consistent with the definition of default used for internal credit risk management purposes and is aligned with the CRR. As a result, exposures which are considered to be in default for regulatory purposes will always be considered stage 3 exposures. This applies both for 90-days-past-due considerations and unlikely-to-pay factors leading to a regulatory default.

Purchased or originated credit-impaired facilities (POCI)

A facility that is credit-impaired at initial recognition is classified as a POCI financial asset. This is the case if the financial asset is purchased or originated at a high rate of discount that reflects the incurred credit losses. For such assets, life-time expected credit losses are recognised for the remaining lifetime of the asset. In general, the Group does not purchase credit-impaired financial assets and the category therefore relates to originated credit-impaired facilities, typically originated in relation to forbearance measures. ...

Calculation of expected credit losses

The expected credit loss is calculated for all individual facilities as a function of the probability of default (PD), the exposure at default (EAD) and the loss given default (LGD). In general, the Group's IFRS 9 impairment models and parameters draw on the bank's internal models in order to ensure alignment of models across the Group. New models and calculations have been developed especially for IFRS 9 purposes, including models for lifetime PD, prepayment and forward-looking LGD. All expected credit loss impairment charges are allocated to individual exposures. For significant loans in stage 3, the Group determines the expected credit losses individually.

Expected remaining lifetime

For most facilities, the expected lifetime is limited to the remaining contractual maturity and is adjusted for expected prepayment. For exposures with weak credit quality, the likelihood of prepayment is not included. For exposures that include both a loan and an undrawn commitment and where a contractual ability to demand prepayment and cancellation of the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period, the expected lifetime is the period during which the Group expects to be exposed to credit losses. This period is estimated on the basis of the normal credit risk management actions. Products identified as in scope of an expected lifetime longer than the remaining contractual maturity include credit cards, overdraft balances and certain revolving credit facilities.

Incorporation of forward-looking information

The forward-looking elements of the calculation reflect the current unbiased expectations of the bank's senior management. The process consists of the creation of macroeconomic scenarios (base case, upside and downside), including an assessment of the probability of each scenario, by the Group's independent macroeconomic research unit in FI&C, the review and sign-off of the scenarios (through the organisation) and a process for adjusting scenarios given new information during the quarter. The purpose of using multiple scenarios is to model the non-linear impact of assumptions about macroeconomic factors on the expected credit losses. Management's approval of scenarios can include adjustments to the scenarios, probability weighting and management overlays to cover the outlook for particular high-risk portfolios which are not provided by the Group's macroeconomists. The approved scenarios are used to calculate the impairment levels. Technically, the forward-looking information is used directly in the PDs through an estimate of general changes to the PDs and the LGDs in the expected credit loss calculation. However, for significant exposures in stage 3, an individual assessment of the scenarios, changes to expected credit losses and the related probabilities are performed by senior credit officers.

Notes – Danske Bank Group

15. Loans at amortised cost continued

The forward-looking information is based on a three year forecast period converging to steady state in year seven. The base case is based on the macroeconomic outlook as disclosed in the Group's Nordic Outlook reports. The base-case is an extension of the Group's official view of the Nordic economies (the Nordic Outlook report).

The macroeconomic parameters entering into the ECL calculation over the forecast horizon are:

- GDP
- Industrial Production
- Inflation
- Interest rates (3-month and 10-year)
- Private Consumption Expenditure
- Residential Property Price Index
- Unemployment

Forecasts are produced for the coming three years. After this period, the outlook returns to a steady-state level after a further four years.

Write-off policy

Loans considered uncollectible are written off. Write-offs are debited to the allowance account. Loans are written off once the usual collection procedure has been completed and the loss on the individual loan can be calculated. If the full loss is not expected to be realised until after a number of years, for example in the event of administration of complex estates, a partial write-off is recognised, reflecting the Group's claim less collateral, estimated dividend and other cash flows.

Modification

When a loan is modified the Group assesses whether the modification results in derecognition. This depends on whether the changes to the contractual cash flows or other contractual terms are significant or not. If the changes are significant, the modification is accounted for as derecognition of the original loan and recognition of a new loan. If the changes are not significant, the modification is accounted for as a modification of the original loan. The assessment is based on the following considerations:

- The Group differentiates between changes in the cash flows or other terms within the original contract and modifications of the contract, i.e. a new contract.
- In general, a significant modification is defined as a full credit process, a pricing decision and the signing of a new contract
- An assessment of whether the modification is caused as a forbearance measure or made on commercial terms.

If the financial asset is not derecognised, the original effective interest rate remains unchanged, and the net present value of the changed contractual cash flows represents the gross carrying amount of the financial asset after the modification. The difference between the net present value of the original contractual cash flows and the modified contractual cash flows is recognised in P/L as a modification gain or loss.

If the original financial asset is derecognised, a derecognition gain or loss is recognised in P/L. The derecognition gain or loss represents the difference between the carrying amount of the original financial asset and the initial carrying amount of the new financial asset plus/minus any cash payments between the parties in relation to the modification.

In terms of stage allocation, a modification that leads to derecognition of the initial loan and recognition of a new loan, the loan will (unless the new loan is credit-impaired at initial recognition) be recognised in stage 1 at initial recognition, i.e. the initial credit risk is reset. If the replacing loan is considered an amendment to the original loan, the initial credit risk is not reset. Loans modified as part of the Group's forbearance policy, where the modification does not result in derecognition, the loss allowance on the forborne loans will generally only be measured based on 12-months expected credit losses when there is evidence of the borrower's improved repayment behaviour. When a loan in stage 3 is modified, and the modification results in derecognition, the Group's assesses if the new loan is originated credit impaired. The assessment includes factors such as whether the customer's repayment behaviour has improved significantly prior to the modification or not and whether the pricing on the new loan reflects the actual credit risk etc. New loans that are originated credit impaired remains under a lifetime ECL calculation for the remaining term of the exposure.

Impairment under IAS 39

Under IAS 39, impairment charges were recognised for incurred credit losses based on objective evidence of impairment.

The impairment charge equals the difference between the carrying amount of the loan and the present value of the most likely future cash flows from the loan. The customer's debt is written down to the amount that the borrower is expected to be able to repay after financial restructuring. If financial restructuring is not possible, the debt is written down to the estimated recoverable amount in the event of bankruptcy, which depends, among other factors, on the value of the collateral received by the Group. If the borrower's ability to repay depends significantly on the assets that have been provided as collateral (asset financing), the customer's debt is written down to the fair value of the collateral.

Loans without objective evidence of impairment are included in a collective assessment of the need for impairment charges. The collective assessment also includes customers with objective evidence of impairment, but without a need for impairment. Collective impairment charges are calculated for loans with similar credit risk characteristics to recognise the losses that occur when the expected cash flow from a group of customers deteriorates, i,e, when an increase in credit risk is not accompanied by adjustments to the interest rate charged to the customer to reflect the increase in credit risk. A charge is therefore recognised for customers who have been downgraded without changes having been made to the credit margin.

Notes – Danske Bank Group

15. Loans at amortised cost continued

When external market information indicates that an impairment event has occurred, even though it has not yet caused a change in rating, the Group registers an "early event" impairment charge. Early events represent an expected rating change because of deteriorating market conditions in an industry. If a rating downgrade does not occur as expected, the charge is reversed. A management judgement is therefore applied to adjust the collective impairment charge if the Group becomes aware of market conditions at the balance sheet date that are not fully reflected in the Group's models.

Collective impairment charges are calculated as the difference between the carrying amount of the loans in the portfolio and the present value of expected future cash flows. The cash flows used to determine the present value of future cash flows are specified by means of parameters used for solvency calculations and historical loss data adjusted for use in the financial statements, for example. The adjustment reflects the loss identification period shown by the Group's empirical data. This period is the period from the first significant downgrade to the determination of a loss at customer level.

Impairment charges for loans and guarantees are booked in an allowance account and set off against loans or recognised as provisions for guarantees. Impairment charges for loans are recognised under Loan impairment charges in the income statement. If subsequent events show that impairment is not permanent, charges are reversed.

In accordance with the effective interest method, interest is recognised on the basis of the value of the loans less impairment charges. Consequently, part of the allowance account balance is set aside for future interest income.

For non-significant loans for which default or other objective evidence of impairment is identified, the Group calculates the individual impairment charge statistically. Loans for which objective evidence of impairment has not been identified are included in an assessment of collective impairment at portfolio level. For individual impairment charges calculated statistically and for collectively assessed loans, the impairment charges are calculated as the difference between the carrying amount of the loans in a portfolio and the present value of expected future cash flows.

Previous collective impairment charges aimed at capturing specific high-risk areas are incorporated as forward-looking elements into the individual expected credit loss calculation.

Notes – Danske Bank Group

15. Loans at amortised cost continued

(d) Reconciliation of total allowance account

Below the allowance account is reconciled by measurement category. The allowance account under 'Loans at amortised cost' includes the balance sheet line items: Due from credit institutions and Loans at amortised cost. For 'Loans at fair value', the allowance account represents the fair value adjustment of the credit risk (for further information see note 16). The allowance account for loans at amortised cost and at fair value is credited against the related loans, whereas the allowance account related to loan commitments and guarantees is recognised as a liability and presented under Other liabilities.

Reconciliation of total allowance account

(DKK billions)	Loans at amortised cost			Loans at fair value			Loan commitments and guarantees			Total
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Collective and individual impairment charges under IAS 39*			16,720			3,347			682	20,749
Adjustment to the allocation end of 2017			-381			212			169	-
Collective and individual impairment charges under IAS 39, adjusted*			16,339			3,559			851	20,749
Transition effect (ECL at 1 January 2018)**	358	4,145	12,586	524	423	3,013	618	1,009	644	2,570
Transferred to Stage 1	798	-736	-62	80	-	-80	140	-120	-20	-
Transferred to Stage 2	-33	688	-655	-	123	-123	-6	75	-69	-
Transferred to Stage 3	-4	-301	305	-	-	-	-19	-122	141	-
ECL on new assets	164	800	1,383	152	55	104	46	205	176	3,085
ECL on assets derecognised	-263	-894	-2,018	-1	-10	-190	-94	-292	-265	-4,027
Impact of net remeasurement of ECL (incl. changes in models)	-584	334	1,057	-66	-45	-290	-178	146	108	484
Write offs debited to the allowance account	-	-	-1,261	-30	-13	-430	-	-	-	-1,734
Foreign exchange adjustments	-11	-4	-12	-	-	-	-1	-2	-4	-34
Other	12	-12	148	-	-	12	-	-	-57	79
ECL allowance 31 December 2018	**438**	**4,019**	**11,471**	**658**	**533**	**1,993**	**505**	**899**	**654**	**21,170**

* All collective and individual impairment charges under IAS 39 has been included in stage 3 regardless of the stage allocation of the underlying exposures under IFRS 9.

**Including impact on loans granted by Realkredit Danmark.

The movements on the allowance account are determined by comparing the balance sheet at 1 January 2018 and at 31 December 2018.

The table above excludes the allowance account of DKK 4 million relating to bonds at amortised cost or fair value through other comprehensive income (all in stage 1). For further information on the decomposition of the allowance account on facilities in stages 1-3 under IFRS 9, see the notes on credit risk.

Reconciliation of total allowance account

(DKK millions)	2017
Balance at 1 January 2017	26,156
New and increased impairment charges	4,745
Reversals of impairment charges	5,654
Write offs debited to the allowance account	3,589
Foreign currency translation	-390
Other	-519
As at 31 December 2017	**20,749**

(e) Significant accounting estimates related to expected credit losses

For information on significant accounting estimates related to expected credit losses, see note 1(b).

Notes – Danske Bank Group

16. Loans and issued bonds at fair value

The Group has two types of portfolios of loans and issued bonds that are measured at fair value through profit or loss. The first portfolio consists of loans granted and bonds issued by the subsidiary Realkredit Danmark, a Danish mortgage institution covered by Danish mortgage finance law. The other portfolio consists of loans and bonds issued by the Group's trading units (FI&C and Capital Markets in C&I).

Accounting policy

Loans granted and bonds issued by Realkredit Danmark

Loans granted by Realkredit Danmark have contractual cash flows that are not solely payment of principal and interest on the principal amount outstanding. Therefore, the loans are mandatorily recognised at fair value through profit or loss. The issued bonds that are funding the loans are designated at fair value through profit or loss in order not to create an accounting mismatch. For the issued bonds, changes in fair value attributable to the Group's own credit risk is presented in the income statement, as an accounting mismatch would otherwise be introduced.

The fair value of the bonds issued by Realkredit Danmark is normally defined as their quoted market price. A small number of the issued bonds are illiquid, however, and the fair value of these bonds is calculated on the basis of a discounted cash flow valuation technique. The fair value of the loans is based on the fair value of the underlying bonds which ensures that changes in the fair value of the interest rate risk on the loans are measured based on market implied input. This fair value is adjusted for changes in the fair value of cash flows from the loans that differ from the cash flows from the issued bonds. The most important component is the credit risk on the borrowers (covered by the Group and not by the bond holders and therefore not priced into the price of the issued bonds).

Changes in fair value of credit risk etc on the loans

From 1 January 2018, the IFRS 13 estimate of the fair value of the credit risk on the loans is based the expected credit losses estimated in the models developed in connection with the Group's implementation of the expected credit loss impairment model in IFRS 9, including the allocation of loans between stage 1, stage 2 and stage 3. The expected credit losses are calculated for all loans as a function of PD, EAD and LGD and incorporates forward looking information, see further in note 15. The latter reflects managements expectations of expected credit losses and involves multiple scenarios (base case, upside and downside), including an assessment of the probability for each scenario.

On top of the expected credit losses, a collective assessment determines the need for further adjustments to reflect other components in the fair value measurement, such as an assessment of lifetime expected credit losses for loans in stage 1, an investors risk premium, compensation for administrative costs related to the loans and the possibility to increase the margin on the loans if the credit risk etc increases. It is acknowledged that the possibility to increase the margin depends on the economic resources of the customers. The possibility to increase the margin is therefore only considered in the measurement if it is very likely that the margin can be increased without the customer defaulting. Further, the possibility to increase the margin is only relevant if it does not give the customer an incentive to "move" to another mortgage institution. Therefore, the possibility to increase the margin is only relevant for the measurement of loans to customers with neither a relatively high credit risk nor a relatively low credt risk.

The discount rate used to discount the cash flows represents the interest rate on the funding bonds. This is considered to be close to a risk-free interest rate. The risk premium is incorporated into the cash flows. The risk premium is assumed to be higher for customers with high credit risk than for customers with low credit risk. Further, the adjustments for changes in the fair value of the credit risk and other components cannot increase the value of a loan (the adjustment cannot be positive).

Other loans and issued bonds measured at fair value through profit or loss

The loans in the Group's trading units (FI&C and Capital Markets in C&I) are managed and their performance reported on a fair value basis and the loans are under IFRS 9 mandatorily measured at fair value through profit or loss. In order not to introduce an accounting mismatch by measuring the financial assets in the trading units at fair value through profit or loss and the financial liabilities at amortised cost, the financial liabilities in the trading units are designated at fair value through profit or loss with fair value changes attributable to the Group's own credit risk presented in other comprehensive income.

Notes – Danske Bank Group

16. Loans and issued bonds at fair value continued

(a) Loans at fair value

(DKK millions)	2018	2017
Loans granted by Realkredit Danmark:		
Nominal value	776,599	767,621
Fair value adjustment of underlying bonds	21,515	22,948
Adjustment for credit risk	3,184	3,347
Fair value of loans granted by Realkredit Danmark	**794,930**	**787,223**
Loans in the Group's trading units:		
Reverse transactions	261,439	-
Other loans	971	-
Total	**1,057,340**	**787,223**

(b) Issued bonds at fair value

(DKK millions)	2018	2017
Bonds issued by Realkredit Danmark:		
Nominal value	848,951	855,232
Fair value adjustment of funding of current loans	22,680	24,661
Holding of own mortgage bonds	130,539	121,519
Fair value of bonds issued by Realkredit Danmark	**741,092**	**758,375**
Bonds issued by the Group's trading units:		
Commercial papers and certificates of deposit	18,496	-
Total	**759,588**	**758,375**

(c) Further explanation on loans granted and bonds issued by Realkredit Danmark

Each loan granted by Realkredit Danmark is funded by issuing listed mortgage bonds with matching characteristics (e.g. amount outstanding, reference interest rate, term and currency). The borrower may repay the loan by delivering the underlying bonds to Realkredit Danmark.

The loans are held in a business model being similar to other loans in the Group's banking units, ie. the business model under IFRS 9 is 'held to collect'. The customers' right to prepay a loan by delivering the underlying bonds represents an option to prepay at fair value. Under this prepayment option, the prepayment amount can be both above and below the principal amount plus accrued interest and is therefore not consistent with the SPPI, test and the loans granted by Realkredit Danmark are under IFRS 9 mandatorily recognised at FVPL.

To eliminate the accounting mismatch that would exist if the loans are measured at fair value through profit or loss and the issued bonds at amortised cost, the issued bonds are designated at fair value through profit or loss using the fair value option for financial liabilities in IFRS 9. As the fair value of the loans is based on the fair value of the issued bonds, fair value changes of the issued bonds are offset by fair value changes of the loans, including the changes related to the fair value of the own credit risk of the issued bonds. For example, if the credit quality of the bonds worsens the fair value of the liability decreases and the fair value of the loans also decreases. Therefore, fair value changes of own credit risk on the issued bonds are recognised in the income statement, as an accounting mismatch would otherwise be created if changes in own credit risk were recognised in other comprehensive income.

In 2017, the loans and the issued bonds were also measured at fair value through profit or loss by the use of the fair value option in IAS 39.

The value of the loans is affected by changes in the credit risk on the loans. In 2018, the Group reversed DKK 281 million regarding changes in the credit risk on loans at fair value (2017: reversed DKK 331 million). At the end of 2018, the accumulated changes in the credit risk amounted to DKK 2,792 million (31 December 2017: DKK 3,347 million). The amounts are determined as the amount of the change in fair value that is not attributable to changes in market conditions that give rise to market risk, with the latter being represented by the fair value of the funding issued bonds. The Group does not use credit derivative s or similar instruments to mitigate the exposure to credit risk.

The holding of own mortgage bonds includes pre-issued bonds of DKK 37 billion (2017: DKK 45 billion) used for FlexLån® refinancing in January 2019 and bonds of DKK 43 billion (2017: DKK 27 billion) that relate to investments under insurance contracts, pooled schemes and unit-linked investment contracts where most of the risk is assumed by customers and most of the return on the assets accrues to customers.

The nominal value of bonds issued by Realkredit Danmark equals the amount to be redeemed on maturity.

Notes – Danske Bank Group

16. Loans and issued bonds at fair value continued

Fair value adjustment for the credit risk on issued mortgage bonds, i.e. own credit risk, is calculated on the basis of the option-adjusted spread (OAS) to government bond yields or, for variable-rate loans, the swap rate. The calculation incorporates maturity, nominal holdings and OAS sensitivity. As a number of estimates are made, the calculation is subject to uncertainty.

In 2018, the Danish mortgage bond yield spread increased, and consequently the fair value of issued mortgage bonds decreased about DKK 1.5 billion. In 2017, the Danish mortgage bond yield spread narrowed, and consequently the fair value of issued mortgage bonds increased about DKK 7.1 billion. In comparison with the fair value measured at the time of issue of the bonds, the fair value had decreased about DKK 7.5 billion at the end of 2018 (31 December 2017: a decrease of about DKK 9 billion). Net profit and equity remain unaffected because the spread increase lowered the fair value of mortgage loans correspondingly.

Fair value adjustment for the credit risk on issued mortgage bonds may also be calculated on the basis of changes in similar AAA-rated mortgage bonds offered by other Danish issuers. The market for such bonds is characterised by an absence of measurable price differences between bonds with similar characteristics from different issuers. Using this method, no fair value adjustment for credit risk in 2018 or the period since issuance has been required.

(d) Further explanation on loans, deposits and issued bonds by the Group's trading units

The loans in the Group's trading units (FI&C and Capital Markets in C&I) are managed and their performance reported on a fair value basis. Under IFRS 9, the loans are mandatorily recognised at fair value through profit or loss as the business model is neither 'held to collect' nor 'held to collect and sell'. The loans consist primarily of reverse transactions and short-term loans. In order not to introduce an accounting mismatch, the financial liabilities in the tranding units are designated at fair value through profit or loss, using the fair value option in IFRS 9.

The financial liabilities consist of issued bonds (certificates of deposits and commercial papers) and deposits (including repo transactions) with a maturity no longer than six months in general. Fair value changes attributable to the Group's own credit risk are presented in other comprehensive income. During 2018, changes in fair value attributable to the Group's own credit risk recognised in Other Comprehensive Income amounted to DKK 0 million. In the balance sheet, deposits in the trading units are presented together with other deposits. The amount that the Group would be contractually required to pay at maturity amounts to DKK 18,495 million for bonds issued by the Group's trading units.

In 2017, the loans, deposits and issued bonds were measured at amortised cost under IAS 39.

Notes – Danske Bank Group

17. Assets and deposits under pooled schemes and unit-linked investment contracts

Assets and deposits under pooled schemes and unit-linked investment contracts comprises contributions to pooled schemes and unit-linked contracts defined as investment contracts. Assets include shares and bonds issued by the Group. Holdings of those assets are deducted from equity or eliminated. Consequently, the value of the line item Deposits under pooled schemes and unit-linked investment contracts exceeds that of Assets under pooled schemes and unit-linked investment contracts.

Accounting policy

Assets earmarked for customer savings are measured at fair value and recognised under Assets under pooled schemes and unit-linked investment contracts. Deposits made by customers are recognised under Deposits under pooled schemes and unit-linked investment contracts. These deposits are measured at the value of savings, corresponding to the fair value of the assets.

	Pooled schemes		Unit-linked contracts		Total	
(DKK millions)	2018	2017	2018	2017	2018	2017
(a) Assets						
Bonds	15,962	25,322	14,293	3,140	30,255	28,462
Shares	14,644	13,684	6,695	27,617	21,339	41,301
Unit trust certificates	20,004	15,346	20,540	31,131	40,544	46,477
Other	-212	664	5,915	2,997	5,703	3,661
Total	50,398	55,016	47,443	64,885	97,840	119,901
including						
own bonds	3,636	5,981	-	496	3,636	6,477
own shares	228	354	11	35	239	389
other intra-group balances	-105	455	82	515	-23	970
Total assets recognised in balance sheet	**46,638**	**48,226**	**47,350**	**63,839**	**93,988**	**112,065**
(b) Deposits	**50,398**	**55,016**	**47,443**	**64,885**	**97,840**	**119,901**

(c) Further explanation

The acquisition of SEB Pension Danmark increased assets and deposits under unit-linked contracts with effect from 7 June 2018. For further information, including the increase in assets and deposits under unit-linked investment contracts at the acquisition date, see note 36.

In December 2018, Danica Pension entered into an agreement to sell Danica Pension Försäkringsaktiebolag. The sale is conditional on approval by the relevant authorities. Final approval is expected in the first half of 2019. The assets and liabilities in the company has been transferred to the balance sheet line items Assets in disposal groups held for sale and Liabilities in disposal groups held for sale. This has reduced assets under unit-linked investment contracts by DKK 55,382 million and deposits under unit-linked investment contracts by DKK 55,382 million.

Notes – Danske Bank Group

18. Assets and liabilities under insurance contracts

Assets under insurance contracts comprise assets earmarked for policyholders because most of the return accrues to policyholders. As the assets can be used only for payment of insurance liabilities, they are presented as a single line in the balance sheet. Liabilities under insurance contracts comprise primarily life insurance provisions regarding average rate insurance contracts and obligations for guaranteed benefits under unit-linked insurance contracts. Assets include shares and bonds issued by the Group. The holdings of those assets are deducted from equity or eliminated. Consequently, the value of Liabilities under insurance contracts exceeds the value of Assets under insurance contracts.

Accounting policy

Assets include financial assets, investment property, tangible assets and associates. The financial assets are managed on a fair value basis with no short-term profit taking. The business model for managing the assets is therefore neither 'held to collect' nor 'held to collect and sell' and the financial assets were therefore mandatorily recognised at fair value through profit or loss when IFRS 9 was implemented at 1 January 2018. Under IAS 39, the financial assets were designated at fair value through profit or loss. The valuation technique used matches the Group's accounting policy for similar assets with the exception of holdings in associates. Such holdings are treated as held by a venture capital organisation and measured at fair value.

Recognition of life insurance provisions is based on actuarial computations of the present value of expected benefits for each insurance contract. The accounting for insurance liabilities follows the requirements in the Danish FSA's executive order on financial reports for insurance companies etc.

Life insurance provisions include guaranteed benefits, a risk margin and individual bonus potentials.

Guaranteed benefits comprise obligations to pay guaranteed benefits to policyholders. These obligations are calculated as the present value of current guaranteed benefits plus the present value of expected future administrative expenses less the present value of future premiums. The actuarial computations rely on assumptions about a number of variables, including mortality and disability rates, and the expected frequency of surrenders and conversions into paid-up policies. The risk margin is the expected market payment to an acquirer of a policy in return for assuming the risk that the payment obligations under the policy deviate from the present value of the best estimate of the cash flows. The risk margin is determined using a margin on mortality intensity and intensity relating to conversions into paid-up policies and surrenders.

Policyholders' share of the technical basis for insurance policies with a bonus entitlement not yet allocated to the individual policyholder is recognised in the collective bonus potential. Individual bonus potentials are calculated for the portfolio of insurance policies with bonus entitlement as the difference between the value of a policyholder's savings and the present value of guaranteed benefits under the policy.

Liabilities also depend on the discount yield curve, which is fixed on the basis of an EIOPA yield curve and a volatility adjustment, also set by EIOPA.

Provisions for unit-linked insurance contracts are measured at fair value on the basis of each contract's share of the earmarked assets and of the benefits guaranteed in the contract.

Notes – Danske Bank Group

18. Assets and liabilities under insurance contracts continued

(a) Assets under insurance contracts (DKK millions)	2018	2017
Due from credit institutions	3,536	8,729
Investment securities	396,554	299,863
Holdings in associates	10,284	3,736
Investment property	13,251	23,069
Tangible assets	37	39
Reinsurers' share of provisions	393	117
Other assets	9,207	4,245
Total	433,262	339,798
including		
own bonds	43,059	27,463
own shares	340	440
other intra-group balances	12,494	15,028
Total assets	**377,369**	**296,867**

Investment securities under insurance contracts (DKK millions)	2018	2017
Listed bonds	195,122	128,303
Unlisted bonds	3,864	4,007
Listed shares	18,694	8,507
Unlisted shares	25,591	17,831
Unit trust certificates	110,453	125,467
Other securities	42,830	15,748
Total	**396,554**	**299,863**

(b) Liabilities under insurance contracts (DKK millions)	2018	2017
Life insurance provisions without collective bonus potential	169,393	135,888
Collective bonus potential	11,687	6,197
Provisions for unit-linked insurance contracts	150,166	144,692
Profit margin	6,195	1,873
Other technical provisions	14,637	10,244
Total provisions for insurance contracts	352,078	298,894
Other liabilities	80,732	39,363
Intra-group balances	-15,531	-15,531
Total	**417,279**	**322,726**

Provisions for insurance contracts (DKK millions)	2018	2017
Balance as at 1 January	298,894	287,680
Addition from business acquisition	72,485	
Transferred to liabilities in disposal group held for sale	-4,324	
Premiums paid	24,240	24,692
Benefits paid	-27,274	-21,310
Interest added to policyholders' savings	-5,464	11,057
Fair value adjustment	-325	56
Foreign currency translation	-49	-2,730
Change in collective bonus potential	-2,379	-158
Change in profit margin	-3,186	-155
Other changes	-540	-238
Balance as at 31 December	**352,078**	**298,894**

Notes – Danske Bank Group

18. Assets and liabilities under insurance contracts continued

(c) Further explanation

The acquisition of SEB Pension Danmark increased insurance assets and insurance liabilities with effect from 7 June 2018. For further information, including the increase in assets and liabilities under insurance contracts at the acquisition date, see note 36.

In December 2018, Danica Pension entered into an agreement to sell Danica Pension Försäkringsaktiebolag. The sale is conditional on approval by the relevant authorities. Final approval is expected in the first half of 2019. The assets and liabilities in the company has been transferred to the balance sheet line items Assets in disposal groups held for sale and Liabilities in disposal groups held for sale. This has reduced assets under unit-linked investment contracts by DKK 55,382 million and deposits under unit-linked investment contracts by DKK 55,382 million.

The measurement of insurance liabilities is based on the requirements in the Danish FSA's executive order on financial reports for insurance companies etc. and is harmonised to the measurement under the Solvency II framework.

Below the different components of liabilities related to insurance contracts are explained in detail.

Life insurance provisions

Life insurance provisions comprise obligations towards policyholders to

- pay guaranteed benefits
- pay bonuses over time on agreed premiums not yet due
- pay bonuses on premiums and other payments due
- include a risk margin

Recognition of life insurance provisions is based on actuarial computations of the present value of expected future benefits for each insurance contract using the discount rate at the balance sheet date. These computations rely on assumptions about a number of variables, including mortality and disability rates, and the expected frequency of surrenders and conversions into paid-up policies. Estimates of future mortality rates are based on Danish FSA benchmarks, while other estimates are based on empirical data from Danica Pension's own portfolio of insurance contracts. Estimates are updated regularly. The life insurance provisions also include a risk margin. Obligations for guaranteed benefits are calculated as the present value of current guaranteed benefits plus the present value of expected future administrative expenses less the present value of future premiums.

Insurance obligations are calculated by discounting the expected cash flows using a discount yield curve and a volatility adjustment, both defined by EIOPA as part of the Solvency II rules.

Collective bonus potential

Provisions for the collective bonus potential are the policyholders' part of the value of the bonus entitlement not yet allocated to the individual policyholders.

Provisions for unit-linked insurance contracts

Provisions are measured at fair value on the basis of each contract's share of the earmarked assets and of the benefits guaranteed in the contract.

Profit margin

The profit margin is the present value of the future profit on contracts expected to be recognised in the income statement concurrently with the provision of insurance cover and any other benefits under the contract. For products where life insurance and health and accident insurance are written together, these are measured collectively as of 1 January 2018. Accordingly, the profit margin on the customers' savings component is reduced by an amount similar to the provision for losses on health and accident insurance that can be included in the profit margin before the reduction. Previously, these were recognised independently through profit and loss. Management assesses that this new accounting policy will result in a more fair presentation of future earnings, as contracts with customers on their savings component and health and accident insurance are entered into as a single agreement and should therefore not be recognised separately. Due to the new accounting policy, the profit margin was reduced by DKK 33 million at 1 January 2018.

Other technical provisions

Other technical provisions includes outstanding claims provisions for non-life insurance contracts, unearned premiums provisions, a risk margin for non-life insurance contracts and provisions for bonuses and premium discounts.

Other liabilities

Other liabilities includes the portion of Danica Pension's other liabilities assumed by customers. Other types of liabilities are measured in accordance with the Group's accounting policies for such liability types.

Notes – Danske Bank Group

19. Intangible assets

Intangible assets consist of goodwill taken over on the acquisition of undertakings. Further, acquired and internally developed software is recognised as an asset if certain criteria are fulfilled.

In December 2017, the Group entered into an agreement to purchase all shares of SEB Pension Danmark. The transaction was finalised on 7 June 2018, from which date SEB Pension Danmark is consolidated in the financial statements of the Group. The acquisition led to an increase in goodwill of DKK 2.4 billion and customer relations of DKK 1.3 billion, see detailed description in note 36. In 2017, the Group did not make any acquisitions of undertakings. There were no impairment charges on intangible assets in 2018 or 2017.

Accounting policy

Goodwill

Goodwill arises on the acquisition of an undertaking and is calculated as the difference between the cost (until 1 January 2010 including direct transaction costs) of the undertaking and the fair value of its net assets, including contingent liabilities, at the time of acquisition. Goodwill is allocated to cash-generating units at the level at which management monitors the investment.

Goodwill is not amortised; instead, each cash-generating unit is tested for impairment once a year, or more frequently if indications of impairment exist. Goodwill is written down to its recoverable amount through profit and loss if the carrying amount of the net assets of the cash-generating unit exceeds the higher of the assets' fair value less costs to sell and their value in use, which equals the present value of the future cash flows expected from the unit.

Goodwill on associates is recognised under Holdings in associates.

Other intangible assets

Identifiable intangible assets taken over on the acquisition of undertakings, such as customer relations, are measured at their fair value at the time of acquisition and amortised over their expected useful live, usually five to ten years, according to the straight-line method and tested for impairment if indiciations of impairment exist.

Software acquired is measured at cost, including expenses incurred to make a software application ready for use. Software acquired is amortised over its expected useful life, usually three years, according to the straight-line method.

Software developed by the Group is recognised as an asset if the cost of development is reliably measurable and analyses show that future earnings from using the individual software applications exceed the cost. Cost includes expenses incurred to make a software application ready for use. Once a software application has been developed, the cost is amortised over its expected useful life, usually three years, according to the straight-line method. The cost of development consists primarily of direct remuneration and other directly attributable development costs. Costs incurred in the planning phase are not included but are expensed when incurred.

Software is tested for impairment if indications of impairment exist and is written down to its value in use.

(a) Intangible assets (DKK millions)	2018	2017
Goodwill	7,755	5,347
Customer relations	1,254	-
Software, acquired or internally developed	2,214	1,830
Total	**11,224**	**7,177**

In 2018, the Group recognised software development costs of DKK 1,450 million as an asset (2017: DKK 878 million) and expensed DKK 2,607 million (2017: DKK 2,220 million).

(b) Further explanation of impairment testing of goodwill

The Group's goodwill is tested for impairment at least once a year by testing at the level of identifiable cash-generating units to which goodwill has been allocated. Further, if goodwill in a cash-generating unit is fully impaired, a further impairment loss is recognised as an impairment loss on intangible or tangible assets, if any.

The impairment tests conducted in 2018 and 2017 did not reveal any impairment loss.

Notes – Danske Bank Group

19. Intangible assets continued

(DKK millions)	1 January 2017 Goodwill	Foreign currency translataion	31December 2017 Goodwill	Addition/ sale	Foreign currency translataion	31 December 2018 Goodwill
C&I, General Banking	507	1	508	-	1	509
C&I, FI&C and Capital Markets	2,893	4	2,897	-	9	2,906
Wealth Management, Danske Capital	1,806	3	1,809	-	6	1,815
Wealth Management, Danica Pension	-	-	-	2,427	-	2,427
Others	143	-10	133	-34	-1	98
Total	**5,349**	**-2**	**5,347**	**2,393**	**15**	**7,755**

Model applied in the goodwill impairment tests for 2018 and 2017

The impairment test compares the recoverable amount and the carrying amount for each cash-generating unit. The recoverable amount is represented by the present value of expected future cash flows (value in use). The special debt structure of financial institutions requires the use of a discounted dividend (equity) model to calculate the present value of expected future cash flows, as the interest on lending and borrowings is included as part of the cash flows.

The carrying amount for each cash-generating unit is the aggregate of the cash-generating unit's goodwill and allocated capital. The cash-generating unit's allocated capital is derived using the Group's capital allocation framework. The capital framework is based on a regulatory approach to identify the individual business unit's capital consumption and is in accordance with the Group's capital targets.

For each cash generating unit, the expected future cash flow is based on approved strategies and earnings estimates for the budget period representing the first five years. For the terminal period, the steady state normalised level of earnings (expected dividend) is expected to grow at a constant growth rate equal to expected real GDP growth. Cash flow estimates are post-tax, and the risks of the individual cash-generating units are reflected in the estimated earnings. Accordingly, the risk-adjusted cash flows carry a similar risk profile. The estimated cash flows are discounted at the Group's risk-adjusted required rates of return post-tax.

Cash generating units with goodwill

Corporates & Institutions, General Banking

General Banking (formerly Corporate & Institutional Banking (CIB)) was established as a separate unit at the beginning of 2011, resulting in reallocation of goodwill to the unit. As a result of the new organisational structure in 2012, General Banking became part of Corporates & Institutions.

Corporates & Institutions, FI&C and Capital Markets

The trading activities of Sampo Bank were incorporated into the business structure of Danske Markets. With the acquisition, the Group strengthened its competitive position within trading activities. The integration process and the budgets and business plans confirmed the financial assumptions on which the Group based its acquisition. As a result of the new organisational structure in 2012, Danske Markets became part of Corporates & Institutions.

Wealth Management, Danske Capital

The wealth management activities of Sampo Bank were incorporated into the business structure of Danske Capital in 2007. In addition to the acquisition of Sampo Bank, goodwill recognised by Danske Capital is attributable to a number of minor acquisitions. With the acquisition of Sampo Bank, the Group strengthened its competitive position within asset management in Finland. As a result of the new organisational structure implemented in 2016, Danske Capital became part of Wealth Management.

Wealth Management, Danica Pension

This includes the acquisition of SEB Pension Danmark in 2018 by the subsidiary Danica Pension. Through the acquisition of SEB Pension Danmark, the Group increases its presence in the Danish pension market, strengthens its innovation capacity and offers customers even better pension and insurance solutions.

Key assumptions for goodwill impairment tests

Discount rate

The discount rate used to calculate the present value of expected future cash flows is unchanged from the test in 2017 and is 9% after tax. The discount rate has been determined on the basis of the Capital Asset Pricing Model and comprises a risk-free interest rate, the market risk premium and a factor covering the systematic market risk (beta factor). The values for the risk-free interest rate, the market risk premium and the beta factor are determined using external sources of information. The Group applies the same discount rate to all cash-generating units, as the risks of the individual cash-generating units are reflected in their estimated cash flows.

Notes – Danske Bank Group

19. Intangible assets continued

Cash flows in the terminal period

Cash flows in the terminal period reflect net earnings (dividend) in the preceding year growing at a constant rate. The growth estimates are determined on the basis of Danske Research's forecasts of real GDP growth for the relevant markets. For Danske Capital, the assumed growth rate in the terminal period is 1.7% (2017: 1.7%), for SEB Pension Danmark the rate is 0%, and for General Banking as well as for FI&C and Capital Markets, the rate is 1.7% (2017: 1.7%). Around 75% of the net present value of future cash flows is expected to be generated in the terminal period (2017: 74%).

Corporates & Institutions General Banking

Earnings are primarily affected by expectations for the interest level and its the resulting effect on net interest income and net fee income and by expectations for credit losses.

The *interest rate levels* used in the impairment test are based on Danske Research's expectations for developments in overnight money market interest rates. The interest rates are expected to be positive from 2021 and rising over the following years. When interest rate levels increase, the return on allocated capital will increase. Earnings on lending and deposits depend on the growth in lending and deposits and on changes in lending and deposit margins. Expectations for growth in lending and deposits reflect Danske Bank's estimates/budgets for the first year and subsequently Danske Research's forecasts for real GDP growth. As lending and deposit margins are assumed to be constant regardless of the interest rate level, earnings from lending and deposits are not particularly sensitive to changes in the interest rate level.

Fee income is expected to increase from 2018 based on a more customer driven income focus the first years and with the growth in GDP over the following years.

The expectations for *credit losses* are for the budget period based on Danske Bank's estimates/budgets for each year, reflecting historical data adjusted to reflect the current situation. Subsequently, expected credit losses are kept constant and reflect historical data for long-term annual credit losses.

Corporates & Institutions FI&C and Capital Markets

Income is expected to decrease from 2018 to 2019 driven by a decline in trading income as a result of challenging market conditions. From 2020-2022 income is forecasted with actual projections, whereas 2023 has been forecasted with the growth in GDP.

Cost is expected to decrease from 2018 to 2019 due to performance based costs and high cost focus. From 2020-2022 cost is forecasted with actual projections, whereas 2023 has been forecasted with the growth in GDP.

Wealth Management, Danske Capital

Earnings at Danske Capital depend primarily on the management fee on assets under management. Expected cash flows therefore depend on expectations for changes in assets under management and the average margin on those assets. For the period until the terminal period, changes in assets under management depend on net sales and on the accumulation of market returns on the assets. The average margin on assets under management is expected to be 0.35% (2017: 0.25%). The budgeted average margin on assets under management is in line with the realised margin for 2018 and has improved compared to previous years after alignment of the fee structure with the rest of the Nordic countries. All assumptions reflect management's expectations.

Wealth Management, Danica Pension

Earnings are budgeted based on specific management forecast and projections, which includes expected reserves and provisions, fees and margins, operating cost base, integration cost and synergies and effects from management actions. The principal assumptions applied in the test are 0% growth in terminal period and 0% inflation.

Sensitivity analysis

For *General Banking*, the excess value (the amount by which the recoverable amount exceeds the carrying amount of goodwill) amounts to DKK 10,859 million (2017: DKK 10,456 million). If the growth in the terminal period is reduced from 1.7% to -15.4% or the discount rate is increased from 9% to 17.8% the excess value would be zero.

For *FI&C and Capital Markets*, the excess value amounts to DKK 22,327 million (2017: DKK 16,297 million). A few years' earnings exceed the carrying amount of goodwill allocated to the cash-generating unit. If the growth in the terminal period is reduced from 1.7% to -15.6% or the discount rate is increased from 9% to 17.8%, the excess value would be zero.

For *Danske Capital*, the excess value amounts to DKK 1,279 million (2017: DKK 324 million). The excess value is particularly sensitive to the assumption about the average margin on assets under management, as a decrease from 0.35% to 0.25% would imply that the excess value is zero. For the other assumptions, the excess value would be zero if the discount rate was increased by 4.7 percentage points to 13.7% (2017: 1.2 percentage points to 10.2%), or the growth rate in the terminal period is lowered from 1.7% to -6.4% (2017: from 1.7% to -0.1%).

For *Danica Pension*, the excess value amounts to DKK 297 million. Sensitivity calculations show that a future drop in earnings of more than 5% or an increase in solvency coverage rate of 10% would result in impairment. If the growth in the terminal period is reduced from 0% to -0.7% or the discount rate is increased from 9% to 9.5%, the excess value would be zero.

Notes – Danske Bank Group

20. Due to credit institutions and central banks and Deposits

Amounts due to credit institutions and central banks and Deposits also include amounts received under repo transactions (sales of securities which the Group agrees to repurchase at a later date). Such transactions are presented as collateralised borrowings. On the implementation of IFRS 9 at 1 January 2018, Due to credit institutions and central banks and Deposits in the Group's trading units (FI&C and Capital Markets in C&I) were designated at fair value through profit or loss.

Accounting policy

Amounts due to credit institutions and central banks and Deposits in the Group's trading units (FI&C and Capital Markets in C&I) are designated at fair value through profit or loss from 1 January 2018. However, the amount of the change in fair value attributable to the Group's own credit risk is recognised in other comprehensive income.

All other balances are measured at amortised cost. If fixed-rate deposits are hedged effectively by derivatives, the fair value of the hedged interest rate risk is added to the amortised cost of the liabilities.

(a) Due to credit institutions and central banks (DKK millions)	2018	2017
Designated at fair value:		
Repo transactions	99,935	-
Other amounts due	86,162	-
Total designated at fair value	**186,097**	**-**
Amortised cost:		
Repo transactions	21	87,291
Other amounts due	62,483	155,596
Total amortised cost	**62,504**	**-**
Total	**248,601**	**242,887**

(b) Deposits (DKK millions)	2018	2017
Designated at fair value:		
Repo transactions	162,225	-
Time deposits	9,366	-
Total designated at fair value	**171,591**	**-**
Amortised cost:		
Repo transactions	-	133,081
Transaction accounts	785,968	791,628
Time deposits	86,500	107,245
Pension savings etc.	15,060	14,904
Total amortised cost	**887,528**	**1,046,858**
Total	**1,059,119**	**1,046,858**

(c) Wholesale deposits ranking pari passu with senior creditors

Total deposits in sections (a) and (b) above, excluding repo transactions, amount to DKK 1,045,539 million (2017: 1,069,373 million). Of those deposits, 31% (31 December 2017: 34%) are wholesale deposits ranking pari passu with senior creditors. These wholesale deposits exclude deposits from other credit institutions with an original maturity of less than seven days. If deposits from other credit institutions are excluded, the percentage is 24% (31 December 2017: 27%).

(d) Further explanation on balances designated at fair value through profit or loss

Any changes in the fair value that is attributable to changes in the Group's own credit risk of the liabilities are recognised in other comprehensive income. As the deposits are collateralised and/or with a short maturity, no change in the fair value is attributable to changes in the Group's own credit risk. The amount that the Group would be contractually required to pay at maturity amounts to DKK 185.4 million for Due to credit institutions and central banks and DKK 171.6 million for Deposits.

Notes – Danske Bank Group

21. Tax

Tax assets and liabilities are divided into current and deferred tax in this note. Current tax relates to expected tax to be paid on the profit for the year, whereas deferred tax relates to temporary differences between the tax base of assets and liabilities and their carrying amount in the balance sheet. Further, this note gives an overview of the Group's tax expense for the year and the effective tax rate broken down by country. The Group is subject to international joint taxation.

Accounting policy

Current tax

Current tax assets and liabilities are recognised in the balance sheet as the estimated tax payable on the profit for the year adjusted for prepaid tax and prior-year tax payables and receivables. Tax assets and liabilities are offset if the Group has a legally enforceable right to set off such assets and liabilities and intends either to settle the assets and liabilities on a net basis or to realise the assets and settle the liabilities simultaneously.

Deferred tax

Deferred tax on all temporary differences between the tax base of assets and liabilities and their carrying amounts is accounted for in accordance with the balance sheet liability method. Deferred tax is measured on the basis of enacted or substantially enacted tax regulations and rates that are applicable in the relevant countries at the time the deferred tax is expected to crystallise as current tax. Changes in deferred tax as a result of changes in tax rates are recognised in the income statement on the basis of expected cash flows.The Group does not recognise deferred tax on temporary differences between the tax base and the carrying amounts of goodwill not subject to amortisation for tax purposes and other items if the temporary differences arose at the time of acquisition without effect on net profit or taxable income. If the tax base may be calculated according to several sets of tax regulations, deferred tax is measured in accordance with the regulations that apply to the use of the asset or settlement of the liability as planned by management. Tax assets arising from unused tax losses are only recognised if it is expected that such tax losses can be offset against tax on future profit in the next five years. Deferred tax assets and liabilities are offset when they relate to the same tax jurisdiction.

Current and deferred tax is calculated on the profit for the year, and adjustments of prior-year tax charges are recognised in the income statement. Tax on items recognised under Other comprehensive income is recognised under Other comprehensive income. Similarly, tax on items recognised in equity is recognised in equity.

Notes – Danske Bank Group

21. Tax continued

(a) Tax assets and liabilities (DKK millions)

	Tax assets		Tax liabilities	
	2018	2017	2018	2017
Current tax charge	2,435	971	1,011	1,040
Deferred tax	546	448	7,869	7,594
Total tax	**2,981**	**1,419**	**8,880**	**8,634**

(b) Change in deferred tax (DKK millions)

2018	1 Jan.	Foreign currency translation	Additions on acquisition of business	Included in profit for the year	Included in shareholders' equity	31 Dec.
Intangible assets	-201	1		98	489	387
Tangible assets	2,176	-2	124	-1,787	-	511
Securities	13	-		374	-	387
Provisions for obligations	157	-4	-258	276	-42	129
Tax loss carry forwards	-335	4		40	-	-291
Recapture of tax loss	5,833	-		-27	-	5,806
Other	-496	4	34	892	-38	396
Total	**7,145**	**3**	**-100**	**-134**	**409**	**7,323**
Adjustment of prior-year tax charges included in above item				41		
2017						
Intangible assets	-147	11		52	-117	-201
Tangible assets	1,957	-14		223	10	2,176
Securities	9	1		3	-	13
Provisions for obligations	124	-3		-56	92	157
Tax loss carry forwards	-397	12		50	-	-335
Recapture of tax loss	5,954	-		-121	-	5,833
Other	-492	5		-9	-	-496
Total	**7,008**	**12**		**140**	**-15**	**7,145**
Adjustment of prior-year tax charges included in above item				-49		

Recognition of deferred tax requires management to assess the probability and amount of future profit. Deferred tax assets arising from unused tax losses are recognised to the extent that such losses can be offset against tax on future profit in the next five years. The tax base of unrecognised tax loss carry-forwards, relating primarily to the Group's banking operations in Ireland, amounted to DKK 2.9 billion (31 December 2017: DKK 2.9 billion).

Recapture of tax loss consists of the full deferred tax liability arising from international joint taxation. Danske Bank has been a part of international joint taxation since 2009.

Notes – Danske Bank Group

21. Tax continued

(c) Tax expense

Tax 2018 (DKK millions)	Denmark	Finland	Sweden	Norway	UK	Ireland	Other	Total
Tax on profit for the year	2,352	237	1,030	638	247	13	116	4,633
Tax on other comprehensive income	-126	-	33	-	6	-	-	-87
Tax on changes in shareholders' equity, inclusive effect from changes in accounting policies	-526	-	-	-	-	-	-	-526
Tax on profit for the year								
Current tax charge	2,402	223	1,041	560	220	-	104	4,550
Transferred to other comprehensive income	126	-	-33	-	-6	-	-	87
Change in deferred tax	-79	14	19	78	80	11	14	137
Adjustment recognised tax loss	-	-	-	-	-26	-11	-	-37
Adjustment of prior-year tax charges	-97	-	-1	-	-21	1	10	-108
Change in deferred tax charge as a result of lowered tax rate	-	-	4	-	-	-	-	4
Total	**2,352**	**237**	**1,030**	**638**	**247**	**1**	**128**	**4,633**
Effective tax rate %								
Tax rate	22.0	20.0	22.0	25.0	24.5	12.5	24.0	22.3
Non-recognised tax loss	-	-	-	-	-	-12.5	-	-
Non-taxable income	-2.1	-2.0	-	-0.6	-1.4	-	-8.5	-1.5
Non-deductible expenses	6.8	0.1	0.7	1.2	3.1	-	1.4	3.7
Tax on profit for the year	**26.7**	**18.1**	**22.7**	**25.6**	**26.2**	**-6.3**	**20.5**	**24.5**
Adjustment of prior-year tax charges	-1.1	-	-	-	-	-	1.8	-0.5
Adjustment recognised tax loss	-	-	-	-	-1.9	0.4	-	
Change in deferred tax charge as a result of lowered tax rate	-	-	0.4	-	-	-	-	-
Effective tax rate	**25.6**	**18.1**	**23.1**	**25.6**	**24.3**	**-5.9**	**22.3**	**24.0**
Tax on other comprehensive income								
Remeasurement of defined benefit plans	3	-	33	-	6	-	-	42
Hedging of units outside Denmark	-129	-	-	-	-	-	-	-129
Unrealised value adjustments of bonds								-
at fair value (OCI)	-	-	-	-	-	-	-	-
Realised value adjustments of bonds	-							-
at fair value (OCI)	-	-	-	-	-	-	-	-
Total	**-126**	**-**	**33**	**-**	**6**	**-**	**-**	**-87**

Notes – Danske Bank Group

21. Tax continued

Tax 2017 (DKK millions)	Denmark	Finland	Sweden	Norway	UK	Ireland	Other	Total
Tax on profit for the year	2,832	414	1,132	589	271	15	135	5,388
Tax on other comprehensive income	-76	-	19	-	-17	-	-	-174
Tax on changes in shareholders' equity	-172	-	-	-	-	-	-	-172
Tax on profit for the year								
Current tax charge	3,098	361	1,179	665	236	-	116	5,655
Transferred to other comprehensive income	82	-	-	-	-	-	-	82
Change in deferred tax	-120	53	24	-29	134	116	11	189
Adjustment recognised tax loss	-	-	-	-	-101	-100	-	-201
Adjustment of prior-year tax charges	-229	-	-71	-47	2	-1	8	-337
Change in deferred tax charge as a result of lowered tax rate	-	-	-	-	-	-	-	-
Total	**2,832**	**414**	**1,132**	**589**	**271**	**15**	**135**	**5,388**
Effective tax rate %								
Tax rate	22.0	20.0	22.0	25.0	26.5	12.5	25.6	22.1
Non-recognised tax loss	-	-	-	-	-	-12.6	-	-
Non-taxable income	-	-1.8	-0.1	-1.6	-1.0	-	-2.4	-0.6
Non-deductible expenses	1.4	0.1	0.3	-	0.5	0.1	0.1	1.0
Tax on profit for the year	**23.4**	**18.3**	**22.2**	**23.4**	**26.0**	**-**	**28.2**	**22.5**
Adjustment of prior-year tax charges	-1.7	-	-1.3	-1.7	-	-	1.7	-0.7
Adjustment recognised tax loss	-	-	-	-	-6.9	1.7	-	-1.3
Change in deferred tax charge as a result of lowered tax rate	-	-	-	-	-	-	-	-
Effective tax rate	**21.7**	**18.3**	**20.9**	**21.7**	**19.1**	**1.7**	**29.6**	**20.5**
Tax on other comprehensive income								
Remeasurement of defined benefit plans	6	-	19	-	-117	-	-	-92
Hedging of units outside Denmark	-93	-	-	-	-	-	-	-93
Unrealised value adjustments of bonds at fair value (OCI)	-5	-	-	-	-	-	-	-5
Realised value adjustments of bonds at fair value (OCI)	16	-	-	-	-	-	-	16
Total	**-76**	**-**	**19**	**-**	**-117**	**-**	**-**	**-174**

Notes – Danske Bank Group

22. Issued bonds

The issued bonds presented in this note consist of preferred senior, non-preferred senior and subordinated bonds issued by the Group, with the exception of additional tier 1 capital accounted for as equity. Note 16 provides more information about issued bonds measured at fair value through profit or loss and note 24 provides more information about additional tier 1 capital accounted for as equity.

Preferred senior bonds are presented under the balance sheet item Issued bonds at amortised cost, while non-preferred senior and subordinated bonds are presented as separate line items in the balance sheet. Non-preferred senior bonds rank senior to subordindated debt and junior to other debt. The act implementing non-preferred senior bonds (to meet MREL requirements) into Danish law was passed by the Danish parliament on 28 May 2018 and came into effect on 1 July 2018. Subordinated bonds are liabilities in the form of subordinated loan capital and other capital instruments which, in case of the Group's voluntary or compulsory winding-up, will not be repaid until the claims of its ordinary and non-preferred senior creditors have been met. Subordinated bonds include additional tier 1 capital that converts into a variable number of ordinary shares under certain circumstances.

Accounting policy

Issued bonds, both senior, non-preferred senior and subordinated bonds, are at initial recognition measured at fair value less transaction costs and subsequently measured at amortised cost plus the fair value of the hedged interest rate risk. Interest income is recognised according to the effective interest rate method, including amortisation of any difference between the amount received on issue and the redemption amount. Due to the implementation of IFRS 9, the majority of the Group's issued commercial paper and certificates of deposits are recognised at fair value through profit or loss from 1 January 2018.

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

The yield on some issued bonds depends on an index that is not closely linked to the bonds' financial characteristics, for example an equity or commodity index. Such embedded derivatives are bifurcated and measured at fair value in the trading portfolio.

(a) Other issued bonds

Issued bonds at fair value (DKK millions)	2018	2017
Bonds issued by Realkredit Danmark (covered bonds)	741,092	758,375
Commercial papers and certificate of deposits	18,496	-
Issued bonds at fair value, total	**759,588**	**758,375**

Issued bonds at amortised cost (DKK millions)	2018	2017
Commercial papers and certificate of deposits	1,864	101,326
Preferred senior bonds	91,087	123,457
Covered bonds	192,679	180,297
Issued bonds at amortised cost, total	**285,629**	**405,080**
Non-preferred senior bonds	26,353	-

Further information on issued bonds at fair value through profit or loss can be found in note 16. The issuance and redemption of bonds (including commercial papers and certificates of deposits at fair value) during the year and the maturity of the outstanding bonds are presented in the tables below.

Nominal value (DKK millions)	1 January 2018	Issued	Redeemed	Foreign currency translation	31 December 2018
Commercial papers and certificate of deposits	101,319	178,925	262,333	2,448	20,359
Preferred senior bonds	127,630	3,535	39,275	2,051	93,941
Covered bonds	174,911	34,885	20,056	-1,172	188,568
Non-preferred senior bonds	-	26,066	-	375	26,441
Other issued bonds	**403,859**	**243,411**	**321,663**	**3,702**	**329,309**

Notes – Danske Bank Group

22. Issued bonds continued

Nominal value (DKK millions)	1 January 2017	Issued	Redeemed	Foreign currency translation	31 December 2017
Commercial papers and certificate of deposits	75,035	287,057	252,945	-7,828	101,319
Preferred senior bonds	142,271	29,320	37,345	-6,616	127,630
Covered bonds	186,846	31,946	41,994	-1,887	174,911
Other issued bonds	**404,152**	**348,323**	**332,284**	**-16,331**	**403,859**

Covered bonds include issued junior covered bonds in Realkredit Danmark A/S of DKK 6.0 billion (2017: DKK 6.6 billion), which are excluded in the Funding and liquidity section of the Management's report.

Broken down by maturity	2018			2017
(DKK millions)	DKK	Other currency	Total	Total
Redeemed bonds 2018				157,730
2019	7,126	69,988	77,114	56,797
2020	-	62,585	62,585	62,452
2021 or later	-	189,610	189,610	126,880
Nominal value of other issued bonds	7,126	322,183	329,309	403,859
Fair value hedging of interest rate risk			4,905	5,585
Premium/discount			-653	-729
Own holding of bonds issued	213	2,870	3,083	3,635
Total other issued bonds	**6,913**	**319,313**	**330,478**	**405,080**

Notes – Danske Bank Group

22. Issued bonds continued

(b) Subordinated debt

Subordinated debt consists of liabilities in the form of issued subordinated bonds. Some of these bonds (presented as liability accounted additional tier 1 capital below) rank below other subordinated bonds. Early redemption of subordinated debt must be approved by the Danish FSA. Subordinated debt is included in total capital in accordance with the CRR, including the provisions on grandfathering of instruments that, prior to the CRR, fulfilled the requirements in section 128 of the Danish Financial Business Act and applicable orders.

The issuance and redemption of subordinated debt during the year and the maturity of the outstanding debt are presented in the tables below.

Nominal value (DKK millions)	1 January 2018	Issued	Redeemed	Foreign currency translation	Other changes	31 December 2018
Subordinated debt, excluding liability accounted additional tier 1 capital	24,052	-	10,911	-10	-	13,132
Liability accounted additional tier 1 capital	4,655	4,891	-	236	-	9,782
Total subordinated debt	**28,707**	**4,891**	**10,911**	**226**	**-**	**22,914**

Nominal value (DKK millions)	1 January 2017	Issued	Redeemed	Foreign currency translation	Other changes	31 December 2017
Subordinated debt, excluding liability accounted additional tier 1 capital	24,319	-	-	-267	-	24,052
Liability accounted additional tier 1 capital	12,556	4,655	12,556	-	-	4,655
Total subordinated debt	**36,875**	**4,655**	**12,556**	**-267**	**-**	**28,707**

Currency	Borrower	Note	Nominal (millions)	Interest rate	Year of issue	Maturity	Redemption price	2018 (DKK m)	2017 (DKK m)
Subordinated debt, excluding liability accounted additional tier 1 capital									
Redeemed loans 2018									10,911
SEK	Danske Bank A/S	a	900	4.75	2013	05.06.2024	100	654	681
SEK	Danske Bank A/S	b	1600	var.	2013	05.06.2024	100	1,163	1,211
DKK	Danske Bank A/S	c	1700	var.	2013	06.06.2024	100	1,700	1,700
DKK	Danske Bank A/S	d	1150	4.125	2013	09.12.2025	100	1,150	1,150
CHF	Danske Bank A/S	e	150	3.125	2013	18.12.2025	100	997	954
EUR	Danske Bank A/S	f	500	2.75	2014	19.05.2026	100	3,734	3,723
EUR	Danica Pension	g	500	4.375	2015	29.09.2045	100	3,734	3,723
Subordinated debt, excluding liability accounted additional tier 1 capital								**13,132**	**24,052**
Liability accounted additional tier 1 capital									
Redeemed loans 2018									-
USD	Danske Bank A/S	h	750	6.125	2017	Perpetual	100	4,891	4,655
USD	Danske Bank A/S	i	750	7.0	2018	Perpetual	100	4,891	-
Liability accounted additional tier 1 capital								**9,782**	**4,655**
Nominal subordinated debt								22,914	28,707
Discount								-90	-74
Fair value hedging of interest rate risk								309	509
Own holding of subordinated debt								-41	-22
Total subordinated debt								**23,092**	**29,120**
Portion included in total capital as additional tier 1 or tier 2 capital instruments								**18,705**	**23,759**

Total capital further includes DKK 14.2 billion (31 December 2017: DKK 14.2 billion) from the additional tier 1 bond issues accounted for as equity (see note 24).

Notes – Danske Bank Group

22. Issued bonds continued

a Optional redemption in June 2019. If the debt is not redeemed, the annual interest rate will be reset at 2.70 percentage points above the 5-year SEK swap rate for the remaining five years until maturity. CRR compliant tier 2 capital.

b Interest is paid at an annual rate of 2.70 percentage points above 3-month STIBOR. Optional redemption from June 2019. CRR compliant tier 2 capital.

c Interest is paid at an annual rate of 2.35 percentage points above 3-month CIBOR. Optional redemption from June 2019. CRR compliant tier 2 capital.

d Optional redemption in December 2020. If the debt is not redeemed, the annual interest rate will be reset at 2.45 percentage points above the 5-year DKK swap rate for the remaining five years until maturity. CRR compliant tier 2 capital.

e Optional redemption in December 2020. If the debt is not redeemed, the annual interest rate will be reset at 2.15 percentage points above the 5-year CHF swap rate for the remaining five years until maturity. CRR compliant tier 2 capital.

f Optional redemption in May 2021. If the debt is not redeemed, the annual interest rate will be reset at 1.52 percentage points above the 5-year EUR swap rate for the remaining five years until maturity. CRR compliant tier 2 capital.

g Optional redemption from September 2025. If the debt is not redeemed, the annual interest rate will be reset at 4.38 percentage points above the 10-year EUR swap rate every tenth year until maturity. Solvency II compliant tier 2 capital and included in Danica's capital base.

h Optional redemption from March 2024. If the debt is not redeemed, the annual interest rate will be reset at 3.896 percentage points above 7-year USD swap rate. CRR compliant tier 1 capital.

i Optional redemption from June 2025. If the debt is not redeemed, the annual interest rate will be reset at 4.130 percentage points above 7-year USD swap rate. CRR compliant tier 1 capital.

Notes – Danske Bank Group

23. Other assets and Other liabilities including Assets held for sale and Liabilities in disposal groups

The Group uses quantitative and qualitative materiality considerations when aggregating line items in the balance sheet that are not considered individually material. Such line items are presented under Other assets or Other liabilities and consist of net assets or net liabilities in defined benefit pension plans, investment property, tangible assets, holdings in associates and assets held for sale.

In December 2018, Danica Pension entered into an agreement to sell Danica Pension Försäkringsaktiebolag. The sale is conditional on approval by the relevant authorities. Final approval is expected in the first half of 2019. Assts and liabilities in the company is accounted for as a disposal group held for sale, i.e. total assets and total liabilities in the company is presented in the balance sheet line items Assets held for sale and Liabilities in disposal groups.

The Group uses clean pricing of financial instruments, and accrued interest is therefore included in Other assets and Other liabilities. In addition, prepayments and accrued income and expenses are included under Other assets and Other liabilities. Other staff commitments includes provisions for holiday payments, variable remuneration, severance pay etc. The provisions recognised represent the compensation that the employee has earned and that is expected to be paid to the employee.

Accounting policy

Defined benefit pension plans

When the Group has entered into defined benefit pension plans, the amounts payable are recognised on the basis of an actuarial computation of the present value of expected benefits. The present value is calculated on the basis of expected future trends in salaries and interest rates, the time of retirement, mortality rates and other factors. The present value of pension benefits less the fair value of pension assets is recognised as a pension obligation for each plan under Other liabilities. If the net amount of a defined benefit pension plan is positive and may be repaid to the Group or reduce its future contributions to the plan, the net amount is recognised under Other assets. The discount rate is determined by reference to yields on high-quality corporate bonds with terms matching the terms of the pension obligations.

Investment property

Investment property is real property, including real property let under operating leases, which the Group owns for the purpose of receiving rent and/or obtaining capital gains. Real property with both domicile (occupied by the Group's support, administrative and back-office functions) and investment property elements is allocated proportionately to the two categories if the elements are separately sellable. If that is not the case, such real property is classified as investment property if the Group occupies less than 10% of the total floorage. Investment property is recognised at fair value. Fair value adjustments and rental income are recognised under Other income. Real property taken over by the Group under non-performing loan agreements that is expected to be sold within 12 months of classification is valued in accordance with the principles used for investment property but presented as Assets held for sale.

Tangible assets

Tangible assets include domicile property and plant and equipment. Plant and equipment cover equipment, vehicles, furniture, fixtures and leasehold improvements. Tangible assets also include lease assets, i.e. assets let under operating leases, except real property. Tangible assets are measured at cost and depreciated over the estimated useful life. The estimated useful life is 20-50 years for domicile property, 3-10 years for plant and equipment and three years for lease assets. Depreciation charges are recognised under Operating expenses.

Tangible assets are tested for impairment if indications of impairment exist. An impaired asset is written down to its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

Assets held for sale and Liabilities in disposal groups

Assets held for sale are tangible assets and disposal groups of assets actively marketed for sale and for which a sale is expected to occur within 12 months. A disposal group is a group of assets that will be disposed of in a single transaction and includes any directly associated liabilities. A disposal group includes for example companies (subsidiaries) taken over under non-performing loan agreements. Tangible assets held for sale are measured at the lower of their carrying amount at the time of reclassification and their fair value less expected costs to sell and are no longer depreciated. For disposal groups, the net assets in the disposal group is remeasured at the lower of the carrying amount of the net assets in the disposal group at the time of reclassification and fair value less expected cost to sell.

Further, loans that are marketed for sale are transferred to Assets held for sale. The loans are written down to their expected selling price.

When significant, assets held for sale and liabilities in disposable groups held for sale are presented separately in the balance sheet.

If a disposal group of assets and liabilities represents a separate major line of business (typically a reportable segment) or a geographical area of operation or is a subisidiary acquired exlusively with a view of resale, it is presented as a discontinued operation. For a discontinued operation, net profit is presented as a single item 'Net profit from discontinued operations' in the income statement, i.e. no longer included as income and expenses from the Group's continuing operations.

Notes – Danske Bank Group

23. Other assets and Other liabilities including Assets held for sale and Liabilities in disposal groups continued

Accounting policy continued

Loan commitments and guarantees

The Group issues a number of loan commitments and guarantees. Such exposures are valued at the higher of the received premium amortised over the life of the individual obligation and the provision made, if any. Provisions are made if it is likely that drawings will be made under a loan commitment or claims will be made under a guarantee and the amount payable can be reliably measured. The liability is measured at the present value of expected payments. Loan commitments are discounted in accordance with the interest terms.

Other provisions, including lititgations

Provisions for other obligations, such as lawsuits, are recognised if the obligation is likely to result in a payment obligation and the amount can be measured reliably. Liabilities are recognised at the present value of expected payments.

Assets held for sale and Liabilities in disposal groups

Assets held for sale includes assets in Danica Pension Försäkringsaktiebolag of DKK 58,901 million, a portfolio of non-performing loans of DKK 944 million that are sold in a binding sales agreement and properties and lease assets held for sale of DKK 402 million (2017: DKK 426 million). Liabilities in disposal groups consist of liabilities in Danica Pension Försäkringsaktiebolag. For further information, see below under (a) further explanations.

Other assets and other liabilities (DKK millions)	2018	2017
Other assets		
Accrued interest and commissions due	1,098	5,015
Prepayments, accruals and other amounts due	16,233	12,015
Defined benefit pension plan, net assets	1,592	1,905
Investment property	3,167	4,461
Tangible assets	7,768	7,047
Holdings in associates	381	455
Total	**30,239**	**30,897**
Other liabilities		
Sundry creditors	27,217	23,995
Accrued interest and commissions due	7,159	8,520
Defined benefit pension plans, net liabilities	631	701
Other staff commitments	2,960	3,077
Loan commitments and guarantees etc.	2,058	682
Reserves subject to a reimbursement obligation	18	29
Other provisions, including litigations	76	92
Total	**40,117**	**37,097**

(a) Further explanation

Investment property is recognised at fair value through profit or loss under Other income. Information on the method used to determine the fair value of investment properties is provided in note 31.

Tangible assets include domicile property (not held for sale) of DKK 209 million (2017: DKK 221 million). If indications of impairment exist, domicile property is written down to the lower of the carrying amount and its value in use determined on the basis of the rate of return used for investment property. Note 31 provides more information. There was no write-down in 2018, nor in 2017. The fair value of the domicile properties was DKK 383 million (31 December 2017: DKK 393 million). The required rate of return of 7.9% (2017: 7.9%) was determined in accordance with Danish FSA rules.

At the end of 2018, assets and liabilities in Danica Pension Försäkringsaktiebolag is accounted for as a disposal group held for sale, and total assets and total liabilities in the company is presented as Assets held for sale and Liabilities in disposal groups, respectively. Assets and liabilities in Danica Pension Försäkringsaktiebolag primarily include assets and deposits under unit-linked contracts of DKK 55,382 million, respectively, and assets and liabilities under insurance contracts of DKK 3,188 million and DKK 3,085 million. Further, assets held for sale includes a portfolio of non-performing loans that are sold in a binding sales agreement with settlement in the first quarter of 2019. Assets held for sale also includes lease assets (where the Group acts as lessor) put up for sale at the end of the lease and properties taken over by the Group under non-performing loan agreements. The Group expects to sell the properties through a real estate agent within 12 months from the date of acquisition. The properties comprise properties in Denmark and in other countries. At the end of 2018, Assets held for sale and Liabilities in disposal groups are presented as a separate line item in the balance sheet.

Sundry creditors includes a provision of DKK 1.5 billion relating to the donation of the estimated gross income from the non-resident portfolio at the Estonian branch. Information on defined benefit plans and holdings in associates is provided in notes 9 and 37, respectively.

Notes – Danske Bank Group

24. Equity

Equity is the residual interest in the assets after deducting all liabilities recognised in the balance sheet. Equity is divided between capital and reserves that are attributable to holders of shares issued by the Group (owners of Danske Bank A/S) and other parties holding an interest in the net assets of the Group.

At the end of 2018, the nominal value of issued additional tier 1 capital amounted to DKK 14,201 million (2017: DKK 14,168 million). Danske Bank A/S may, at its sole discretion, omit interest and principal payments to bondholders. The issues are included in equity as a non-controlling interest. This means that equity was increased at the time of issue by the net proceeds received. When interest is paid, the amount paid to investors reduces equity at the time of payment and does not affect net profit. If the Group decides to repay the capital, equity will be reduced by the redemption amount at the time of redemption. The capital issued is included in tier 1 capital instruments in the statement of capital as it meets the criteria of the CRR for such instruments.

Accounting policy

Equity is the residual interest in recognised assets after deduction of recognised liabilities. In this context, the following items are of particular interest:

Own shares

Amounts received or paid for the Group's sale or purchase of Danske Bank shares are recognised directly in equity under transactions with owners. The same applies to premiums received or paid for derivatives entailing settlement in own shares. A capital reduction by cancellation of own shares will lower the share capital by an amount equal to the nominal value of the shares at the time of registration of the capital reduction.

Additional tier 1 capital

The capital instruments include no contractual obligation to deliver cash or another financial asset to the holders, as Danske Bank A/S may, at its sole discretion, omit payment of interest and principal payments to the bondholders. Therefore, the issue does not qualify as a financial liability according to IAS 32. The net amount received at the time of issue is recognised as an increase in equity. Interest payments are accounted for as dividends, which are recognised directly in equity at the time the payment obligation arises. If Danske Bank A/S chooses to redeem the bonds, equity will be reduced by the redemption amount at the time of redemption. Amounts received or paid for the sale or acquisition of own holdings of additional tier 1 capital instruments are recognised directly in equity, similarly to holdings of own shares.

(a) Further explanation

Equity consists of various components, including the accumulated balance of each class of other comprehensive income, retained earnings and issued additional tier 1 capital. The various components of equity are described below. Tax on items recognised directly in equity is recognised under Retained earnings.

Foreign currency translation reserve

Assets and liabilities of units outside Denmark are translated into Danish kroner at the applicable exchange rates at the balance sheet date. Income and expenses are translated at the applicable exchange rates at the transaction date. Gains and losses arising at the translation of net investments in units outside Denmark are recognised under Other comprehensive income and recognised in the foreign currency translation reserve in equity. Net investments include the net assets and goodwill of the units as well as holdings in the form of subordinated loan capital and other loans for which settlement is neither planned nor likely to occur in the foreseeable future. Exchange rate adjustments of financial liabilities used for hedging the Group's net investments are also recognised under Other comprehensive income and in the foreign currency translation reserve.

If the net investment in a unit outside Denmark is fully or partly realised, translation differences are recognised in the income statement.

Reserve for bonds at fair value through other comprehensive income

The reserve covers unrealised fair value adjustments, other than expected credit losses and foreign exchanges gains and losses, of bonds measured at fair value through other comprehensive income. Unrealised fair value adjustments of hedged interest rate risks that qualify for fair value hedge accounting are recognised in the income statement and are not included in the reserve. When bonds are sold, the Group also reclassifies unrealised value adjustments from the reserve to the income statement.

In 2017, the reserve related to bonds available for sale.

Proposed dividends

The Board of Directors' proposal for dividends for the year submitted to the general meeting is included as a separate reserve in equity. The dividends are recognised as a liability when the general meeting has adopted the proposal.

Notes – Danske Bank Group

24. Equity continued

Share-based payments

Share-based payments by the Group are settled in Danske Bank shares. The fair value at the grant date is expensed over the vesting period and set off against equity. At the time of exercise, payments by employees are recognised as an increase in equity. As with other purchases of Danske Bank shares, shares acquired for hedging purposes reduce equity by the amount paid.

Non-controlling interests

Non-controlling interests' share of equity equals the carrying amounts of the net assets in group undertakings not owned directly or indirectly by Danske Bank A/S.

Additional tier 1 capital holders

This reserve includes the net proceed received at the time of issuance and accrued interest not yet paid to the holders of the capital.

As described above, Danske Bank A/S may, at its sole discretion, cancel interest payments to bond holders. Any interest payments must be paid out of distributable items, which primarily consist of retained earnings at Danske Bank A/S and Danske Bank Group (see section 5.5.2 of Risk Management 2018 for further information). The additional tier 1 capital will be written down temporarily if the common equity tier 1 ratio falls below 7% for Danske Bank A/S or Danske Bank Group. The ratio at year-end is disclosed in the statement of capital.

Outstanding equity accounted additional tier 1 capital

Currency	Borrower	Note	Nominal (DKK m)	Interest rate	Year of issue	Maturity	2018 (DKK m)	2017 (DKK m)
Equity accounted additional tier 1 capital								
EUR	Danske Bank A/S	a	750	5.750	2014	Perpetual	5,600	5,584
EUR	Danske Bank A/S	b	750	5.880	2015	Perpetual	5,600	5,584
DKK	Danske Bank A/S	c	3,000	var.	2016	Perpetual	3,000	3,000
Equity accounted additional tier 1 capital							**14,201**	**14,168**

The amounts shown in the two last columns represent the nominal value translated into Danish kroner at the applicable exchange rates at 31 December and equal the amounts included as tier 1 capital in the statement of capital.

a. Interest is paid semi-annually at an annual rate of 5.750. If certain criteria are fulfilled, including approval by the Danish FSA, the bonds may be redeemed at par from April 2020. If the bonds are not redeemed, the annual interest rate will be reset at 4.64 percentage points above the 6-year EUR swap rate every sixth year. The instrument is included as a CRR compliant additional tier 1 capital instrument in the statement of capital.

b. Interest is paid semi-annually at an annual rate of 5.880. If certain criteria are fulfilled, including approval by the Danish FSA, the bonds may be redeemed at par from April 2022. If the bonds are not redeemed, the annual interest rate will be reset at 5.471 percentage points above the 7-year EUR swap rate every seventh year. The instrument is included as a CRR compliant additional tier 1 capital instrument in the statement of capital.

c. Interest is paid quarterly at a variable rate of 3M CIBOR + 4.75% p.a. If certain criteria are fulfilled, including approval by the Danish FSA, the bonds may be redeemed at par from November 2021. If the bonds are not redeemed, the margin remains unchanged. The instrument is included as a CRR compliant additional tier 1 capital instrument in the statement of capital.

Notes – Danske Bank Group

25. Contingent liabilities

The Group uses a variety of loan-related financial instruments to meet customers' financial requirements. Such instruments include loan commitments, loan offers, other credit facilities and guarantees. This note provides information on such instruments and on other contingent liabilities.

Accounting policy

Contingent liabilities consist of possible obligations arising from past events. The existence of such obligations will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Group's control. Further, contingent liabilities consists of present obligations arising from past events, for which it is either not probable that the obligation will result in an outflow of financial resources, or it is not possible to reliably estimate the amount of the obligation.

A contingent liability is not recognised in the financial statement but disclosed, unless the possibility of an outflow of financial resources is remote.

From 2018, loan commitments and guarantees are subject to the expected credit loss impairment model in IFRS 9. For further information, see note 15. In 2017, a liability for loan commitments and guarantees equal to the present value of expected future payments was recognised if the financial instrument was likely to result in a payment obligation.

(a)Guarantees

(DKK millions)	2018	2017
Financial guarantees	6,513	8,534
Mortgage finance guarantees	-	1,050
Other guarantees	77,204	74,902
Total	**83,717**	**84,487**

(b)Other contingent liabilities

(DKK millions)	2018	2017
Loan commitments shorter than 1 year	183,767	211,237
Loan commitments longer than 1 year	161,350	161,824
Other unutilised loan commitments	282	351
Total	**345,399**	**373,412**

Following the extensive data analysis etc. performed during the implementation of IFRS 9, a further DKK 64.8 billion has been included as loan commitments in the table above. The commitments consist of loan offers that previously were included as uncommitted lines. The comparative information has been restated and increased loan commitments 31 December 2017 by DKK 69,091 million.

In addition to credit exposure from lending activities, loan offers made and uncommitted lines of credit granted by the Group amounted to DKK 205 billion (31 December 2017: DKK 269 billion). These items are included in the calculation of the total risk exposure amount in accordance with the CRR.

Danske Bank is in dialogue with the authorities regarding the terminated non-resident portfolio at Danske Bank's Estonian branch, which was active between 2007 and 2015. This includes criminal investigations in Estonia, Denmark and the USA. Danske Bank is cooperating with these authorities. The timing of the completion of the investigations, the outcome and the subsequent discussions with the authorities are uncertain. At present, it is not possible to reliably estimate the timing or amount of any potential settlement or fines, which could be material.

In the third quarter of 2018, Danske Bank recognised a provision of DKK 1.5 billion based on the estimated gross income from the non-resident portfolio in the Estonia branch in the period from 2007 to 2015. The amount is based on the decision not to benefit financially from suspicious transactions that took place in our Estonian non-resident portfolio in the period from 2007 to 2015 and to donate the estimated gross income from these transactions to an independent foundation. The foundation will be set up to support initiatives aimed at combating international financial crime. Any confiscated or disgorged gross income will be deducted from the donation to the foundation.

In January 2019, the Bank received a letter from an investigating judge of the French Tribunal de Grande Instance de Paris court summoning the Bank to an interview to discuss matters relating to the ongoing investigation into organised money laundering of tax evasion proceeds and stating that the judge envisages placing the Bank under formal investigation. The letter also indicated that the scope had been expanded to include transactions in the amount of approximately EUR 28 million in total between 2007 and 2014, which was transferred to France by former customers of the non-resident portfolio in Estonia.

Notes – Danske Bank Group

25. Contingent liabilities continued

On 9 January 2019, an action was filed in the United States District Court for the Southern District of New York by an alleged holder of the Bank's American Depositary Receipts, representing its ordinary shares, against the Bank and certain of its officers and former officers and/or directors. The complaint alleges that the defendants violated Section 10(b) and Section 20(a) of the Securities Exchange Act of 1934 by, among other things, making false and misleading statements and/or failing to disclose adverse information regarding the Bank's business and operations in relation to AML matters relating to the Bank's Estonian branch and related matters. The complaint seeks unspecified damages on behalf of a putative class of purchasers of the Bank's American Depositary Receipts between 9 January 2014 and 23 October 2018. The Bank intends to defend against these claims. The timing of the completion of the lawsuit and the outcome is uncertain.

For further information, see section regarding AML in Management's report on page 9 and 12-13.

Owing to its business volume, Danske Bank is continually a party to various other lawsuits and disputes and has an ongoing dialogue with public authorities, such as the Danish FSA on other matters. In general, Danske Bank does not expect the outcomes of any of these other pending lawsuits and disputes or its dialogue with public authorities to have any material effect on its financial position. Provisions for litigations are included in Other liabilities, see note 23.

(c) Further explanation

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

The Group participates in the Danish Guarantee Fund and the Danish Resolution Fund. The funds' capital must amount to at least 0.8% and 1%, respectively, of the covered deposits of all Danish credit institutions by 31 December 2024. The Danish Guarantee Fund is currently fully funded, but if the fund subsequently does not have sufficient means to make the required payments, extraordinary contributions of up to 0.5% of the individual institution's covered deposits may be required. Extraordinary contributions above this percentage require the consent of the Danish FSA. The first contribution to the Danish Resolution Fund was made in December 2015. Danske Bank A/S and Realkredit Danmark A/S make contributions to the Resolution Fund on the basis of their size and risk relative to other credit institutions in Denmark. The contribution to the Danish Resolution Fund is recognised as operating expenses.

If the Resolution Fund does not have sufficient means to make the required payments, extraordinary contributions of up to three times the latest annual contributions may be required. In addition, Danish banks participate in the Danish Restructuring Fund, which reimburses creditors if the final dividend is lower than the interim dividend in respect of banks that were in distress before 1 June 2015. Similarly, Danish banks have made payment commitments (totalling DKK 1 billion) to cover losses incurred by the Danish Restructuring Fund for the withdrawal of distressed banks from data centres etc. Payments to the Danish Restructuring Fund are calculated on the basis of the individual credit institution's share of covered deposits relative to other credit institutions in Denmark. However, each institution's contribution to the Danish Restructuring Fund may not exceed 0.2% of its covered deposits.

The Group is a member of deposit guarantee schemes and other compensation schemes in Norway, the UK and Luxembourg. As in Denmark, the contributions to the schemes in these countries are annual contributions combined with extraordinary contributions if the means of the schemes are not sufficient to cover the required payments.

The Group is the lessee in a number of non-cancellable operating leases, involving mainly leasing of real property and IT hardware. The Group recognises lease payments as an expense over the lease term but does not recognise the operating lease assets in its balance sheet. Such assets are recognised by lessors. At 31 December 2018, minimum lease payments under non-cancellable operating leases amounted to DKK 3,424 million (31 December 2017: DKK 3,522 million), with DKK 840 million (2017: DKK 710 million) relating to operating leases expiring within one year.

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

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

Notes – Danske Bank Group

26. Balance sheet items broken down by expected due date

The Group presents the balance sheet items in order of liquidity instead of distinguishing between current and non-current items. The table below shows the balance sheet items expected to mature within one year (current) and after more than one year (non-current).

	2018		2017	
(DKK millions)	Within 1 year	After 1 year	Within 1 year	After 1 year
Assets				
Cash in hand and demand deposits with central banks	40,997	-	82,818	-
Due from credit institutions and central banks	224,955	645	333,463	512
Trading portfolio assets	230,744	185,074	254,221	195,071
Investment securities	81,002	195,423	92,013	232,605
Loans at amortised cost	331,871	654,369	459,627	653,126
Loans at fair value	285,133	772,207	20,086	767,136
Assets under pooled schemes and unit-linked investment contracts	-	93,988	-	112,065
Assets under insurance contracts	11,172	366,197	7,456	289,411
Intangible assets	-	11,224	-	7,177
Tax assets	2,435	546	971	448
Other assets	77,579	12,908	17,234	14,090
Total	**1,285,888**	**2,292,579**	**1,267,889**	**2,271,639**
Liabilities				
Due to credit institutions and central banks	218,339	30,263	226,736	16,150
Trading portfolio liabilities	74,244	315,982	73,588	327,008
Deposits	255,429	803,690	238,640	808,217
Issued bonds at fair value	184,809	574,778	160,747	597,628
Issued bonds at amortised cost	61,414	250,568	161,377	243,703
Deposits under pooled schemes and unit-linked investment contracts	16,722	81,118	9,523	110,378
Liabilities under insurance contracts	104,039	313,240	57,350	265,376
Tax liabilities	1,011	7,869	1,040	7,594
Other liabilities	97,935	649	36,314	783
Subordinated debt	3,544	19,548	4,722	24,398
Total	**1,017,486**	**2,397,704**	**970,037**	**2,401,235**

Deposits include fixed-term deposits and demand deposits. Fixed-term deposits are recognised according to maturity. Demand deposits have short contractual maturities but are considered a stable funding source with an expected maturity of more than one year.

Notes – Danske Bank Group

27. Contractual due dates of financial liabilities

The table below shows the contractual due dates of non-derivative financial liabilities broken down by maturity time bands. The maturity analysis is based on the earliest date on which the Group can be required to pay and does not reflect the expected due date. The section on liquidity risk in the risk management notes provides information about the Group's liquidity risk and liquidity risk management.

2018 (DKK millions)	0-1 month	1-3 months	3-12 months	1-5 years	> 5 years
Due to credit institutions and central banks	186,712	29,743	2,985	30,111	996
Deposits	991,709	41,654	8,419	9,230	8,697
Repurchase obligation under reverse transactions	149,235		-	-	-
Issued bonds at fair value	73,539	7,896	114,781	467,110	201,918
Issued bonds at amortised cost	8,919	1,580	51,787	242,509	28,093
Subordinated debt	88	177	4,351	10,487	13,134
Other financial liabilities	2,889	2,162	11,671	27,122	53,997
Financial and loss guarantees	83,717				
Loan commitments shorter than 1 year	183,767	-	-	-	-
Loan commitments longer than 1 year	161,350	-	-	-	-
Other unutilised loan commitments	282	-	-	-	-
Total	**1,842,206**	**83,212**	**193,994**	**786,568**	**306,834**

2017 (DKK millions)	0-1 month	1-3 months	3-12 months	1-5 years	> 5 years
Due to credit institutions and central banks	193,757	28,219	5,052	15,315	936
Deposits	972,893	43,804	13,529	8,368	8,263
Repurchase obligation under reverse transactions	155,908		-	-	-
Bonds issued by Realkredit Danmark	85,853	-	87,405	479,559	214,885
Other issued bonds	48,973	43,595	70,230	225,896	31,044
Subordinated debt	97	194	885	13,111	28,061
Other financial liabilities	2,185	314	7,023	77,340	33,038
Financial and loss guarantees	84,487				
Loan commitments shorter than 1 year	142,147	-	-	-	-
Loan commitments longer than 1 year	161,824	-	-	-	-
Other unutilised loan commitments	350	-	-	-	-
Total	**1,848,474**	**116,127**	**184,124**	**819,589**	**316,227**

(a) Further explanation

Disclosures comprise agreed payments, including principal and interest. For liabilities with variable cash flows, for example variable-rate financial liabilities, disclosure is based on the contractual conditions at the balance sheet date.

Usually, deposits are contractually very short-term funding, but in practice, they are considered a stable funding source, as amounts disbursed largely equal deposits received. A number of loan commitments and guarantees expire without being utilised. Loan commitments and guarantees are included at the earliest date on which the Group can be required to pay. To take into account potential drawings under loan commitments, the Group factors in the effect of the unutilised portion of the facilities in the calculation of liquidity risk.

For guarantees to result in a payment obligation to the Group, a number of individual conditions must be met. As it is not possible to break down the earliest dates on which such conditions are met by maturity time bands, all guarantees are included in the 0-1 month column.

Notes – Danske Bank Group

28. Transferred financial assets that are not derecognised

The Group enters into transactions that transfer ownership of financial assets, such as bonds and shares, to a counterparty, while the Group retains the risks associated with the holding of the assets. If the Group retains all significant risks, the securities remain in the balance sheet, and the transactions are accounted for as loans received against collateral. Such transactions are repo transactions and securities lending. The transactions involve selling the securities to be repurchased at a fixed price at a later date. Counterparties are entitled to sell the securities or deposit them as collateral for loans.

Trading portfolio	2018		2017	
(DKK millions)	Bonds	Shares	Bonds	Shares
Carrying amount of transferred assets	-	-	-	-
Repo transactions	245,428	-	206,227	-
Securities lending	-	1,777	-	7,978
Total transferred assets	**245,428**	**1,777**	**206,227**	**7,978**
Repo transactions, own issued bonds	15,346	-	12,675	-
Carrying amount of associated liabilities	262,181	1,866	220,371	8,377
Net positions	**1,407**	**89**	**1,469**	**399**

The Group has not entered into any agreements on the sale of assets that entail the Group's continuing involvement in derecognised financial assets.

Notes – Danske Bank Group

29. Assets provided or received as collateral

At the end of 2018, the Group had deposited DKK 9.8 billion worth of securities as collateral with Danish and international clearing centres and other institutions (31 December 2017: DKK 11.4 billion).

At the end of 2018, the Group had provided DKK 74.1 billion worth of cash and securities as collateral for derivatives transactions (31 December 2017: DKK 71.7 billion).

At the end of 2018, the Group had registered DKK 410.1 billion worth of assets (including bonds and shares issued by the Group) under insurance contracts (31 December 2017: DKK 404.6 billion) as collateral for policyholders' savings of DKK 399.5 billion (31 December 2017: DKK 363.8 billion).

At the end of 2018, the Group had registered loans at fair value and securities worth a total of DKK 811.6 billion (31 December 2017: DKK 809.9 billion) as collateral for bonds issued by Realkredit Danmark. Note 16 provides additional information. Similarly, the Group had registered DKK 310.2 billion worth of loans and other assets (31 December 2017: DKK 268.7 billion) as collateral for covered bonds issued under Danish, Swedish and Finnish law.

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

	2018			2017		
(DKK millions)	Repo	Other	Total	Repo	Other	Total
Due from credit institutions		38,658	38,658	-	24,832	24,832
Trading and investment securities	245,428	60,851	306,279	206,227	77,854	284,081
Loans at fair value		794,930	794,930	-	787,223	787,223
Loans at amortised cost		317,543	317,543	-	269,162	269,162
Assets under insurance contracts and unit-linked investment contracts		325,220	325,220	-	285,764	285,764
Other assets		81	81	-	90	90
Total	245,428	1,537,283	1,782,711	206,227	1,444,925	1,651,152
Own issued bonds	15,346	79,392	94,737	12,675	68,046	80,721
Total, including own issued bonds	**260,774**	**1,616,675**	**1,877,448**	**218,902**	**1,512,971**	**1,731,873**

Securities provided as collateral under agreements that entitle the counterparty to sell the securities or provide them as collateral for other loans amounted to DKK 245.4 billion at the end of 2018 (31 December 2017: DKK 206.2 billion).

At the end of 2018, the Group had received DKK 332.4 billion worth of securities (31 December 2017: DKK 252.5 billion) as collateral for reverse repo transactions, securities lending, derivatives transactions and other transactions entered into on the standard terms for such transactions. As the party receiving the collateral, the Group is entitled in many cases to sell the securities or provide the securities as collateral for other loans in exchange for returning similar securities to the counterparty at the expiry of the transactions. At the end of 2018, the Group had sold securities or provided securities as collateral worth DKK 149.2 billion (31 December 2017: DKK 155.9 billion).

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

Notes – Danske Bank Group

30. Offsetting of financial assets and liabilities

Offsetting of financial assets and liabilities in the financial statements requires some criteria to be fulfilled. In the event that the counterparty or the Group defaults, further offsetting will take place. This note shows the offsetting in the financial statements, further netting according to enforceable master netting agreements and similar agreements (i.e. in the event of default) and collateral provided or received under such agreements.

Accounting policy

Assets and liabilities are offset when the Group and the counterparty have a legally enforceable right to offset recognised amounts and have agreed to settle the balances on a net basis or to realise the asset and settle the liability simultaneously. Positive and negative fair values of derivatives with the same counterparty are offset if the Group has agreed with the counterparty to settle contractual cash flows net and to make cash payments or provide collateral on a daily basis to cover changes in the fair value of the derivative position. Master netting agreements or similar agreements give the right to additional offsetting in the event of default. Such agreements reduce the exposure further in the event of default, but do not qualify for offsetting in accordance with IFRS.

2018 (DKK millions)	Gross amount	Offsetting	Net amount presented in balance sheet	Further offsetting, master netting agreements	Collateral	Net amount
Financial assets						
Derivatives with positive market value	371,431	127,154	244,277	169,457	45,032	29,788
Reverse transactions	530,384	214,022	316,362	-	316,362	-
Other financial assets	11,546	3,727	7,819	-	-	7,819
Total	**913,360**	**344,903**	**568,457**	**169,457**	**361,394**	**37,607**
Financial liabilities						
Derivatives with negative market value	368,146	127,154	240,992	169,457	51,441	20,094
Repo transactions	476,203	214,022	262,181	-	-260,774	522,954
Other financial liabilities	27,143	3,727	23,417	-	-	23,417
Total	**871,492**	**344,903**	**526,589**	**169,457**	**-209,333**	**566,465**
2017 (DKK millions)						
Financial assets						
Derivatives with positive market value	399,352	142,461	256,891	182,071	45,032	29,788
Reverse transactions	470,435	241,897	228,538	-	228,538	-
Other financial assets	11,724	6,222	5,502	-	-	5,502
Total	**881,511**	**390,580**	**490,931**	**182,071**	**273,570**	**35,290**
Financial liabilities						
Derivatives with negative market value	387,149	142,461	244,688	182,071	51,441	11,176
Repo transactions	462,268	241,897	220,371	-	218,902	1,469
Other financial liabilities	25,145	6,222	18,923	-	-	18,923
Total	**874,562**	**390,580**	**483,982**	**182,071**	**270,343**	**31,568**

Notes – Danske Bank Group

31. Fair value information for financial instruments

Financial instruments are carried in the balance sheet at fair value or amortised cost. The Group breaks down its financial instruments according to the valuation method (note 1 provides additional information).

(a) Financial instruments at fair value

The fair value is the amount for which a financial asset or a financial liability can be exchanged between knowledgeable, willing parties. Fair value is measured on the basis of the following hierarchy:

The fair value hierarchy

- Quoted price (level 1) consists of financial instruments that are quoted in an active market. The Group uses the price quoted in the principal market.
- Valuation based on observable input (level 2) consists of financial instruments valued substantially on the basis of observable input other than a quoted price for the instrument itself. If a financial instrument is quoted in a market that is not active, the Group bases its measurement on the most recent transaction price. Adjustment is made for subsequent changes to market conditions, for instance, by including transactions in similar financial instruments that are assumed to be motivated by normal business considerations. For a number of financial assets and liabilities, no market exists. In such cases, the Group uses recent transactions in similar instruments and discounted cash flows or other generally accepted estimation and valuation techniques based on market conditions at the balance sheet date to calculate an estimated value. This category covers instruments such as derivatives valued on the basis of observable yield curves and exchange rates and illiquid mortgage bonds valued by reference to the value of similar liquid bonds.
- Valuation based on significant non-observable input (level 3): The valuation of certain financial instruments is based substantially on non-observable input. Such instruments include unlisted shares, some unlisted bonds and a limited portion of the derivatives portfolio (2%).

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

Valuation techniques

The most frequently used valuation techniques include the pricing of transactions with future settlement and swap models that apply present value calculations, credit pricing models and options models, such as Black & Scholes models. As part of the Group's control environment, valuation models are validated by units that are independent of the business units that develop the models and trade in the products covered by the models. Validation is made to test the implementation, quality and operating stability of models to ensure that the models can be used for pricing and risk management of financial products.

Loans granted and bonds issued by Realkredit Danmark are recognised at the fair value of the issued bonds (the quoted price in an active market). The Group adjusts for changes to the fair value of the credit risk on borrowers etc. The adjustment is described further in note 16.

The value of derivatives, primarily long-term contracts, is determined on observable yields extrapolated to yield curves for the full duration of the contracts. Moreover, the very limited portfolio of credit derivatives is valued on the basis of observable input as well as assumptions about the probability of default (recovery rate). Unlisted shares are measured at fair value in accordance with the International Private Equity and Venture Capital Valuation Guidelines (IPEV) which are compliant with IFRS. IPEV guides the calculation of the estimated fair value of unlisted shares as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation methods include discounted cash flow models and pricing based on a multiple of earnings or equity.

Notes – Danske Bank Group

31. Fair value information for financial instruments continued

Fair value adjustments

Management estimates underlie the valuation of financial instruments for which the value is based on valuation techniques. The Group makes fair value adjustments to cover changes in counterparty risk (CVA and DVA) on derivatives, bid-offer spreads on the net open position of portfolios with offsetting market risk, and model risk on level 3 derivatives.

Credit value adjustment (CVA), debit value adjustment (DVA) and funding value adjustment (FVA)

The Group makes a fair value adjustment to cover the counterparty credit risk on derivatives with a positive fair value (CVA). For a given counterparty's portfolio of derivatives, CVA is calculated as a function of the probability of default (PD), the expected positive exposure (EPE) and the loss given default in the event of bankruptcy (LGD). The Group enters into derivatives transactions mainly with counterparties in the Scandinavian market.

The PDs used in the CVA model are derived from single name liquid credit default swap (CDS). If this is not available, the PDs are derived using proxy-mapping to a CDS index. For the calculation of EPE, the Group uses simulations to estimate the range of positive exposures to the counterparty's portfolio over the term of the derivatives. The exposure model is based fully on market-implied data. For the calculation of LGD, the Group uses market compliant LGD. However, for customers classified in stage 3 in relation to the expected credit loss impairment, CVA is calculated as if the derivatives were loans subject to impairment because of credit losses.

A fair value adjustment for derivatives with an expected negative exposure is made to cover the counterparty's credit risk on Danske Bank (DVA), with PD calculated according to principles similar to CVA. The Group uses PD values derived from Danske Bank's liquid CDS spread.

A fair value adjustment for derivatives to cover expected funding costs (FVA) is calculated. FVA primarily arises from the cost of funding uncollateralised derivatives. The adjustment is a function of the unsecured funding curve and expected future exposures.

At the end of 2018, CVA, DVA and FVA came to a net amount of DKK 1.0 billion (31 December 2017: DKK 0.8 billion), including the adjustment for credit risk on derivatives in stage 3. The increase mainly relates to the widening of Danske Bank's funding spread due to idiosyncratic risk factors.

Bid-offer spread

For portfolios of assets and liabilities with offsetting market risk, the Group bases its measurement of the portfolios on mid-market prices and makes fair value adjustments to recognise net assets at the bid price and net liabilities at the offer price (exit prices). At the end of 2018, these fair value adjustments totalled DKK 112 million (31 December 2017: DKK 135 million).

Model risk

To account for the uncertainty associated with measuring the value of derivatives on the basis of non-observable input (level 3 in the fair value hierarchy), the Group has established guidelines to quantify risk. The Group calculates and monitors the reserve on an ongoing basis. At the end of 2018, the reserve totalled DKK 0 million (31 December 2017: DKK 5 million).

Amortisation of initial margin

If, at the time of acquisition, a difference arises between the model value of a financial instrument, calculated on the basis of non-observable input and actual cost (day-one profit or loss), and the difference is not the result of transaction costs, the Group adjusts model parameters to actual cost to take the initial margin into account. Accordingly, the valuation of derivatives includes amortisation of the value of initial margins over the remaining term to maturity. The initial margins relate to elements not covered by the above CVA, DVA and FVA adjustments, such as future administrative expenses and capital consumption. At 31 December 2018, the value of unamortised initial margins was DKK 1,180 million (2017: DKK 1,054 million).

(DKK millions)	2018	2017
Unamortised initial margins at 1 January	1,054	902
Amortised to the income statement during the year	-374	-479
Initial margins on new derivatives contracts	625	738
Terminated derivatives contracts	-125	-107
Unamortised initial margins as at 31 December	**1,180**	**1,054**

Notes – Danske Bank Group

31. Fair value information for financial instruments continued

(DKK millions)	Quoted prices	Observable input	Non-observable input	Total
31 December 2018				
Financial assets				
Due from credit institutions and central banks	-	56,978	-	56,978
Derivatives				
Interest rate contracts	5,169	156,378	2,833	164,380
Currency contracts etc.	12	78,343	1,539	79,894
Trading portfolio bonds				
Central and local government bonds	89,781	3,552	-	93,333
Quasi-government bonds	498	385	-	883
Danish mortgage bonds	26,101	7,202	-	33,303
Swedish covered bonds	29,791	9	-	29,800
Other covered bonds	2,280	518	-	2,798
Corporate bonds	3,918	2,296	-	6,214
Trading portfolio shares	4,790	-	423	5,213
Investment securities, bonds	102,791	30,095	-	132,886
Investment securities, shares	40	-	1,077	1,117
Loans at fair value	-	1,057,340	-	1,057,340
Assets under pooled schemes and unit-linked investment contracts	93,988	-	-	93,988
Assets under insurance contracts, bonds				
Danish mortgage bonds	74,998	9,774	325	85,097
Other bonds	94,534	8,169	3,806	106,509
Assets under insurance contracts, shares	76,542	2,431	33,306	112,279
Assets under insurance contracts, derivatives	340	34,239	2,692	37,271
Total	**605,573**	**1,447,709**	**46,001**	**2,099,283**
Financial liabilities				
Due to credit institutions and central banks	-	186,097	-	186,097
Derivatives				
Interest rate contracts	5,977	134,767	2,784	143,528
Currency contracts etc.	7	96,673	784	97,464
Obligations to repurchase securities	147,508	1,650	76	149,234
Deposits	-	171,591	-	171,591
Issued bonds at fair value	759,588	-	-	759,588
Deposits under pooled schemes and unit-linked investment contracts	-	97,840	-	97,840
Total	**913,080**	**688,618**	**3,644**	**1,605,342**

Notes – Danske Bank Group

31. Fair value information for financial instruments continued

(DKK millions)	Quoted prices	Observable input	Non-observable input	Total
2017				
Financial assets				
Derivatives				
Interest rate contracts	5,431	157,871	4,203	167,505
Currency contracts etc.	800	87,330	1,255	89,385
Trading portfolio bonds				
Government bonds and other bonds	64,540	4,305	-	68,845
Danish mortgage bonds	29,383	5,132	-	34,515
Other covered bonds	52,074	1,064	-	53,138
Other bonds	13,336	3,747	-	17,083
Trading portfolio shares	18,624	-	197	18,821
Investment securities, bonds	156,298	20,164	-	176,462
Investment securities, shares	63	-	1,396	1,459
Loans at fair value	-	787,223	-	787,223
Assets under pooled schemes and unit-linked investment contracts	112,065	-	-	112,065
Assets under insurance contracts, bonds				
Danish mortgage bonds	37,251	6,264	-	43,515
Other bonds	114,191	1,989	4,016	120,196
Assets under insurance contracts, shares	81,496	-	17,842	99,338
Assets under insurance contracts, derivatives	428	9,944	4	10,376
Total	**685,980**	**1,085,033**	**28,913**	**1,799,925**
Financial liabilities				
Derivatives				
Interest rate contracts	5,606	142,724	4,798	153,128
Currency contracts etc.	732	89,773	1,054	91,559
Obligations to repurchase securities	153,975	1,858	76	155,909
Bonds issued by Realkredit Danmark	758,375	-	-	758,375
Deposits under pooled schemes and unit-linked investment contracts	-	119,901	-	119,901
Other issued bonds	-	4,549	-	4,549
Total	**918,688**	**358,805**	**5,928**	**1,283,420**

As at 31 December 2018, financial instruments valued on the basis of non-observable input comprised unlisted shares of DKK 34,730 million (2017: DKK 19,359 million), illiquid bonds of DKK 4,131 million (2017: DKK 4,016 million) and derivatives with a net market value of DKK 3,497 million (2017: DKK -390 million).

Unlisted shares of DKK 33,306 million (31 December 2017: DKK 17,842 million) are allocated to insurance contract policyholders, and the policyholders assume most of the risk on the shares. Changes in the fair value of these shares will only to a limited extent affect the Group's net profit. The remaining portfolio of unlisted shares of DKK 1,424 million (31 December 2017: DKK 1,517 million) consists primarily of banking-related investments and holdings in private equity funds. A 10% increase or decrease in the fair value would amount to DKK 142 million (31 December 2017: DKK 152 million). Under the current market conditions, a 10% decrease in the fair value is considered to be below a possible alternative estimate of the fair value at the end of the year. In 2018, the Group recognised DKK 186 million in unrealised gains (2017: unrealised losses of DKK 88 million) and DKK 186 million in realised gains (2017: realised gains of DKK 57 million) on the shares. The unrealised adjustments in 2018 and 2017 were attributable to various unlisted shares. For shares allocated to insurance contract policyholders, the unrealised gains in 2018 amounted to DKK 2,525 million (2017: DKK -218 million) and the realised losses to DKK 826 million (2017: realised gains of DKK 1,629 million).

The estimated fair value of illiquid bonds depends significantly on the estimated credit spread. If the credit spread widens 50bp, fair value will decrease DKK 110 million (2017: DKK 80 million). If the credit spread narrows 50bp, fair value will increase DKK 110 million (2017: DKK 83 million).

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

Notes – Danske Bank Group

31. Fair value information for financial instruments continued

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

	2018			2017		
(DKK millions)	Shares	Bonds	Derivatives	Shares	Bonds	Derivatives
Fair value at 1 January	19,359	4,016	-389	20,943	4,803	-1,993
Value adjustment through profit or loss	1,905	43	272	1,556	-85	-345
Acquisitions	15,752	1,348	3,714	3,073	1,445	251
Sale and redemption	-6,914	-1,276	44	-6,213	-2,147	1,196
Transferred from quoted prices and observable input	4,628	-	-160	-	-	-
Transferred to quoted prices and observable input	-	-	15	-	-	502
Fair value end of period	**34,730**	**4,131**	**3,497**	**19,359**	**4,016**	**-389**

The value adjustment through profit or loss is recognised under Net trading income. The transfer of derivatives to the Observable input category consists primarily of maturity reductions, implying that the yield curves have become observable.

(b) Financial instruments at amortised cost

In this section, the fair value of financial instruments recognised at amortised cost is presented. The fair value is based on quoted market prices, if available. If quoted prices are not available, the value is approximated to reflect the price that would have been fixed had the terms been agreed at the balance sheet date.

The fair values disclosed below are determined on the basis of the following principles:

Investment securities (bonds classified as held-to-collect), other issued bonds and subordinated debt

Quoted prices in an active market exist for a significant part of these financial instruments. If quoted prices in an active market do not exist, the Group uses an estimate of the current return required by the market to estimate the fair value.

Other financial instruments

The determination of the fair value of financial instruments recognised at amortised cost is based on the following preconditions relating to interest rate risk:

- For a significant number of the Group's deposits and loans, the interest rate depends on the standard variable rate fixed by the Group. The rate is adjusted only upon certain changes in market conditions. Such deposits and loans are considered to carry interest at a variable rate, as the standard variable rate fixed by the Group at any time applies to both new and existing arrangements.
- The interest rate risk on some fixed-rate loans extended by the Group is designated as a hedge of the interest rate risk on liabilities. Interest rate risk not hedging the interest rate risk on liabilities is hedged by derivatives. Such hedges are accounted for as fair value hedges, and the fair value of the hedged interest risk is adjusted in the carrying amount of the hedged financial instruments. Consequently, only fair value changes related to fixed-rate loans not hedged by derivatives are adjusted in the fair values presented in the table below.

For financial instruments that are only to a limited extent influenced by changes in credit risk, the amortised cost, including the adjustment for the fair value hedge accounting of the interest rate risk, is a reasonable approximation of fair value. This is the case for Due from/to credit institutions and central banks and Deposits.

As at 1 January 2018, the Group implemented IFRS 9 including the expected credit loss impairment model. It is assessed that the amortised cost of loans thereafter is a reasonable proxy for the fair value of the credit risk. In 2017, the following adjustments were made to ascertain a fair value of the credit risk:

- The fair value of the Group's syndicated loans etc. was estimated on the basis of the Group's current required rate of return on similar transactions.
- As regards other loans, impairment charges were assumed to equal the fair value of the credit risk with the following adjustments:
  - The calculation of impairment charges for loans subject to individual impairment was based on the most likely outcome, and loans that are considered asset finance are written down to the fair value of collateral provided, i.e. assuming that restructuring was not possible. The fair value is adjusted by weighting all possible outcomes. For other loans, impairment charges were recognised if a customer was downgraded to reflect a change in the probability of default.
  - The credit margins on individual risks were accounted for by adjusting the fair value for the difference between the current credit premium and the credit premium demanded at the balance sheet date.

Notes – Danske Bank Group

31. Fair value information for financial instruments continued

In the table below, fair value is presented for classes of financial instruments for which the carrying amount is not a reasonable approximation of fair value.

2018 (DKK millions)	Carrying amount	Fair value	Quoted prices	Observable input	Non-observable input
Financial assets					
Investment securities	142,420	143,202	118,624	24,578	-
Loans at amortised cost	986,240	986,219	-	11,077	975,142
Financial liabilities					
Other issued bonds	311,982	312,636	277,857	10,124	24,654
Subordinated debt	23,092	20,587	-	20,587	-

2017 (DKK millions)	Carrying amount	Fair value	Quoted prices	Observable input	Non-observable input
Financial assets					
Investment securities	146,697	148,585	127,361	21,224	-
Loans at amortised cost	1,112,752	1,109,259	-	19,144	1,090,115
Financial liabilities					
Other issued bonds	400,531	403,934	239,610	136,429	27,895
Subordinated debt	29,120	29,958	27,895	2,064	-

Notes – Danske Bank Group

32. Non-financial assets recognised at fair value

Non-financial assets are recognised at fair value on a recurring or non-recurring basis after initial recognition. Investment property is measured at fair value on a recurring basis, and assets that are marketed for sale and expected to be sold within one year are written down to fair value less expected costs to sell, i.e. measured at fair value on a non-recurring basis.

Accounting policy

Investment property (fair value on recurring basis)

Investment property is recognised at fair value through profit or loss. Property investments are made for own investment purposes and recognised under Other assets, or on behalf of insurance customers and recognised under Assets under insurance contracts and Assets under pooled schemes and unit-linked investment contracts. Value adjustments of investment property are recognised under Other income.

The fair value is assessed by the Group's valuers at least once a year on the basis of a discounted cash flow model.

Assets held for sale (fair value on non-recurring basis)

Assets held for sale are measured at the lower of cost and fair value less expected costs to sell and are no longer depreciated.

(a) Investment property (DKK millions)	2018	2017
Fair value at 1 January	4,461	4,937
Value adjustment through profit or loss	10	155
Acquisitions and improvements	321	693
Sale	1,625	1,324
Fair value at 31 December	**3,167**	**4,461**

The investment properties included in the table above consist of investments made for own investment purposes. The valuations rely substantially on non-observable input. Valuations are based on cash flow estimates and on the required rate of return calculated for each property that reflects the price at which the property can be exchanged between knowledgeable, willing parties under current market conditions. The cash flow estimates are determined on the basis of the market rent for each property. The required rate of return on a property is determined on the basis of its location, type, possible uses, layout and condition as well as on the terms of lease agreements, rent adjustment and the credit quality of lessees. The required rate of return ranged between 2.5-9.5% (2017: 2.5-10.0%) and averaged 5.7% (2017: 5.1%). An increase in the required rate of return of 1.0 percentage point would reduce fair value at end-2018 by DKK 287 million (2017: DKK 606 million).

Investment properties held on behalf of insurance customers amount to DKK 18,015 million (2017: DKK 23,069 million), including DKK 3,029 million (2017: DKK 2,769 million) related to unit-linked investment contracts. Changes in the fair value of these will only to a limited extent affect the Group's net profit. The valuation is based on the same principles as investments made for own investment purposes. The required rate of return ranged between 2.5-8.5% (2017: 2.5-10.0%) and averaged 4.8% (2017: 4.8%). An increase in the required rate of return of 1.0 percentage point would reduce fair value at end-2018 by DKK 2,550 million (2017: DKK 3,950 million).

(b) Assets held for sale

Non-financial assets held for sale are measured at the lower of cost and fair value less expected costs to sell and include domicile properties in Denmark, lease assets (where the Group act as lessor) put up for sale, and properties taken over by the Group under non-performing loan agreements. Note 23 provides more information. No significant changes in the fair value of non-financial assets held for sale occured during 2018.

Notes – Danske Bank Group

33. Related parties

Danske Bank A/S acts as the bank of a number of its related parties. Payment services, trading in securities and other instruments, depositing of surplus liquidity and provision of short- and long-term financing are the primary services provided by Danske Bank A/S.

Danica Pension manages the pension plans of a number of related parties, and Danske Bank manages the assets of a number of the Group's pension funds.

Accounting policy

A related party to the Group is either a party over which the Group has control or significant influence or a party that has control or significant influence over the Group. All entities over which the Group has control are consolidated and are therefore not considered a related party to the Group.

Entities that are related parties to the Group comprise shareholders that have a significant holding of shares (significant influence over the Group), associates, joint venture partners or defined benefit pension plan providers (the Group has significant influence over the entity). Further, key management personnel, defined as members of the Board of Directors and the Executive Board, are related parties to the Group.

Transactions with related parties are settled on an arm's-length basis and recognised in the financial statements according to the same accounting policy as for similar transactions with unrelated parties.

(a) Related parties	Parties with significant influence		Associates		Board of Directors		Executive Board	
(DKK millions)	2018	2017	2018	2017	2018	2017	2018	2017
Loans and loan commitments	7,549	10,310	1,886	1,956	20	21	50	52
Securities and derivatives	1,081	1,020	13,997	7,246	-	-	-	-
Deposits	3,861	1,403	240	205	87	24	38	14
Derivatives	304	197	-	-	-	-	-	-
Pension obligation	-	-	-	-	-	-	-	-
Guarantees issued	416	615	4	2	-	-	-	-
Guarantees and collateral received	1,461	524	266	423	45	20	56	49
Interest income	143	94	81	78	-	-	1	1
Interest expense	107	14	-	-	-	-	-	-
Fee income	8	17	1	3	-	1	-	-
Dividend income	7	5	32	93	-	-	-	-
Other income	6	6	6	1	-	-	-	-
Loan impairment charges	1	-	-3	-1	-	-	-	-
Trade in Danske Bank shares								
Acquisitions	-	-	-	-	-	-	-	-
Sales	886	2,348	-	-	-	-	-	8

The Group is a listed company, with no shareholder having control over the Group. Related parties with significant influence include shareholders with holdings exceeding 20% of Danske Bank A/S's share capital. The A.P. Møller and Chastine Mc-Kinney Møller Foundation and companies of A.P. Møller Holding Group, Copenhagen, hold 20.5% of the share capital. Note 37 lists significant holdings in associates. The Board of Directors and Executive Board columns list the personal facilities, deposits, etc. held by members of the Board of Directors and the Executive Board and their dependants, and facilities with businesses in which these parties have control, joint control or significant influence.

In 2018, the average interest rates on credit facilities granted to members of the Board of Directors and the Executive Board were 2.5% (2017: 2.3%) and 1.8% (2017: 1.8%), respectively. Notes 34 and 35 specify the remuneration and shareholdings of management.

Pension funds set up for the purpose of paying out pension benefits to employees of the Danske Bank Group are also considered related parties. The Danske Bank Group has entered into transactions with these funds. Such transactions are not eliminated in the consolidated financial statements. Transactions with pension funds comprised loans in the amount of DKK 6 million (2017: DKK 6 million), deposits amounting to DKK 87 million (2017: DKK 137 million), DKK 26 million worth of bonds issued (2017: DKK 27 million), derivatives with a positive fair value of DKK 0 million (2017: DKK 0 million), derivatives with a negative fair value of DKK 831 million (2017: DKK 868 million), interest expenses of DKK 3 million (2017: DKK 3 million), fee income of DKK 0 million (2017: DKK 0 million) and pension contributions of DKK 288 million (2017: DKK 295 million).

The figures above do not include debt to related parties in the form of issued notes or bonds. Such notes or bonds are bearer securities, which means that Danske Bank does not know the identity of the holders. Danske Bank shares may be registered by name. Related parties' holdings of Danske Bank shares equalling 5% or more of Danske Bank's share capital are determined on the basis of the most recent reporting of holdings to Danske Bank.

Notes – Danske Bank Group

34. Remuneration of management and material risk takers

This note gives information on the remuneration of the Group's management in the form of the Board of Directors and the Executive Board, and of other material risk takers. This note further includes information on the Group's share-based payment.

(a) Remuneration of the Board of Directors

Danske Bank's directors receive fixed remuneration only and are not covered by incentive programmes. Directors also receive a fee for board committee membership. The Board of Directors is remunerated by the parent company, Danske Bank A/S. No director has received remuneration for membership of the Executive Board or the Board of Directors in any of the Group's subsidiaries. The Group has no pension obligations towards the directors.

Remuneration of the Board of Directors (DKK thousands)	2018	2017
Karsten Dybvad 1)	154	-
Jan Thorsgaard Nielsen 1)	65	-
Carol Sergeant	1,149	973
Ingrid Bonde 2)	690	-
Lars-Erik Brenøe	660	658
Jens Due Olsen 2)	687	-
Rolv Erik Ryssdal	657	643
Hilde Tonne	706	778
Bente Bang 2)	403	-
Kirsten Ebbe Brich	534	523
Thorbjørn Lundholm Dahl 2)	403	-
Charlotte Hoffmann	657	643
Ole Andersen 3)	2,270	2,284
Urban Bäckström 4)	227	884
Jørn P. Jensen 3)	810	793
Martin Tivéus 4)	176	529
Dorte Annette Bielefeldt 4)	131	131
Carsten Eilertsen 4)	131	523
Trond Ø. Westlie 5)	-	223
Steen Lund Olsen 6)	-	391
Total remuneration	**10,511**	**9,973**
Remuneration for committee work included in total remuneration	**2,320**	**2,200**

1. From 7 December 2018
2. From 15 March 2018
3. Until 7 December 2018
4. Until 15 March 2018
5. Until 16 March 2017
6. Until 29 September 2017

Notes – Danske Bank Group

34. Remuneration of management and material risk takers continued

(b) Remuneration of the Executive Board

For the Executive Board, a total remuneration of DKK 87.0 million for 2018 (2017: DKK 86.2 million) has been expensed, with fixed remuneration amounting to DKK 70.7 million (2017: DKK 65.8 million) and variable remuneration amounting to DKK 16.3 million (2017: DKK 20.4 million). Part of the variable remuneration of the Executive Board is provided as a share-based Long-term Incentive Programme as described in section (d). The variable share-based payment for 2018 includes deferred variable payments from the Short-term Incentive Programme to be paid in future financial years, in accordance with EBA regulations, and prorated provisions for the Long-term Incentive Programme. Danske Bank Group's Remuneration Policy, March 2018 provides more information on the Group's remuneration policy. The policy is available at danskebank.com/remuneration-policy. "Total paid" remuneration comprises fixed salary, 2018 payments to pension plans, variable cash payments for 2018, pay-out of deferred cash payment for previous financial years and exercised rights to conditional shares for previous financial years. Membership of the Board of Directors in one or more of the Group's subsidiaries is not remunerated separately but considered part of the Executive Board responsibilities and as such part of the remuneration of the Executive Board.

Remuneration of the Executive Board

2018 (DKK millions)	Jesper Nielsen	Jacob Aarup-Andersen	Christian Baltzer	James Ditmore	Carsten Rasch Egeriis	Henriette Fenger Ellekrog	Jakob Groot	Glenn Söderholm	Frederik Gjessing Vinten	Philippe Vollot
Fixed salary*	6.5	7.0	1.3	8.0	7.6	2.8	5.1	6.8	3.0	1.2
Pension	1.3	1.4	0.3	-	-	0.5	-	1.3	0.5	-
Variable cash payment**	-	-	1.5	-	-	-	-	-	-	10.0
*of which remuneration under the short-term incentive programme 2018****	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Variable share-based payment	0.4	0.6	-	0.7	0.3	0.2	0.1	0.8	0.1	-
*of which remuneration under the short-term incentive programme 2018****	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Total expensed	**8.2**	**9.0**	**3.1**	**8.7**	**7.9**	**3.5**	**5.2**	**8.9**	**3.6**	**11.2**
Total paid	**8.1**	**8.7**	**3.1**	**11.3**	**7.8**	**3.3**	**5.1**	**9.1**	**3.5**	**11.2**

*Fixed salary includes fixed cash salary and other benefits.

** Variable cash payment includes sign-on fees.

*** In view of the exceptional circumstances in 2018 the Executive Board has waived its right to earned remuneration under the 2018 short-term incentive programme.

Henriette Fenger Ellekrog, Jakob Groot and Frederik Gjessing Vinten joined the Executive Board on 2 May 2018. Christian Baltzer joined the Executive Board on 15 October 2018. Philippe Vollot joined the Executive Board on 26 November 2018.

Thomas F. Borgen resigned from his position as CEO of the Group on 19 September 2018 and was relieved of his duties on 1 October 2018. In view of the exceptional circumstances in 2018, Thomas F. Borgen has waived his right to earned remuneration under the 2018 short-term incentive programme. During his period in 2018 as CEO, Thomas F. Borgen earned remuneration of DKK 11.9 million, which consists of fixed salary of DKK 9.3 million, pension of DKK 1.6 million, variable cash payment of DKK 0.0 million and variable share-based payment (under the long-term incentive programme) of DKK 1.0 million. Paid remuneration amounts to DKK 12.7 million. His employment with Danske Bank Group ends on 30 September 2019. During this period Thomas F. Borgen earns a further DKK 15.0 million (of which DKK 3.6 million was paid in 2018). He has forfeited the right to previously earned variable share based payments under long-term and short-term incentive programmes of DKK 7.2 million (including the DKK 1.0 million earned in 2018 under the long-term incentive programme).

Tonny Thierry Andersen resigned from his position as a member of the Executive Board on 6 April 2018. Effective from 2 May 2018, Tonny Thierry Andersen was no longer a member of the Executive Board. In view of the exceptional circumstances in 2018, Tonny Thierry Andersen has waived his right to earned remuneration under the 2018 short-term incentive programme. During his period in 2018 as member of the Executive Board, Tonny Thierry Andersen earned remuneration of DKK 3.1 million, which consists of fixed salary of DKK 2.4 million, pension of DKK 0.4 million, variable cash payment of DKK 0.0 million and variable share-based payment (under the long-term incentive programmes) of DKK 0.3 million. Paid remuneration amounts to DKK 3.9 million. His employment with Danske Bank Group ends on 30 October 2019. During this period Tonny Thierry Andersen earns a further DKK 14.7 million (of which DKK 5.8 million was paid in 2018).

Lars Mørch resigned from his position as a member of the Executive Board on 5 April 2018. Effective from 21 April 2018, Lars Mørch was no longer a member of the Executive Board. In view of the exceptional circumstances in 2018, Lars Mørch has waived his right to earned remuneration under the 2018 short-term incentive programme. During his period in 2018 as member of the Executive Board, Lars Mørch earned remuneration of DKK 2.7 million, which consists of fixed salary of DKK 2.1 million, pension of DKK 0.3 million, variable cash payment of DKK 0.0 million and variable share-based payment (under the long-term incentive programmes) of DKK 0.3 million. Paid remuneration amounts to DKK 3.6 million. His employment with Danske Bank Group ends on 30 October 2019. During this period Lars Mørch earns a further DKK 12.6 million (of which DKK 5.6 million was paid in 2018). He has forfeited the right to previously earned variable share based payments under long-term and short-term incentive programmes of DKK 3.6 million.

Notes – Danske Bank Group

34. Remuneration of management and material risk takers continued

2017 (DKK millions)	Thomas F. Borgen	Jacob Aarup-Andersen	Tonny Thierry Andersen	James Ditmore	Carsten Rasch Egeriis	Lars Mørch	Jesper Nielsen	Glenn Söderholm
Fixed salary*	11.5	6.8	7.0	7.6	3.3	6.5	5.0	6.6
Pension	2.2	0.3	1.3	-	-	1.3	1.0	1.3
Variable cash payment**	0.8	0.4	0.3	0.5	5.4	0.4	0.3	0.5
of which remuneration under the short-term incentive programme 2017	*0.8*	*0.4*	*0.3*	*0.5*	*0.2*	*0.4*	*0.3*	*0.5*
Variable share-based payment	2.9	1.1	1.5	1.6	0.3	1.6	0.7	1.6
of which remuneration under the short-term incentive programme 2017	*1.2*	*0.7*	*0.5*	*0.7*	*0.2*	*0.7*	*0.4*	*0.7*
Total expensed	**17.4**	**8.6**	**10.1**	**9.7**	**9.0**	**9.8**	**7.0**	**10.0**
Total paid	**15.4**	**8.0**	**9.3**	**9.4**	**8.6**	**8.6**	**6.4**	**9.5**

* Fixed salary includes fixed cash salary, fixed salary shares and other benefits.

** Variable cash payment includes sign-on fees

Carsten Rasch Egeriis joined the Executive Board on 1 August 2017. Gilbert Kohnke resigned from his position as member of the Executive Board on 31 July 2017. In the interim period from 1 January 2017 to 31 July 2017, the remuneration earned by Gilbert Kohnke was DKK 4.6 million, which consists of fixed salary of DKK 4.1 million, pension of DKK 0.0 million, variable cash payment (under the short-term incentive programme) of DKK 0.2 million and variable share-based payment (under the short-term incentive programme) of DKK 0.3 million. Paid remuneration amounts to DKK 4.5 million. His employment with Danske Bank Group ended on 31 August 2017. During this period, Gilbert Kohnke earned a further DKK 0.7 million, which is include d as remuneration to other material risk takers.

Pension and termination (end of 2018)

	Jesper Nielsen	Jacob Aarup-Andersen	Christian Baltzer	James Ditmore	Carsten Rasch Egeriis	Henriette Fenger Ellekrog	Jakob Groot	Glenn Söderholm	Frederik Gjessing Vinten	Philippe Vollot
Annual contribution	Bank contributes 20% of salary p.a.	Bank contributes 20% of salary p.a.	Bank contributes 20% of salary p.a.	-	-	Bank contributes 20% of salary p.a.	-	Bank contributes 20% of salary p.a.	Bank contributes 20% of salary p.a.	-
Notice of termination by Danske Bank (months)	18	18	18	18	18	18	18	18	18	18
Notice of termination by the board member (months)	9	9	9	9	9	9	9	9	9	9
Non-competition clause (months)	12	12	12	12	12	12	12	12	12	12

Notes – Danske Bank Group

34. Remuneration of management and material risk takers continued

(c) Remuneration of other material risk takers

Danske Bank Group is required to identify all employees whose professional activities could have a material impact on the risk profile of Danske Bank in accordance with current legislation. Other material risk takers do not include members of the Board of Directors or the Executive Board.

At the end of 2018, 651 other material risk takers were designated (end of 2017: 726 FTEs). During 2018, 653 full-time-equivalents were designated as other material risk takers (2017: 752 FTEs). The reduction in the number of material risk takers is due mainly to changes to the designation criteria for material risk takers following the merger of Danske Bank Plc into the Parent Company, Danske Bank A/S. The 653 FTEs designated as other material risk takers earned remuneration of DKK 1,358 million (2017: 752 FTEs earned remuneration of DKK 1,446 million), with fixed remuneration amounting to DKK 1,033 million and variable remuneration amounting to DKK 325 million (2017: DKK 1,103 million and DKK 343 million, respectively). Variable pay for 2018 is estimated and the final figure is determined at the end of February 2019. The final variable pay will be published in the Danske Bank Group Remuneration Report 2018, which provides additional quantitative information on the remuneration of material risk takers. Remuneration Report 2018 will be available at danskebank.com/remuneration and is expected to be published on 15 March 2019.

Of the above remuneration for 2018, 383 FTEs designated as other material risk takers at the Parent Company, Danske Bank A/S, earned remuneration of DKK 1,036 million (2017: DKK 995 million to 396 FTEs), with fixed remuneration amounting to DKK 747 million and variable remuneration amounting to DKK 289 million (2017: DKK 734 million and DKK 261 million, respectively).

The Group's pension obligations towards other material risk takers amounted to DKK 699 million to 107 employees at year-end 2018 (31 December 2017: DKK 846 million and 128 employees). Variable payment for other material risk takers is split into cash and equity shares according to EBA regulations. Further, 40-60% of variable payments are deferred for a minimum of three years. All variable payments are subject to claw back provisions if granted on the basis of data which has subsequently proven to be manifestly misstated or inaccurate.

(d) Share-based payment

The total expense recognised as Operating expenses in 2018 arising from share-based payments was DKK 93 million (2017: DKK 150 million). All share-based payments are equity-settled. The exact number of shares granted for 2018 will be determined at the end of February 2019.

Effective from 2010, the Group has granted rights to conditional shares under the bonus structure for material risk takers and other employees as part of their variable remuneration. Such employees have a performance agreement based on the performance of the Group, the business unit and the individual employee. Part of the Danske Bank shares granted to material risk takers are, as required by the EBA, deferred (see section (c) above on variable payment). The fair value at the grant date is measured at the expected monetary value of the underlying agreement.

The variable remuneration of the Executive Board is provided as part of a Short-term Incentive Programme and a Long-term Incentive Programme. The Short-term Incentive Programme is structured as the programme for other material risk takers, as described above. However, the rights to Danske Bank shares are deferred for five years, followed by a one year retention period before shares are available to trade. The Long-term Incentive Programme is based on total shareholder return performance relative to peers over a three-year performance period. The first pay-out was in 2018, based on the performance in 2015, 2016 and 2017. The current 2018 Long-term Incentive Programme vests in three years (2018-2020) and will be settled and paid out in 2021. After the vesting period, part of the shares will be paid out. The remaining shares are deferred for five years from grant date followed by a one year retention period before shares are available to trade. The deferred remuneration is subject to back-testing and claw-back. The fair value of the Long-term Incentive Programmes at the grant date was DKK 5.3 million for the 2018 programme and DKK 5.8 million for the 2017 programme. The fair value of the shares is calculated at the grant date, which includes valuing market conditions. The estimated fair value is based on relevant assumptions, which relate to the expected return on equity and volatility relative to peers. The fair value at grant date is expensed over the three-year vesting period.

Notes – Danske Bank Group

34. Remuneration of management and material risk takers continued

Conditional shares

	Number				Fair value (FV)	
	Executive Board	Other staff	Total	Employee payment price (DKK)	At issue (DKK m)	End of year (DKK m)
Granted in 2013						
1 January 2017	6,066	219,021	225,087	0.0-1.1	24.0	28.8
Vested 2017	-6,066	-16,771	-22,837	0.0-1.1		
Forfeited 2017	-	-12,845	-12,845	-		
Other changes 2017	-	-	-	-		
31 December 2017	-	189,405	189,405	0.0-1.1	20.2	24.2
Vested 2018	-	-42,676	-42,676	0.0-1.1		
Forfeited 2018	-	-1,848	-1,848	-		
Other changes 2018	-	-	-	-		
31 December 2018	-	144,881	144,881	0.0-1.1	15.5	18.5
Granted in 2014						
1 January 2017	39,942	767,058	807,000	0.0-1.4	109.4	103.0
Vested 2017	-19,845	-766,288	-786,133	0.0-1.4		
Forfeited 2017	-	6,788	6,788	-		
Other changes 2017	-	-	-	-		
31 December 2017	20,097	7,558	27,655	0.0-1.4	3.8	3.6
Vested 2018	-20,097	-4,046	-24,143	0.0-1.4		
Forfeited 2018	-	-3,512	-3,512	-		
Other changes 2018	-	-	-	-		
31 December 2018	-	-	-	0.0-1.4	-	-
Granted in 2015						
1 January 2017	11,402	623,106	634,508	0.0-1.7	106.6	80.7
Vested 2017	-	-	-	-		
Forfeited 2017	-	-17,019	-17,019	-		
Other changes 2017	-	-	-	-		
31 December 2017	11,402	606,087	617,489	0.0-1.7	103.7	78.6
Vested 2018	-595	-555,434	-556,029	0.0-1.7		
Forfeited 2018	-	-3,032	-3,032	-		
Other changes 2018	-7,931	-13,244	-21,175	-		
31 December 2018	2,876	34,377	37,253	0.0-1.7	6.3	4.7
Granted in 2016						
1 January 2017	21,985	603,821	625,806	-	114.0	80.7
Vested 2017	-	-1,683	-1,683	-		
Forfeited 2017	-	-17,292	-17,292	-		
Other changes 2017	-2,562	4,655	2,093	-		
31 December 2017	19,423	589,501	608,924	-	110.9	78.5
Vested 2018	-	-1,474	-1,474	-		
Forfeited 2018	-9,528	-25,533	-35,061	-		
Other changes 2018	-3,077	3,077	-	-		
31 December 2018	6,818	565,571	572,389	-	104.3	73.8
Granted in 2017						
1 January 2017	27,464	827,251	854,715	-	203.0	110.2
Vested 2017	-505	-295,002	-295,507	-		
Forfeited 2017	-	-20,529	-20,529	-		
Other changes 2017	-	-	-	-		
31 December 2017	26,959	511,720	538,679	-	127.9	69.4
Vested 2018	-	-3,067	-3,067	-		
Forfeited 2018	-11,045	-17,012	-28,057	-		
Other changes 2018	-4,186	4,375	189	-		
31 December 2018	11,728	496,016	507,744	-	120.6	65.4
Granted in 2018						
1 January 2018	169,901	700,499	870,400	-	204.0	112.2
Vested 2018	-19,972	-252,435	-272,407	-		
Forfeited 2018	-39,334	-18,547	-57,881	-		
Other changes 2018	-32,016	32,016	-	-		
31 December 2018	78,579	461,533	540,112	-	126.6	69.6

Other staff includes material risk takers and other employees eligible for share-based payment.

Notes – Danske Bank Group

34. Remuneration of management and material risk takers continued

Holdings of conditional shares of the Executive Board and fair value at 31 December 2018

Grant year	2013-2018 Number	FV (Dkk m)
Jesper Nielsen	12,505	1.6
Jacob Aarup-Andersen	16,627	2.1
Christian Baltzer	-	-
James Ditmore	27,024	3.5
Carsten Rasch Egeriis	6,128	0.8
Henriette Fenger Ellekrog	4,387	0.6
Jakob Groot	8,319	1.1
Glenn Söderholm	24,425	3.1
Frederik Gjessing Vinten	587	0.1
Philippe Vollot	-	-

Holdings of conditional shares of the Executive Board and fair value at 31 December 2017

Grant year	2013-2017 Number	FV (Dkk m)
Thomas F. Borgen	18,121	4.4
Jacob Aarup-Andersen	3,596	0.9
Tonny Thierry Andersen	10,278	2.5
James Ditmore	27,250	6.6
Carsten Rasch Egeriis	-	-
Lars Mørch	9,988	2.4
Jesper Nielsen	1,449	0.4
Glenn Söderholm	7,199	1.7

In 2018, the average price at the vesting date for rights to conditional shares was DKK 165.5 (2017: DKK 240.6).

Notes – Danske Bank Group

35. Danske Bank shares held by the Board of Directors and the Executive Board

(Number)	Beginning of 2018	Upon appointment/ retirement	Additions	Disposals	End of 2018
Board of Directors					
Karsten Dybvad	-	-	-	-	-
Jan Thorsgaard Nielsen	-	-	-	-	-
Carol Sergeant	5,073	-	-	-	5,073
Bente Bang	-	213	-	-	213
Ingrid Bonde	-	2,000	-	-	2000
Lars-Erik Brenøe	14,302	-	-	-	14,302
Kirsten Ebbe Brich	2,208	-	-	-	2,208
Thorbjørn Lundholm Dahl	-	1,488	-	-	1488
Charlotte Hoffmann	2,175	-	-	-	2,175
Jens Due Olsen	-	7,600	-	-	7600
Rolv Erik Ryssdal	1,250	-	-	-	1,250
Hilde Tonne	1,000	-	-	-	1,000
Ole Andersen	53,199	-53,199	-	-	-
Urban Bäckström	11,000	-11,000	-	-	-
Dorte Annette Bielefeldt	2,286	-2,286	-	-	-
Jørn P. Jensen	2,098	-2,098	-	-	-
Carsten Eilertsen	120	-120	-	-	-
Martin Tivéus	-	-	-	-	-
Total	**94,711**	**-57,402**	**-**	**-**	**37,309**

Executive board					
Jesper Nielsen	12,792	-	1,954	-	14,746
Jacob Aarup-Andersen	11,589	-	771	-	12,360
Christian Baltzer	-	1,400	-	-	1,400
James Ditmore	22,102	-	20,367	-	42,469
Carsten Rasch Egeriis	1,144	-	190	-	1,334
Henriette Fenger Ellekrog	-	2,600	-	-	2,600
Jakob Groot	-	9,614	13,682	-	23,296
Glenn Söderholm	27,346	-	2,421	-	29,767
Frederik Gjessing Vinten	-	-	880	-	880
Philippe Vollot	-	-	-	-	-
Thomas F. Borgen	40,902	-45,885	4,983	-	-
Tonny Thierry Andersen	28,253	-30,294	3,294	-1,253	-
Lars Mørch	25,575	-28,514	2,939	-	-
Total	**169,703**	**-91,079**	**51,481**	**-1,253**	**128,852**

Danske Bank discloses all additions, disposals and total holdings of members of the Board of Directors and the Executive Board and their immediate family. Holdings of conditional shares of the members of the Executive Board are disclosed in note 34.

Notes – Danske Bank Group

36. Group holdings and undertakings

This note provides information on subsidiaries.

Accounting policy

The financial statements consolidate Danske Bank A/S and group undertakings in which the Group has control over financial and operating policy decisions. Control is said to exist if Danske Bank A/S, directly or indirectly, is exposed, or has rights, to variable returns from the involvement with the entity and has the ability to affect these returns through the power over the entity. Power exists if Danske Bank A/S, directly or indirectly, holds more than half of the voting rights in an undertaking or otherwise has power to control management and operating policy decisions. Operating policy control may be exercised through agreements about the undertaking's activities. In the rare situations where potential voting rights exist, these are taken into account if Danske Bank has the practical ability to exercise these rights.

When assessing whether to consolidate investment funds, the Group reviews all facts and circumstances to determine whether the Group, as fund manager, is acting as agent or principal. The Group is deemed to be a principal, and the Group controls and consolidates a fund when it acts as fund manager and cannot be removed without cause (i.e. when kick-out rights are weak), has variable returns through significant holdings, and is able to influence the returns of the funds by exercising its power. Holdings where all returns belong to customers (pooled schemes and unit-linked investment contracts) are not considered as exposure to variable returns, whereas holdings where the majority of the returns belong to customers (holdings related to insurance contracts) are considered only limited exposure to variable returns.

The consolidated financial statements are prepared by consolidating items of the same nature and eliminating intra-group transactions, balances and trading profits and losses.

Undertakings acquired are included in the financial statements at the time of acquisition. The net assets of such undertakings (assets, including identifiable intangible assets, less liabilities and contingent liabilities) are measured at fair value at the date of acquisition according to the acquisition method.

If the cost of acquisition (until 1 January 2010 including direct transaction costs) exceeds the fair value of the net assets acquired, the excess amount is recognised as goodwill. Goodwill is recognised in the functional currency of the undertaking acquired. The portion of the acquisition that is attributable to non-controlling interests does not include goodwill.

Divested undertakings are included in the financial statements until the transfer date. Changes in the ownership share in a subsidiary that do not result in loss of control are accounted for as equity transactions. This implies that the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in the relative interest in the subsidiary, and any difference between the fair value of the consideration paid/received and the adjustment made to non-controlling interests is attributed to the shareholders of Danske Bank A/S. If changes in the ownership share in a subsidiary result in the loss of control, any investment retained in the former subsidiary is recognised at fair value, and amounts recognised under Other comprehensive income are reclassified to the income statement or transferred directly to retained earnings if so required by other IFRSs. The difference between the fair value of the consideration received plus any investment retained in the former subisidiary and the carrying amount of the net assets in the subsidiary less the carrying amounts of any non-controlling interests is recognised in the income statement.

Held-for-sale group undertakings

Companies taken over by the Group under non-performing loan agreements and actively marketed for sale and expected to be sold within 12 months of classification are recognised as held-for-sale. Assets and liabilities in such companies are presented under Other assets and Other liabilities. The assets are recognised at the lower of cost and fair value less expected costs to sell.

(a) Further explanation

All credit institutions and insurance companies supervised by national FSAs are subject to local statutory capital requirements. These requirements restrict intra-group facilities and dividend payouts.

Danica Pension has an obligation to allocate part of the margin by which Danica Pension's equity exceeds the statutory solvency requirement to certain policyholders who were previously policyholders of Statsanstalten for Livsforsikring (now part of Danica Pension). This applies only if the margin exceeds the margin in Statsanstalten for Livsforsikring before the privatisation in 1990 and relates to any excess included in the shareholders' equity or paid out as dividend. Such special allotments are expensed and recognised under Net insurance benefits.

Restrictions impacting the Group's ability to use assets are disclosed in note 29 and include, among others, assets pledged as collateral under repo transactions funded by covered bonds and assets held by insurance subsidiaries that are primarily held to satisfy obligations to policyholders' savings.

The Group has established a number of investment funds in which the Group acts as fund manager. The Group has consolidated investment funds of DKK 10,691 million (2017: DKK 11,306 million), as the Group is deemed to be acting as principal rather than agent in its role as fund manager and as the Group is the sole investor. The investments are held to satisfy obligations towards insurance policyholders and are recognised under Assets under insurance contracts. The Group does not have consolidated structured entities in the form of securitisation vehicles or asset-backed financing vehicles.

Notes – Danske Bank Group

36. Group holdings and undertakings continued

(b) Acquisition of subsidiary undertaking

In December 2017, the Group entered into an agreement to purchase all shares of the Danish companies SEB Pensionforsikring A/S (including the property subsidiaries SEB Ejendomme I A/S and SEB Ejendomme II A/S) and SEB Administration A/S (the acquired companies are referred to as SEB Pension Danmark below). SEB Pensionsforsikring was a major player in the Danish pension and commercial market. The principal activity of SEB Administration was to provide administrative and agency services to the companies of the SEB Pension Danmark and other support function services.

Regulatory approvals were received on 30 May 2018, and the transaction was finalised on 7 June 2018. The financial statements of SEB Pension Danmark were consolidated in the financial statements of Danske Bank Group with effect from 7 June 2018. The companies have subsequently been renamed Danica Pensionsforsikring A/S and Danica Administration A/S.

Through the acquisition of SEB Pension Danmark, the Group will increase its presence in the Danish pension market, strengthen its innovation capacity and be able to offer its customers even better pension and insurance solutions.

The fair value of net assets acquired and recognised in the balance sheet of Danica Group at the time of acquisition is shown in the table below. The initial accounting for the acquisition of SEB Pension Danmark was finalised in the fourth quarter of 2018 and minor adjustments were made to the tax liability and other liabilities with a resulting impact on goodwill.

Recognised amounts of identifiable assets acquired and liabilities assumed

DKK millions	Fair value as at 7 June 2018
Assets under unit-linked investment contracts	30,902
Assets under insurance contracts	97,487
Customer relations	1,332
Tax assets	36
Other assets	3,103
Total assets	**132,860**
Deposits under unit-linked investment contracts	30,902
Liabilities under insurance contracts	72,485
Tax liabilities	533
Other liabilities	26,367
Total liabilities	**130,287**
Total identifiable net assets	2,573
Goodwill	2,427
Consideration paid in cash	**5,000**

No significant contingent liabilities exist at the acquisition date.

The fair value of liabilities under insurance contracts is calculated according to principles similar to those used in the Group's measurement of other liabilities under insurance contracts and is based on actuarial computations that rely on assumptions about a number of variables, including mortality and disability, and on the discount rate as at 7 June 2018.

Customer relations acquired in connection with the business combination are recognised as a separate identifiable intangible asset. The fair value of the customer relations at the acquisition date represents the net present value of expected future earnings related to the existing customer base in SEB Pension Danmark and is calculated based on the estimated future profit margin in the acquired companies at the acquisition date. Customer rights will be amortised over 10 years, which represents management's expectations to the period over which the majority of the future earnings on existing customer relations/contracts will be earned. If indications of objective evidence of impairment exists, the customer relations are tested for impairment and written down to the estimated value in use if the value is impaired.

Notes – Danske Bank Group

36. Group holdings and undertakings continued

Goodwill represents the value of the expected profit of SEB Pension Danmark which cannot be attributed reliably to individually identifiable assets, including the value of staff, know-how and innovation capacity as well as expected synergies, such as expense savings and ancillary business from the integration into Danske Bank Group. Goodwill has been tested for impairment in the fourth quarter of 2018 based on earnings estimates for the coming five financial years, which have been approved by the Board of Directors. For subsequent financial years, cash flows are extrapolated and adjusted for expected growth rates. A number of factors affect the net present value of such cash flows, including discount rates, changes in the economic outlook, customer behaviour, competition and actuarial assumptions. Expected cash flows are discounted by a post-tax rate of 9%, equalling 12% before tax, and the principal assumption applied in the cash flow terminal period is a growth rate of 0%. The excess value (the amount by which the recoverable amount exceeds the carrying amount) amounted to DKK 0.3 billion.

The consolidation of SEB Pension Danmark has increased net premiums recognised in the income statement by DKK 1,241 million and net profit after tax by DKK 64 million. Assuming that the Group had taken over SEB Pension Danmark with effect from 1 January 2018, the estimated impact on net premiums would have amounted to an increase of DKK 2.7 billion (including premiums on unit-link: increase of DKK 8.3 billion) and a change in net profit of DKK 330 million.

Except for the acquisition of SEB Pension Danmark in 2018, the Group's ownership share of the subsidiaries is unchanged from 2017 to 2018. However, in December 2018, Danica Pension entered into an agreement to sell Danica Pension Försäkringsaktiebolag. The sale is conditional on approval by the relevant authorities. Final approval is expected in the first half of 2019.

		Share capital (thousands)	Net profit (DKK m)	Shareholders' equity (DKK m)	Share capital (%)
Danske Bank A/S, Copenhagen	DKK	9,368,277	14,689	163,276	
Credit institutions					
Realkredit Danmark A/S, Copenhagen	DKK	630,000	4,337	49,891	100
Northern Bank Limited, Belfast	GBP	218,170	894	6,844	100
Danske Mortgage Bank Plc, Helsinki	EUR	70,000	168	1,954	100
Danske Hypotek AB (publ), Stockholm	SEK	50,000	90	1,430	100
Danske Bank International S.A., Luxembourg	EUR	90,625	125	1,294	100
Danske Bank, St. Petersborg	RUB	2,775,404	49	472	100
Insurance operations					
Forsikringsselskabet Danica, Skadeforsikringsaktieselskab af 1999, Copenhagen	DKK	1,001,000	1,082	18,898	100
Danica Pension, Livsforsikringsaktieselskab, Copenhagen	DKK	1,101,000	643	21,366	100
Danica Pension Försäkringsaktiebolag, Stockholm	SEK	100,000	107	504	100
Danica Pensjonsforsikring AS, Trondheim	NOK	106,344	49	512	100
Danica Pensionsforsikring A/S, Copenhagen	DKK	11,000	-137	1,910	100
Danica Administration A/S, Copenhagen	DKK	20,000	125	176	100
Investment and real property operations etc.					
Danica Ejendomsselskab ApS, Copenhagen	DKK	2,793,700	1,010	21,321	100
Danske Capital AS, Trondheim	NOK	6,000	35	58	100
DDB Invest AB, Stockholm	SEK	100,000	493	606	100
Danske Corporation, Delaware	USD	4	-	2	100
Danske Invest Management A/S, Copenhagen	DKK	118,000	121	449	100
Danske IT and Support services India Private Limited, Bangalore	INR	3,227,890	11	94	100
Danske Leasing A/S, Birkerød	DKK	10,000	271	2,626	100
Danske Markets Inc., Delaware	USD	1	39	206	100
Danske Private Equity A/S, Copenhagen	DKK	6,000	9	39	100
home a/s, Åbyhøj	DKK	15,000	38	137	100
MobilePay A/S, Copenhagen	DKK	10,500	-10	120	100
MobilePay Denmark A/S, Copenhagen	DKK	10,500	-52	108	100
MobilePay Finland OY, Helsinki	DKK	5,227	-	-	100

The list above includes significant active subsidiary operations only. In 2018 the Group purchased the Danish companies SEB Pensionsforsikring and SEB Administration A/S. The companies have subsequently been renamed Danica Pensionsforsikring A/S and Danica Administration A/S.

In 2018 the subsidiary MobilePay Finland OY was established and began activities. The Group´s ownership share of the other subsidiaries is unchanged from 2017 to 2018. The financial information above is extracted from the companies´ most recent annual reports prior to 1 February 2019. MobilePay Finland OY has not yet published its first annual report.

Notes – Danske Bank Group

37. Interests in associates and joint arrangements

This note provides information about the Group's interests in associates and joint arrangements.

Accounting policy

Joint ventures and associates are entities other than group undertakings in which the Group has holdings and joint control with one or more parties or significant but not controlling influence, respectively. The Group generally classifies entities as joint ventures/associates if Danske Bank A/S, directly or indirectly, holds 20-50% of the share capital and has influence over management and operating policy decisions. Holdings in joint ventures and associates are recognised at cost at the date of acquisition and are subsequently measured according to the equity method. The proportionate share of the net profit or loss of the individual entity is included under Income from holdings in associates. The share is calculated on the basis of data from financial statements with balance sheet dates no earlier than three months before the Group's balance sheet date. If objective evidence of impairment exists, the investment is recognised at the lower of carrying amount and the present value of future cash flows.

The proportionate share of the profit or loss on transactions between associates/joint ventures and group undertakings is eliminated.

Ownership shares held by the Group's insurance business are treated as held by a venture capital organisation and are measured at fair value.

Significant associates		Share capital (thousands)	Net profit (DKK m)	Shareholders' equity (DKK m)	Share capital (%)
LR Realkredit A/S, Copenhagen	DKK	70,000	141	3,414	31
Sanistål A/S, Aalborg	DKK	11,924	54	976	43

The total carrying amount of holdings in associates amounted to DKK 381 million (2017: DKK 455 million) and is presented under Other assets in note 23. The list above includes significant associates held at end-2018. The information is extracted from the companies' most recent annual reports. LR Realkredit A/S is a credit institution engaged in industry-specific financing. The Group's ownership share of the entity is the result of the conversion from a fund-owned entity into a limited company. Danske Bank's shares in the entity can be sold subject to certain conditions. Sanistål, which was taken over by the Group under a non-performing loan agreement, is the only listed company. The investment had a market value of DKK 319 million at 31 December 2018 (31 December 2017: DKK 376 million).

The Group does not have any significant holdings in joint ventures or joint operations.

Apart from the fact that LR Realkredit A/S as a credit institution is supervised by the national FSA and subject to local statutory capital requirements, there are no other significant restrictions on the ability of associates to transfer funds to Danske Bank Group in the form of dividends or to repay loans granted.

Notes – Danske Bank Group

38. Interests in unconsolidated structured entities

The Group has established a number of investment funds in which the Group acts as fund manager. The Group is entitled to receive management fees based on the assets under management. The Group may also retain units in these funds. The assets in unconsolidated investment funds managed by the Group totalled DKK 640.3 billion (2017: DKK 705.1 billion). The Group retained holdings of DKK 83.2 billion (2017: DKK 110.2 billion) in these funds. Substantially all of these holdings are related to pooled schemes, unit-linked investment contracts and insurance contracts. Income generated to the Group in the form of management fees amounted to DKK 3.6 billion (2017: DKK 4.2 billion). In addition, the Group has holdings in private equity investment funds of DKK 0.2 billion (2017: DKK 0.3 billion).

The Group has limited exposure to structured securitisation entities. The exposure dates back to the period between 2001-2007 when the Group acted as an investor. This involved the purchase of bonds and entering into facilities for securitisation assets that were either structurally senior or triple A-rated by at least one of the major rating agencies. The Group has not acted as a sponsor or an orginator, and none of the assets of the structured entities were previously held on the Group's balance sheet. The remaining exposure consists mainly of liquidity facilities and is reported as part of the credit exposure in the Non-core segment. At end-2018, the exposure amounted to DKK 4.3 billion (2017: DKK 4.9 billion). During the year, the Group did not provide any non-contractual financial or other support to any of the structural entities. The key risk on the portfolio relates to the underlying securitisation transactions, which consist mainly of commercial and residential mortgage loans originated in the UK and Germany.

39. Note to the cash flow statement

This note provides further information on the cash flow statement, including a reconciliation of the cash flows arising from financing activities.

Accounting policy

The cash flow statement is prepared according to the indirect method. The statement is based on pre-tax profit for the year and shows the cash flows from operating, investing and financing activities as well as the increase or decrease in cash and cash equivalents during the year. Cash and cash equivalents consists of cash in hand and demand deposits with central banks as well as amounts due from credit institutions and central banks with an original maturity shorter than three months.

In the cash flow statement, cash flows are divided into cash flows from operations, investing activities and financing activities. Investing activities include cash flows from the sale or acquisition of tangible and intangible assets as well as businesses. Financing activities include cash flows from the Group's issued subordinated debt, additional tier 1 capital (both liability- and equity-accounted bonds) and share capital.

All credit institutions and insurance companies supervised by national FSAs are subject to local statutory capital requirements. These requirements restrict intra-group facilities. Note 29 provides information on amounts due from credit institutions that are provided as collateral for liabilities or contingent liabilities.

Adjustment for non-cash operating items (DKK millions)	2018	2017
Income from holdings in associates	-451	-566
Amortisation/depreciation of intangible and tangible assets	4,010	3,482
Loan impairment charges	-387	-1,582
Other	-1,175	-2,426
Total	**1,997**	**-1,093**

Reconciliation of liabilities from financing activities

(DKK millions)	1 January 2018	Cash flows: Issued	Cash flows: Redeemed	Non-cash changes: Foreign exchange movement	Non-cash changes: Fair value changes	31 December 2018
Subordinated debt	**29,120**	**4,748**	**10,928**	**386**	**-234**	**23,092**
Non-preferred senior bonds	**-**	**25,816**		**375**	**162**	**26,353**

(DKK millions)	1 January 2017	Cash flows: Issued	Cash flows: Redeemed	Non-cash changes: Foreign exchange movement	Non-cash changes: Fair value changes	31 December 2017
Subordinated debt	**37,831**	**5,087**	**12,577**	**-633**	**-588**	**29,120**

Fair value changes include the impact from fair value hedge accounting, amortisation of transaction costs and changes in own holdings. The cash flows from debt issued and redeemed are based on the applicable foreign exchange rate at the transaction date. In note 22, which shows changes in the nominal value of subordinated debt, issue and redemption amounts are based on the exchange rate at the balance sheet date.

Notes – Danske Bank Group

40. Implementation of IFRS 16 Leases

Changes and impact on the Group's financial statements due to IFRS 16

On 1 January 2019, the Group will adopt IFRS 16 Leases issued by IASB in January 2016. The standard provides revised principles for lessees, which are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, there are no changes to the Groups accounting principles for lessor accounting.

For lease agreements, where the Group is the lessee, the Group will use the "simplified transition approach", and comparative information will not be restated. Lease liabilities will be measured at the present value of the remaining lease payments, discounted, using the Groups incremental borrowing rate at 1 January 2019. The lease asset are set equal to the lease liability.

At Danske Bank Group, the IFRS 16 project has been driven centrally be the parent company, Danske Bank A/S. The project has been organised around different working groups covering the different aspects of IFRS 16. Joint working groups, across legal entities and countries, have been set up. Groups that all have worked under the same steering committee, with members from different parts of Finance and Group Real Estate.

Impact assessment

Danske Bank Group´s existing lease agreements (mainly property and IT hardware leases) will result in a recognition of right of use assets and lease liabilities in the range of DKK 6.0-7.0 billion.

There will be no implementation impact on shareholders´ equity. Compared to IAS 17, the costs under IFRS 16 are front loaded, but will, accumulated over the lease period, be the same. Because of the front loading, the expected impact on profit before tax in 2019 is a reduction of around DKK 0.1 billion.

IFRS 16 requires the application of judgements and estimates. A key judgement has been to evaluate the reasonable certainty of extension and termination options, which has effect on the lease term. The operating lease commitment as of 31 December 2018, disclosed in note 25, includes solely minimum lease payments under the non-cancellable period. The increase in the balance sheet due to the implementation of IFRS 16 includes further lease payments for periods where the Group is reasonable certain to remain in the lease agreement.

Lease assets and lease liabilities will be presented as part of respectively Other assets and Other liabilities, and be disclosed in the notes.

Below, the changes due to the implementation of IFRS 16, including the new accounting policy of where the Group is lessee, is further explained.

Accounting principles

The Group assesses whether a contract is or contains a lease, at inception of a contract. For the Group, the new definition in IFRS 16 has not changed the scope of contracts that meets the definition of a lease. The Group recognises a right-of-use asset and a lease liability for all lease agreements except for short-term leases (lease term of 12 month or less) and leases of low value assets.

The lease liability is initially measured at the present value of the future payments from lease components, discounted using the incremental borrowing rate for the individual lease. The lease liability is subsequently measured by increasing the carrying amount, to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The Group remeasures the lease liability, using a revised discount rate when the lease term is changed or the lease contract is modified (Modification not accounted for as a separate lease). The Group remeasures the lease liability, using the initial discount rate, when lease payments changes due to changes in an index. Corresponding adjustment is the related right-of-use asset.

The initial right-of-use assets comprise the amount of the initial measurement of the lease liability, lease payments made at or before the commencement day, initial direct costs and costs to restore the underlying asset. The right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses. The right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset.

When the Group is an intermediate lessor, the Group accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Notes – Danske Bank Group – Risk management

Risk exposure

Danske Bank Group is exposed to a number of risks and manages them at various organisational levels.

The main categories of risk are the following:
- Credit risk: The risk of losses because debtors or counterparties fail to meet all or part of their payment obligations to the Group.
- Market risk: The risk of losses because the fair value of the Group's assets, liabilities and off-balance-sheet items varies with changes in market conditions.
- Liquidity risk: The risk of losses because funding costs become excessive, lack of funding prevents the Group from maintaining its business model, or lack of funding prevents the Group from fulfilling its payment obligations.
- Insurance risk: All types of risk at Danica Pension, including market risk, life insurance risk and operational risk.

Danica Pension is a wholly-owned subsidiary of Danske Bank A/S. As required by Danish law and the Danish Executive Order on the Contribution Principle, Danica Pension has notified the Danish Financial Supervisory Authority (the Danish FSA) of its profit policy. The contribution principle and the profit policy mean that policyholders assume the risks and receive the returns on assets allocated to them. Assets are allocated to policyholders to secure their guaranteed benefits. Market risk and other risks on assets and liabilities allocated to policyholders are therefore not consolidated in the tables of this section, but are treated in the section on insurance risk.

The Management's report and Risk Management 2018 provide a detailed description of Danske Bank Group's risk management practices, including on pension and non-financial risk. Risk Management 2018 is available at danskebank.com/ir. The publication is not covered by the statutory audit.

Total capital

The main purposes of the Group's capital management are to support its business strategy and to ensure that it is sufficiently capitalised to withstand even severe downturns without breaching regulatory requirements.

Danske Bank Group has licences to provide financial services and must therefore comply with the capital requirements of the Capital Requirements Regulation (CRR) and the Danish Financial Business Act. The Danish rules are based on the EU Capital Requirements Directive (CRD IV) and apply to both Danske Bank A/S (the Parent Company) and the Group. Similarly, the Group's financial subsidiaries in and outside Denmark must comply with local capital requirements. The regulatory requirements stipulate a minimum capital level of 8% of the total risk exposure amount (REA) under Pillar I (including risk exposure amounts for credit risk (including counterparty credit risk), market risk and operational risk). In addition, financial institutions are required to calculate their solvency need under Pillar II to reflect all relevant risks. Danske Bank A/S was designated a systemically important financial institution (SIFI) in Denmark in 2014. This means that the Group is subject to stricter requirements than non-SIFIs. Danske Bank Group's SIFI buffer requirement is set at an additional 3% above the regulatory requirements for common equity tier 1 (CET1) capital. The SIFI buffer requirement phase-in began on 1 January 2015 and will be completed by 2019. The Group's SIFI buffer requirement is currently 2.4% (2017: 1.8%).

The Group's total capital consists of tier 1 capital (share capital and additional tier 1 capital after deductions) and tier 2 capital (subordinated loan capital after deductions).

The Group's CET1 capital is based on the carrying amount of shareholders' equity with the following main adjustments:
- Adjustments to eligible capital instruments (such as deductions for equity-accounted additional tier 1 capital and the remaining share buyback programme)
- Prudential filters
- Proposed dividends
- Intangible assets of banking operations, including goodwill
- Deferred tax assets that rely on future profitability
- Defined benefit pension fund assets
- Statutory deductions for insurance subsidiaries etc.
- Reversal of the effect of IFRS 9 (expected credit losses) implementation due to transitional rules

The presentation of the Group's total capital in the statement of capital shows the difference between the carrying amount of shareholders' equity and CET1 capital. At the end of 2018, the Group's CET1 capital amounted to DKK 126.8 billion (2017: DKK 132.7 billion), and its CET1 capital ratio was 17.0% (2017: 17.6%)

The Group's additional tier 1 capital and tier 2 capital may, subject to certain conditions, be included in total capital. The conditions are described in the CRR. Until the CRR is fully phased in, transitional rules apply to instruments that do not qualify for inclusion according to the CRR. Notes 21 and 23(b) show additional tier 1 capital and tier 2 capital. At the end of 2018, the Group's total capital was DKK 159.7 billion (2017: DKK 170.3 billion), and its total capital ratio was 21.3% (2016: 22.6%). The Group's tier 1 capital was DKK 150.5 billion (2017: DKK 151.1 billion), and its tier 1 capital ratio was 20.1% (2017: 20.1%).

Risk Management 2018 provides a description of the Group's solvency need.

Notes – Danske Bank Group – Risk management

Total capital continued

As a consequence of increased capital requirements, the Group reassessed its capital targets in the second half of 2018. The common equity tier 1 (CET1) capital ratio target was set to around 16% (previously 14-15%). This implies a management buffer of around 2% to the fully phased-in CET1 capital requirement. The target for the total capital ratio was set to above 20% (previously above 19%).

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

Credit risk

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

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

The Group grants credits on the basis of information about customers' individual financial circumstances and monitors their financial situation with the aim of assessing whether the basis for granting credit facilities has changed. Facilities should adhere to the guidelines outlined in the Group's Credit Policy, including the Principles of Responsible Lending. The Principles of Responsible Lending focus on customers' understanding of the consequences of borrowing, on an assessment of their needs and ability to repay, and on possible conflicts with the Group's ethical guidelines. Facilities should match customers' financial situation, including their earnings, capital and assets, and business volume with Danske Bank to a reasonable degree, and customers must be able to substantiate their repayment ability. In order to mitigate credit risk, the Group uses collateral, guarantees and covenants.

Further information on the Group's risk management practices related to credit risk can be found in the report Risk management 2018.

Credit exposure

Credit exposure consists of balance sheet items and off-balance-sheet items that carry credit risk. Most of the exposure derives from lending activities in the form of secured and unsecured loans. The Non-core business unit is not considered part of Danske Bank's core activities and is stated separately. Securities positions taken by the Group's trading and investment units also entail credit risk and are presented as credit exposure from trading and investment securities as well as derivatives and loans at the Group's trading units.

The overall management of credit risk thus covers credit risk from direct lending activities, counterparty credit risk on derivatives and loans at the Group's trading units and credit risk from securities positions.

The Group's exposure to the risk on some balance sheet items is limited. This is the case for assets under customer-funded investment pools, unit-linked investment contracts and insurance contracts. The risk on assets under pooled schemes and unit-linked investment contracts is assumed solely by the customers, while the risk on assets under insurance contracts is assumed primarily by the customers. The section on insurance risk describes the Group's credit risk on insurance contracts.

Notes – Danske Bank Group – Risk management

Credit exposure continued

Breakdown of credit exposure

(DKK billions) 31 December 2018	Total	Lending activities Core	Non-core	Counterparty credit risk	Trading and investment securities	Customer-funded investments
Balance sheet items						
Demand deposits with central banks	32.2	32.2	-	-	-	-
Due from credit institutions and central banks	225.6	168.6	-	57.0	-	-
Trading portfolio assets	415.8	-	-	244.3	171.5	-
Investment securities	276.4	-	-	-	276.4	-
Loans at amortised cost	986.2	972.1	14.1	-	-	-
Loans at fair value	1,057.3	794.9	-	262.4	-	-
Assets under pooled schemes and unit-linked investment contracts	94.0	-	-	-	-	94.0
Assets under insurance contracts	377.4	-	-	-	-	377.4
Off-balance-sheet items						
Guarantees	83.7	83.1	0.7	-	-	-
Loan commitments shorter than 1 year	183.8	181.0	2.7	-	-	-
Loan commitments longer than 1 year	161.3	160.4	0.9	-	-	-
Other unutilised commitments	0.3	-	-	-	0.3	-
Total	**3,894.1**	**2,392.3**	**18.4**	**563.7**	**448.2**	**471.4**
31 December 2017						
Balance sheet items						
Demand deposits with central banks	73.8	73.8	-	-	-	-
Due from credit institutions and central banks	277.7	277.6	-	-	-	-
Repo loans with credit institutions and central banks	56.3	56.3	-	-	-	-
Trading portfolio assets	449.3	-	-	256.9	192.4	-
Investment securities	324.6	-	-	-	324.6	-
Loans at amortised cost	940.5	935.8	4.7	-	-	-
Repo loans	172.2	172.2	-	-	-	-
Loans at fair value	787.2	787.2	-	-	-	-
Assets under pooled schemes and unit-linked investment contracts	112.1	-	-	-	-	112.1
Assets under insurance contracts	296.9	-	-	-	-	296.9
Off-balance-sheet items						
Guarantees	84.5	84.5	-	-	-	-
Loan commitments shorter than 1 year	142.1	139.4	2.8	-	-	-
Loan commitments longer than 1 year	161.8	161.2	0.6	-	-	-
Other unutilised commitments	0.4	-	-	-	0.4	-
Total	**3,879.4**	**2,688.0**	**8.2**	**256.9**	**517.4**	**408.9**

Following the extensive data analysis etc performed during the implementation of IFRS 9, a further DKK 64.8 billion was included as loan commitments in the table above. The commitments consist of loan offers that previously were included as uncommitted lines. The comparative information on the credit exposure was not restated. At 31 December 2017, these commitments amounted to DKK 69.1 billion.

In addition to credit exposure from lending activities, the Group had made uncommitted loan offers and granted uncommitted lines of credit of DKK 205 billion at 31 December 2018 (31 December 2017: DKK 269 billion).These items are included in the calculation of the total risk exposure amount in accordance with the Capital Requirements Directive.

Notes – Danske Bank Group – Risk management

Credit exposure continued

Credit exposure from core lending activities

Credit exposure from lending activities in the Group's core banking business includes loans, amounts due from credit institutions and central banks, guarantees and irrevocable loan commitments. The exposure is measured net of accumulated impairment charges. For reporting purposes, all collateral values are net of haircuts and capped at the exposure amount. The credit exposure from Non-core lending activities is disclosed later in these notes.

For details about the Group's credit risk management and the use of information on expected credit losses for risk management purposes, see Risk Management 2018.

Classification of customers

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

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

In its credit risk management, the Group uses point-in-time (PIT) PD estimates for risk classification. These PIT PD estimates express a customer's probability of default within the next 12 months in the current economic situation. The Group's classification scale consists of 11 main rating categories with fixed PD bands. During a downturn, a customer's PIT PD may increase, and the customer may migrate to a lower rating category. The effect from a downturn is thus larger when PIT PD is used than if the classification was based on through-the-cycle (TTC) PD, which the Group uses to calculate the risk exposure amount for credit risk.

The classification of facilities into stages 1 and 2 for the purpose of calculating expected credit loss impairment charges under IFRS 9 depends on whether the credit risk has increased significantly since initial recognition. The assessment of whether the credit risk has increased significantly since initial recognition is performed by considering the change in the risk of default occurring over the remaining life of the individual facility and incorporating forward-looking information. A facility is transferred from stage 1 to stage 2 on the basis of observed increases in a customer's probability of default:

- For facilities originated below 1% in PD: an increase in the facility's 12-month PD of at least 0.5 of a percentage point since initial recognition and a doubling of the facility's lifetime PD since origination
- For facilities originated above 1% in PD: an increase in the facility's 12-month PD of 2 percentage points since origination or a doubling of the facility's lifetime PD since origination

In addition, facilities that are more than 30 days past due are moved to stage 2. Finally, customers subject to forbearance measures are placed in stage 2, if the Group, in the most likely outcome, expects no loss if the customers are subject to the two-year probation period for performing forborne exposures.

A facility is transferred from stage 2 to stage 3 when it becomes credit-impaired. A facility becomes credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows have occurred. This includes observable data about (a) significant financial difficulty of the issuer or the borrower; (b) a breach of contract, such as a default or past due event; (c) the borrower, for financial or contractual reasons relating to the borrower's financial difficulty, having been granted a concession that would not otherwise have been considered; (d) it is becoming probable that the borrower will enter into bankruptcy or other financial restructuring; and (e) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit loss. It may not be possible to identify a single discrete event – instead, the combined effect of several events may cause a financial asset to become credit-impaired. Credit-impaired facilities are placed in rating category 10 or 11. For customers in rating category 10, the stage 3 classification applies only to customers where a loss is expected in the most likely scenario. For rating category 11 (default), all facilities are classified as stage 3 exposures.

Exposures which are considered to be in default for regulatory purposes will always be categorised as stage 3 exposures under IFRS 9. This applies to 90-days-past-due considerations and to unlikely-to-pay factors leading to regulatory default.

Expected credit losses

From 1 January 2018, the Group uses the expected credit loss impairment model in IFRS 9. The expected credit loss is calculated for all individual facilities as a function of the probability of default (PD), the exposure at default (EAD) and the loss given default (LGD). Accordingly, 12- month expected credit losses are recognised for exposures in stage 1, while lifetime expected credit losses are recognised for exposures in stage 2-3.

Notes – Danske Bank Group – Risk management

Credit exposure continued

Credit portfolio in core activities broken down by rating category and stages in IFRS 9

31 December 2018	PD level		Gross exposure			Expected credit loss			Net exposure			Net exposure, ex collateral		
(DKK billions)	Upper	Lower	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
1	-	0.01	178.9	0.1	-	0.0	0.0	-	178.9	0.1	-	193.2	0.0	-
2	0.01	0.03	169.8	0.3	0.0	0.0	0.0	0.0	169.8	0.3	0.0	88.4	0.1	0.0
3	0.03	0.06	443.9	0.9	0.0	0.0	0.0	0.0	443.8	0.9	0.0	151.6	0.2	0.0
4	0.06	0.14	593.2	10.2	0.2	0.1	0.0	0.0	593.1	10.2	0.2	218.1	8.5	0.0
5	0.14	0.31	442.7	13.7	0.4	0.2	0.1	0.0	442.5	13.6	0.4	136.8	6.1	0.0
6	0.31	0.63	246.4	17.4	0.1	0.3	0.3	0.0	246.1	17.1	0.1	76.5	5.2	-0.0
7	0.63	1.90	131.5	45.4	0.1	0.3	1.4	0.0	131.2	44.0	0.1	38.6	14.0	0.0
8	1.90	7.98	16.3	32.2	0.1	0.6	2.0	0.0	15.6	30.2	0.1	3.3	7.8	-0.0
9	7.98	25.70	1.3	9.4	0.2	0.1	1.1	0.0	1.2	8.3	0.2	0.4	2.0	0.2
10	25.70	99.99	4.3	8.9	22.1	0.0	0.4	4.4	4.3	8.6	17.7	1.4	1.6	5.5
11 (default)	100.00	100.00	1.4	1.1	20.3	-	0.1	9.0	1.4	1.0	11.3	0.1	0.1	0.9
Total			**2,229.6**	**139.6**	**43.6**	**1.6**	**5.4**	**13.4**	**2,228.0**	**134.2**	**30.1**	**908.4**	**45.6**	**6.7**

Credit portfolio in core activities broken down by rating category

2017	PD level		Gross exposure	Acc. individual impairment charges	Net exposure	Net exposure, ex collateral
(DKK billions)	Upper	Lower	a	b	=a-b	
1	-	0.01	323.8	-	323.8	291.1
2	0.01	0.03	268.6	-	268.6	124.2
3	0.03	0.06	436.6	-	436.6	139.3
4	0.06	0.14	586.7	-	586.7	227.6
5	0.14	0.31	489.1	-	489.1	157.6
6	0.31	0.63	297.7	-	297.7	82.2
7	0.63	1.90	170.3	-	170.3	44.7
8	1.90	7.98	56.5	-	56.5	15.9
9	7.98	25.70	11.2	-	11.2	3.7
10	25.70	99.99	37.2	6.0	31.3	9.2
11 (default)	100.00	100.00	26.1	10.0	16.1	2.1
Total before collective impairment charges			**2,703.9**	**16.0**	**2,688.0**	**1,097.5**
Collective impairment charges			4.1			
Total gross exposure			**2,708.0**			

Notes – Danske Bank Group – Risk management

Credit exposure continued

Credit portfolio in core activities broken down by industry (NACE) and stages in IFRS 9

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

31 December 2018	Gross exposure			Expected credit loss			Net exposure			Net exposure, ex collateral		
(DKK billions)	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Public Institutions	219.5	0.0	0.0	0.0	0.0	0.0	219.5	0.0	0.0	214.6	0.0	0.0
Banks	47.1	0.2	0.0	0.0	0.0	0.1	47.1	0.2	0.0	46.8	0.2	0.0
Credit Institutes	5.8	0.0	-	0.0	0.0	-	5.8	0.0	-	5.8	0.0	-
Insurance	8.9	0.0	0.0	0.0	0.0	0.0	8.9	0.0	0.0	6.4	0.0	-0.0
Investment funds	23.5	0.9	0.5	0.0	0.0	0.1	23.5	0.9	0.4	11.4	0.2	0.2
Other financials	10.8	0.0	-	0.0	0.0	-	10.8	0.0	-	10.0	0.0	-
Agriculture	58.8	8.8	6.7	0.4	1.1	1.9	58.3	7.7	4.8	11.1	2.1	0.6
Commercial property	279.2	17.4	6.3	0.2	0.7	1.6	279.0	16.7	4.7	47.8	5.0	0.3
Construction & building products	30.9	4.9	1.0	0.0	0.1	0.4	30.8	4.9	0.6	22.4	3.1	0.4
Consumer discretionary	99.2	7.1	2.8	0.0	0.3	1.2	99.2	6.8	1.7	57.0	3.7	0.6
Consumer staples	58.8	2.6	0.8	0.0	0.1	0.2	58.8	2.5	0.6	41.5	1.6	0.1
Energy & utilities	44.3	8.5	3.4	0.0	0.2	0.8	44.3	8.2	2.6	34.9	6.5	2.0
Health care	36.6	1.2	0.1	0.0	0.0	0.0	36.6	1.2	0.1	31.7	0.8	0.0
Industrial Services, supplies & machinery	102.2	8.3	2.7	0.0	0.2	1.0	102.2	8.1	1.7	83.5	6.1	0.9
IT & telecom	28.6	0.8	0.2	0.0	0.0	0.1	28.6	0.8	0.1	26.3	0.6	0.1
Materials	46.7	2.1	0.7	0.0	0.1	0.4	46.7	2.0	0.4	35.3	0.8	0.2
Non-profit & associations	183.6	3.4	2.2	0.1	0.1	0.5	183.5	3.3	1.7	32.4	0.5	0.2
Other commercials	30.3	0.8	0.1	0.1	0.0	0.1	30.2	0.8	0.0	26.5	0.4	-0.0
Shipping	27.5	5.5	6.9	0.0	0.3	1.7	27.4	5.2	5.2	11.1	0.7	0.1
Transportation	23.6	3.2	0.3	0.0	0.1	0.1	23.6	3.2	0.2	15.0	1.6	0.0
Personal customers	863.7	63.9	8.7	0.6	2.1	3.3	863.1	61.7	5.5	136.8	11.7	1.2
Total	**2,229.6**	**139.6**	**43.6**	**1.6**	**5.4**	**13.4**	**2,228.0**	**134.2**	**30.1**	**908.4**	**45.6**	**6.7**

Notes – Danske Bank Group – Risk management

Credit exposure continued

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

2017 (DKK billions)	Gross exposure a	Acc. individual impairment charges b	Net exposure =a-b	Net exposure, ex collateral
Public institutions	414.4	0.0	414.4	369.3
Banks	53.2	0.1	53.1	40.4
Credit institutions	9.4	-	9.4	3.9
Insurance	38.2	0.0	38.2	4.8
Investment funds	24.9	0.2	24.7	10.7
Other financials	92.8	0.0	92.8	19.6
Agriculture	65.1	2.5	62.5	11.3
Commercial property	299.4	2.5	296.9	55.3
Construction & building products	45.1	0.5	44.6	33.4
Consumer discretionary	107.1	1.3	105.8	59.5
Consumer staples	57.8	0.2	57.6	41.0
Energy and utilities	51.1	0.4	50.7	41.0
Health care	34.9	0.1	34.8	29.0
Industrial services, supplies & machinery	96.7	1.1	95.6	77.6
IT and telecommunication services	30.6	0.1	30.5	28.1
Materials	50.5	0.5	49.9	38.1
Non-profit & associations	170.3	0.7	169.6	39.4
Other commercials	85.8	0.2	85.6	37.9
Shipping	36.7	0.7	36.0	13.1
Transportation	24.6	0.1	24.5	13.1
Personal customers	915.5	4.8	910.6	131.1
Total before collective impairment charges	**2,703.9**	**16.0**	**2,688.0**	**1,097.5**
Collective impairment charges	4.1			
Total gross exposure	**2,708.0**			

Notes – Danske Bank Group – Risk management

Credit exposure continued

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

Credit portfolio in core activities broken down by business unit and stages in IFRS 9

31 December 2018	Gross exposure			Expected credit loss			Net exposure			Net exposure, ex collateral		
(DKK billions)	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Retail	469.1	31.7	4.7	0.5	1.5	2.3	468.6	30.2	2.4	51.8	5.7	0.8
Commercial	422.9	24.3	18.4	0.7	1.8	5.5	422.3	22.6	12.9	103.5	8.6	1.9
Banking DK	892.0	56.0	23.1	1.2	3.2	7.8	890.8	52.8	15.3	155.3	14.4	2.6
Sweden	271.9	16.5	1.3	0.1	0.5	0.4	271.8	16.0	0.9	100.6	5.1	0.4
Norway	189.1	13.7	2.2	0.1	0.3	0.9	189.1	13.4	1.3	60.6	4.1	0.6
Finland	147.9	13.6	2.7	0.0	0.3	0.8	147.9	13.3	1.9	36.0	2.4	0.3
Other	37.0	9.1	1.0	0.0	0.3	0.4	37.0	8.8	0.6	19.8	2.3	0.1
Banking Nordic	645.9	52.8	7.2	0.2	1.4	2.6	645.7	51.4	4.7	216.9	14.0	1.3
C&I	534.7	21.4	9.5	0.1	0.6	2.1	534.6	20.8	7.4	471.8	14.5	1.8
Wealth Management	82.1	4.1	1.6	0.0	0.1	0.3	82.1	4.0	1.3	20.6	0.9	0.5
Northern Ireland	62.6	5.3	2.1	0.0	0.1	0.6	62.5	5.2	1.5	31.9	1.8	0.4
Other	12.2	0.1	0.0	0.0	0.0	0.0	12.2	0.1	0.0	11.9	0.1	0.0
Total	2,229.6	139.6	43.6	1.6	5.4	13.4	2,228.0	134.2	30.1	908.4	45.6	6.7

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

Credit portfolio in core activities broken down by business unit

31 December 2017	Gross exposure	Acc. individual impairment charges	Net exposure	Net exposure, ex collateral
(DKK billions)	a	b	=a-b	
Retail	500.2	3.4	496.8	62.1
Commercial	452.1	7.0	445.1	116.7
Banking DK	**952.3**	**10.4**	**941.9**	**178.8**
Sweden	249.4	0.5	256.1	82.7
Norway	190.9	1.1	192.4	58.5
Finland	157.2	1.1	156.1	34.6
Other	41.2	0.4	40.8	16.4
Banking Nordic	**638.7**	**3.1**	**645.4**	**192.2**
C&I	**930.6**	**1.3**	**929.3**	**644.4**
Wealth Management	**85.6**	**0.4**	**85.2**	**21.9**
Northern Ireland	**63.7**	**0.7**	**63.0**	**29.5**
Other	**23.2**	**0.0**	**23.2**	**21.0**
Total before collective impairment charges	**2,703.9**	**16.0**	**2,688.0**	**1,097.6**
Collective impairment charges	4.1			
Total gross exposure	**2,708.0**			

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

Notes – Danske Bank Group – Risk management

Concentration risk

The Group has implemented a set of frameworks to manage the concentration risk to which the Group is exposed. These frameworks cover single-name concentrations, industry concentrations and geographical concentrations.

Industry concentrations
The industry concentration framework outlines the principles of managing industry exposures. A portfolio committee consisting of industry experts, risk representatives and business unit representatives proposes industry limits based on scorecards, tailored analytics and expert knowledge.

Geographical concentrations
Credit reporting includes a breakdown by region. Limits are set on exposures outside the Group's home markets (sovereigns, financial institutions and counterparties in derivatives trading). Limits are approved by the Group Credit Committee on the basis of expected business volume and an assessment of the specific country risk.

Single-name concentrations
Single-name concentrations are managed according to two frameworks:

Single-name concentration framework: This risk-sensitive internal framework specifies limits on exposure, expected loss (EL) and loss given default (LGD) in order to limit potential losses on single-name exposures. Single-name concentrations are monitored and reported to the All Risk Committee and the Risk Committee.

Large exposures framework: This framework is based on the regulatory definition of large exposures as specified in article 395 of the CRR (Regulation (EU) No. 575/2013).

The Group has also defined stricter internal limits for managing single-name concentrations, including the following:

- absolute limit on single-name exposures
- the sum of single-name exposures larger than 10% of the total adjusted capital may not exceed a portfolio limit of 95% of the total adjusted capital
- the sum of single-name exposures equal to 5% to 10% of the total adjusted capital may not exceed 150% of the total adjusted capital

The largest single-name exposures are monitored daily under the large exposures framework. Large exposures are reported on a quarterly basis to the Group All Risk Committee, the Board Risk Committee and the Board of Directors. At the end of 2018, the Group was well within the regulatory limits for large exposures.

The Group has reduced single-name exposures substantially in recent years.

Collateral

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

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

The market value of collateral is subject to a haircut. The haircut reflects the risk that the Group will not be able to obtain the estimated market value upon the sale of the individual asset in a distressed situation. The haircut applied depends on the type of collateral. For regulatory purposes, the Group also applies a downturn haircut.

The composition of the Group's collateral base reflects the product composition of the credit portfolio. The most important collateral types, measured by volume, are real property and financial assets in the form of shares and bonds. For reporting purposes, all collateral values are net of haircuts and capped by the exposure amount at the facility level.

Notes – Danske Bank Group – Risk management

Collateral continued

Type of collateral in core activities (after haircuts)

	Banking DK		Banking Nordic		C&I		Wealth Management		Northern Ireland		Other		Total	
(DKK billions)	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Real property	775.4	752.6	392.6	369.2	27.5	33.4	56.0	53.4	30.3	29.1	0.3	0.3	1,282.1	1,238.0
- Personal	444.4	436.9	242.8	249.8	0.0	1.8	54.0	52.4	18.3	16.1	0.1	0.1	759.7	757.0
- Commercial	288.8	273.0	143.4	118.7	25.6	29.6	1.6	1.0	9.2	10.1	0.2	0.2	468.7	432.5
- Agricultural	42.2	42.7	6.4	0.8	1.9	1.9	0.4	0.0	2.8	2.9	-	-	53.7	48.4
Bank accounts	0.2	0.3	0.7	0.6	0.1	0.4	0.3	0.3	-	-	0.0	-	1.3	1.5
Custody account and securities	3.4	3.1	1.9	2.3	10.7	216.4	7.4	7.5	-	-	0.0	1.9	23.4	231.2
Vehicles	1.7	1.7	19.2	17.7	0.7	1.5	0.0	0.0	-	-	0.0	0.0	21.6	20.9
Equipment	3.2	3.2	15.1	13.1	1.2	1.2	0.0	0.0	2.7	2.5	0.0	0.0	22.3	19.9
Vessels and aircraft	1.6	1.7	2.4	2.0	24.9	22.9	0.0	0.0	0.0	0.0	-	-	28.9	26.6
Guarantees	0.8	0.8	6.2	6.1	3.7	3.4	1.7	2.0	0.0	0.0	0.0	0.0	12.4	12.3
Amounts due	0.0	0.0	3.8	3.6	0.2	0.0	0.0	0.0	0.5	0.4	0.0	-	4.5	4.1
Other assets	0.2	-	27.7	28.8	5.7	5.8	0.1	0.1	1.5	1.5	-	-	35.0	36.2
Total collateral	786.6	763.1	469.6	443.5	74.7	284.9	65.4	63.3	35.1	33.5	0.3	2.2	1,431.6	1,590.5
Total unsecured credit exposure	172.3	178.7	232.2	202.0	488.1	644.4	22.0	21.9	34.1	29.5	11.9	21.0	960.7	1,097.5
Unsecured portion of credit exposure (%)	18.0	19.0	33.1	31.3	86.7	69.3	25.2	25.7	49.3	46.8	97.2	90.7	40.2	40.8

Notes – Danske Bank Group – Risk management

Past due amounts in core activities (excluding loans in rating category 10 and 11)

Past due amounts

	Banking DK		Banking Nordic		C&I		Wealth Management		Northern Ireland		Other		Total past due amount		Total due under loans	
(DKK millions)	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
6-30 days	74	45	37	39	3	6	8	9	6	5	-	-	128	103	1,789	2,161
31-60 days	26	17	22	17	1	-	13	10	2	1	-	-	64	45	652	629
> 60 days	31	26	58	7	-	-	1	1	1	6	-	-	91	40	772	399
Total past due amounts	**131**	**88**	**117**	**62**	**5**	**7**	**23**	**20**	**8**	**11**	**-**	**-**	**284**	**188**	**-**	**-**
Total due under loans	**775**	**732**	**2,236**	**2,144**	**37**	**73**	**86**	**162**	**77**	**77**	**2**	**-**	**-**	**-**	**3,213**	**3,188**

For the past due amounts, the average unsecured portion of the claims recorded was 14.3% at the end of 2018 (2017: 30.0%). Real property accounted for 76.4% of collateral provided (2017: 64.0%).

Forbearance practices and repossessed assets

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

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. At the end of 2018, the Group recognised properties taken over in Denmark at a carrying amount of DKK 26 million (31 December 2017: DKK 38 million) and properties taken over in other countries at DKK 0million (31 December 2017: DKK 44 million). The properties are held for sale and included under Other assets in the balance sheet.

Forbearance leads to objective evidence of impairment, and impairments relating to forborne exposures are handled according to the principles described in Note 1, Basis of preparation – Measurement of loans.

The Group has implemented the European Banking Authority's (the EBA's) definition of loans subject to forbearance measures. The table below is based on the EBA's definition, which states that a minimum two-year probation period must pass from the date when forborne exposures are considered to be performing again. Such exposures are included in the Under Probation category in the table below. Exposures with forbearance measures are divided into performing and non-performing loans. The Group's definition of non-performing loans is described in the next section. The increase in forborne exposures relates to proactive forbearance measures taken by Danske Bank to improve the financial position of weak customers particularly towards customers in the Oil & gas segment.

Exposures subject to forbearance measures

	2018		2017	
(DKK millions)	Performing	Non-performing*	Performing	Non-performing*
Active forbearance	9,143	8,828	8,255	12,718
Under probation	6,482	-	6,472	-
Total	**15,625**	**8,828**	**14,727**	**12,718**

*These loans are part of the total non-performing loan amount. For more details, see the "Non-performing loans in core activities" table.

Notes – Danske Bank Group – Risk management

Non-performing loans

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

The table below shows the reconciliation at 31 December 2018 between the gross exposure in stage 3 and gross non-performing loans.

Net NPL bridge

(DKK billions)	2018 Non-default	2018 Default	2018 Total
Gross exposure in stage 3	23,2	20,3	43,6
None or an immatrial allowance account	9,4	4,3	13,6
Gross non-performing loans	13,9	16,0	29,9

Non-performing loans in core activities

(DKK millions)	2018	2017
Total non-performing loans	16,903	17,290
- Portion from customers in default*	7,289	6,049
Coverage ratio (default) (%)	96	97
Coverage ratio (non-default) (%)	69	73
Coverage ratio (total non-performing loans) (%)	85	86
Non-performing loans as a percentage of total gross exposure (%)	1.2	1.2

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

Non-performing loans in core activities broken down by industry (NACE)

(DKK millions)	2018 Gross exposure a	2018 Expected credit loss b	2018 Net exposure =a-b	2018 Net exposure, ex collateral	2017 Gross exposure a	2017 Acc. individual impairment charges b	2017 Net exposure =a-b	2017 Net exposure, ex collateral
Public Institutions	2	-	2	-	6	1	6	2
Banks	126	125	-	-	127	128	-	-
Credit Institutes	-	-	-	-	-	-	-	-
Insurance	13	7	5	-	14	8	6	-
Investment funds	130	94	36	4	248	162	86	36
Other financials	-	-	-	-	-	-	-	-
Agriculture	3,685	1,897	1,788	399	4,306	2,540	1,766	285
Commercial property	4,465	1,576	2,889	58	6,033	2,451	3,583	184
Construction & building products	868	376	492	115	852	542	310	150
Consumer discretionary	2,011	1,137	875	238	2,208	1,305	902	272
Consumer staples	432	178	255	12	342	163	179	-
Energy & Utilities	2,571	827	1,744	388	1,354	408	946	-
Health care	85	36	50	12	85	51	35	10
Industrial Services, Supplies & Machinery	2,207	957	1,250	316	1,915	1,089	827	64
IT & telecom	168	89	79	37	146	88	58	33
Materials	659	356	303	119	846	522	324	76
Non-profit & Associations	1,117	451	666	47	1,808	680	1,128	85
Other commercials	65	53	13	-	195	191	5	-
Shipping	5,072	1,625	3,446	-	2,037	681	1,356	68
Transportation	236	107	129	6	173	117	56	-
Personal customers	6,011	3,130	2,882	553	10,558	4,841	5,717	1,323
Total NPL	**29,924**	**13,021**	**16,903**	**2,302**	**33,255**	**15,965**	**17,290**	**2,587**

For non-performing exposures, the average unsecured portion was 13.6% at the end of 2018 (31 December 2017: 15.0%). Real property accounted for 52.5% of collateral provided (31 December 2017: 74.9%).

Notes – Danske Bank Group – Risk management

Non-performing loans continued

Non-performing loans in core activities broken down by business unit

	2018				2017			
(DKK millions)	Gross exposure a	Expected credit loss b	Net exposure =a-b	Net exposure, ex collateral	Gross exposure a	Acc. individual impairment charges b	Net exposure =a-b	Net exposure, ex collateral
Retail	3,870	2,235	1,636	711	6,782	3,431	3,351	1,377
Commercial	11,853	5,371	6,482	848	13,913	7,188	6,725	405
Banking DK	**15,724**	**7,606**	**8,118**	**1,559**	**20,695**	**10,619**	**10,075**	**1,781**
Sweden	1,106	416	690	29	909	475	434	70
Norway	1,951	885	1,066	-	2.805	1.166	1.639	69
Finland	1.365	781	584	96	2,825	1,103	1,723	154
Other	868	370	498	125	458	188	270	53
Banking Nordic	**5,290**	**2,451**	**2,838**	**250**	**6,998**	**2,932**	**4,066**	**346**
C&I*	**6,788**	**2,048**	**4,740**	**347**	**3,368**	**1,284**	**2,084**	**153**
Wealth Management	**665**	**301**	**364**	**38**	**778**	**401**	**378**	**143**
Northern Ireland	**1,448**	**613**	**835**	**104**	**1,412**	**727**	**685**	**162**
Other	**9**	**2**	**6**	**4**	**4**	**3**	**2**	**1**
Total NPL	**29,924**	**13,021**	**16,903**	**2,302**	**33,255**	**15,965**	**17,290**	**2,587**

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

Notes – Danske Bank Group – Risk management

Expected credit losses (allowance account) in core activities

From 1 January 2018, the allowance account reflects the expected credit loss impairment model in IFRS 9. The expected credit loss is calculated for all individual facilities as a function of the probability of default (PD), the exposure at default (EAD) and the loss given default (LGD). In general, the Group's IFRS 9 impairment models and parameters draw on the bank's internal models in order to ensure alignment of models across the Group. New models and calculations have been developed especially for IFRS 9 purposes, including models for lifetime PD, prepayment and forward-looking LGD. All expected credit loss impairments are allocated to individual exposures. For significant stage 3 exposures, the Group determines the expected credit losses individually.

Expected credit losses (allowance account) in core activities broken down by segment

(DKK millions)	Banking DK	Banking Nordic	C&I	Wealth Management	Northern Ireland	Other	Allowance account Total
1 January 2017	14,899	3,737	3,032	534	1,273	1	23,479
New and increased impairment charges	2,210	1,284	764	83	95	43	4,479
Reversals of impairment charges from previous periods	2,942	893	390	152	334	39	4,750
Write-offs debited to allowance account	1,367	439	814	4	207	-	2,831
Foreign currency translation	-8	-106	-205	-3	-38	-	-361
Other	129	-44	-8	2	-25	-2	52
31 December 2017	**12,922**	**3,540**	**2,379**	**460**	**764**	**3**	**20,069**
Transition effect (ECL at 1 January 2018), including impact on loans granted by Realkredit Danmark	14,045	4,427	2,779	468	902	12	2,562
ECL on new assets	1,381	712	773	63	61	-	2,991
ECL on assets derecognised	-1,964	-823	-908	-98	-103	-	-3,896
Impact on remeasurement of ECL (incl. change in models)	-117	166	325	23	58	-	454
Write-offs debited to allowance account	-1,189	-315	-18	-20	-112	-	-1,654
Foreign currency translation	-8	-50	19	-	-13	-	-51
Other	37	20	-164	-13	-	-2	-122
As at 31 December 2018	**12,185**	**4,137**	**2,806**	**423**	**792**	**9**	**20,353**

The method used for calculating expected credit losses is described in detail in note 15.

The incorporation of forward-looking elements reflects the expectations of the Group's senior management and involves the creation of scenarios (base-case, upside and downside scenarios), including an assessment of the probability for each scenario. The base-case scenario is assigned a probability of 60%, the upside scenario a probability of 25% and the downside scenario a probability of 15%. On the basis of these assessments, the allowance account at 31 December 2018 amounted to DKK 20.4 billion. If the base case scenario was assigned a probility of 100%, the allowance account would decrease DKK 0.4 billion. The allowance account would increase DKK 3.4 billion, if the downside scenario was assigned a probability of 100%. If instead the upside scenario was assigned a probability of 100%, the allowance account would decrease DKK 0.5 billion.

According to the Group's definition of a significant increase in credit risk, i.e. when a loan is transferred from stage 1 to stage 2, facilities with an initial PD below 1% are transferred to stage 2 if the facility's 12-month PD has increased by at least 0.5 of a percentage point and the facility's lifetime PD has doubled since origination). If instead an increase in the facility's 12-month PD by at least 0.25 of a percentage point combined with a doubling of the lifetime PD was considered a significant increase in credit risk, the allowance account would increase by DKK 0.1 billion.

The Group applies post-model adjustments of DKK 4.4 billion. Around half of all the adjustments relate to high-risk industries such as Agriculture and Oil & gas, for which the Group has no specific expected credit loss models, and consequently makes supplementary calculations in order to ensure sufficient impairment coverage. Remaining adjustments are made to take into account non-linear downside risks, such as the property market in Copenhagen for which the macroeconomic forecasts used in the models are based on the Danish property market as a whole and therefore adjustments are made to reflect the fact that a further specific downside risk currently exists for properties in Copenhagen. Finally, post-model adjustments are made for portfolios where the Group's quality assurance teams have identified gaps in the credit risk assessment process that could lead to an underestimation of the expected credit losses.

Notes – Danske Bank Group – Risk management

Allowance account in core activities continued

Allowance account in core activities

(DKK millions)	Stage 1	Stage 2	Stage 3	Total
Collective and individual impairment charges under IAS 39, as at 31 December 2017				20,069
Transition effect (ECL at 1 January 2018), including impact on loans granted by Realkredit Danmark	1,498	5,530	15,602	2,562
Transferred to stage 1 during the period	971	-814	-157	-
Transferred to stage 2 during the period	-30	876	-846	-
Transferred to stage 3 during the period	-20	-422	442	-
ECL on new assets	361	1,032	1,606	2,999
ECL on assets derecognised	-317	-1,180	-2,408	-3,905
Impact of net remeasurement of ECL (incl. changes to models)	-818	408	863	453
Write-offs debited to the allowance account	-30	-14	-1,611	-1,654
Foreign exchange adjustments	-12	-7	-33	-51
Other	-30	-35	-54	-119
As at 31 December 2018	**1,574**	**5,375**	**13,405**	**20,353**

The stage 3 allowance account includes DKK 5.2 billion relating to originated credit impaired financial assets. Originated credit impaired financial assets are granted as part of restructuring non-performing loan exposures, and are otherwise outside the Group's credit policy. The Group has not acquired any credit impaired financial assets.

Loans in core activities

(DKK millions)	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 1 January 2018	2,520,519	122,133	65,399	2,708,052
Transferred to stage 1	37,069	-34,682	-2,387	-
Transferred to stage 2	-45,246	58,761	-13,515	-
Transferred to stage 3	-3,269	-2,734	6,004	-
New assets	713,227	29,481	8,098	750,805
Assets derecognised	-901,864	-27,946	-17,475	-947,286
Other changes	87,308	5,510	2,638	95,456
As at 31 December 2018	**2,233,127**	**139,503**	**43,486**	**2,416,115**

The contractual amount of loans written off in 2018 and for which the Group retains the right to enforce its claims amounted to DKK 1,172 million.

Allowance account in core activities broken down by balance sheet item

(DKK millions)	2018	2017
Due from credit institutions and central banks	15	10
Loans at amortised cost	15,129	16,057
Loans at fair value	3,184	3,347
Loan commitments and guarantees	2,025	655
Total	**20,353**	**20,069**

Notes – Danske Bank Group – Risk management

Credit exposure from Non-core lending activities

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

With effect from 1 April 2018, the Group repositioned its activities in the Baltic countries to focus exclusively on customers with a significant Nordic footprint. As a result, net credit exposure of DKK 14.6 billion was transferred to the Non-core unit.

Credit portfolio in Non-core activities broken down by industry (NACE) and stages in IFRS 9

2018	Gross exposure			Expected credit loss			Net exposure			Net exposure, ex collateral		
(DKK millions)	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Non-core banking	13,074	1,027	810	28	76	291	13,046	951	519	6,148	383	194
Personal customers	4,034	594	341	11	35	106	4,023	558	235	1,578	212	91
Commercial customers	6,991	400	469	16	39	185	6,975	360	284	2,789	143	103
Public Institutions	2,049	33	-	-	1	-	2,049	32	-	1,781	28	-
Non-core conduits etc.	3,450	-	888	-	-	422	3,450	-	466	555	-	181
Total	**16,524**	**1,027**	**1,698**	**28**	**76**	**713**	**16,496**	**951**	**985**	**6,703**	**383**	**375**

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

2017 (DKK millions)	Gross exposure a	Acc. individual impairment charges b	Net exposure =a-b	Net exposure, ex collateral
Personal customers	3,787	177	3,610	70
Consumer discretionary	20	20	-	-
Commercial property	35	36	-	-
Other	48	48	-	-
Non-core banking	**3,890**	**280**	**3,610**	**70**
Non-core conduits etc.	**4,882**	**299**	**4,583**	**1,262**
Total Non-core before collective impairment charges	**8,772**	**579**	**8,193**	**1,332**
Collective impairment charges	101			
Total gross Non-core exposure	**8,873**			

Notes – Danske Bank Group – Risk management

Credit exposure from Non-core lending activities continued

Credit portfolio in Non-core activities broken down by rating category and stages in IFRS 9

2018 (DKK millions)	PD level Upper	PD level Lower	Gross exposure Stage 1	Gross exposure Stage 2	Gross exposure Stage 3	Expected credit loss Stage 1	Expected credit loss Stage 2	Expected credit loss Stage 3	Net exposure Stage 1	Net exposure Stage 2	Net exposure Stage 3	Net exposure, ex collateral Stage 1	Net exposure, ex collateral Stage 2	Net exposure, ex collateral Stage 3
1	-	0.01	137	-	-	-	-	-	137	-	-	-	-	-
2	0.01	0.03	1,088	-	-	-	-	-	1,088	-	-	-	-	-
3	0.03	0.06	1,740	19	10	-	-	-	1,740	19	10	264	19	10
4	0.06	0.14	3,299	195	105	2	-	-	3,298	195	105	1,877	83	52
5	0.14	0.31	2,691	191	103	3	-	-	2,688	191	103	669	31	15
6	0.31	0.63	2,583	180	96	7	-	-	2,576	180	96	1,335	85	45
7	0.63	1.90	3,185	269	115	10	32	-	3,175	237	115	1,674	113	57
8	1.90	7.98	1,119	93	40	6	17	-	1,113	76	40	619	36	19
9	7.98	25.70	257	45	10	-	27	-	257	18	10	223	16	8
10	25.70	99.99	161	16	879	-	-	407	161	16	472	-35	-3	170
11 (default)	100.00	100.00	265	19	340	-	-	306	265	19	34	77	4	1
Total			**16,524**	**1,027**	**1,698**	**28**	**76**	**713**	**16,496**	**951**	**985**	**6,703**	**383**	**375**

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

2017 (DKK millions)	PD level Upper	PD level Lower	Gross exposure a	Acc. individual impairment charges b	Net exposure =a-b	Net exposure, ex collateral
1	-	0.01	287	-	287	-
2	0.01	0.03	1,054	-	1,054	-
3	0.03	0.06	1,762	-	1,762	461
4	0.06	0.14	639	-	639	298
5	0.14	0.31	61	-	61	-
6	0.31	0.63	339	-	339	17
7	0.63	1.90	2,177	-	2,177	5
8	1.90	7.98	765	-	765	105
9	7.98	25.70	315	-	315	25
10	25.70	99.99	832	303	530	418
11 (default)	100.00	100.00	539	277	262	-
Total Non-core before collective impairment charges			**8,771**	**579**	**8,192**	**1,331**
Collective impairment charges			101			
Total Non-core exposure			**8,872**			

Notes – Danske Bank Group – Risk management

Credit exposure from Non-core lending activities continued

Non-performing loans in Non-core activities broken down by industry (NACE)

	2018				2017			
	Gross exposure	Expected credit loss	Net exposure	Net exposure, ex collateral	Gross exposure	Acc. individual impairment charges	Net exposure	Net exposure, ex collateral
(DKK millions)	a	b	=a-b		a	b	=a-b	
Non-core banking	578	133	444	32	422	280	142	9
Personal customers	306	69	237	31	319	177	142	9
Commercial customers	272	64	208	-	103	103	-	1
Public Institutions	-	-	-	-				
Non-core conduits etc.	888	422	466	181	802	299	503	503
Total	**1,466**	**555**	**910**	**213**	**1,224**	**579**	**645**	**512**

The average unsecured portion of non-performing loans was 23.4% at the end of 2018 (2017: 79.4%). Real property accounted for 100% of collateral provided (2017: 99.9%).

Counterparty credit risk

Exposure to counterparty credit risk and credit exposure from trading and investment securities

(DKK billions)	2018	2017
Counterparty credit risk		
Derivatives with positive fair value	244.3	256.9
Reverse transactions and other loans at fair value*	319.4	-
Credit exposure from other trading and investment securities		
Bonds	441.6	496.7
Shares	6.3	20.3
Other unutilised commitments**	0.3	0.4
Total	**1,011.9**	**774.3**

* Reverse transactions and other loans at fair value included as counterparty credit risk are loans at the trading units of Corporates & Institutions. These loans consist of reverse transactions of DKK 317.8 million, of which DKK 56.3 million relates to credit institutions and central banks, and other primarily short-term loans of DKK 1.6 billion million, of which DKK 0.6 billion million relates to credit institutions and central banks.

** Other unutilised commitments comprise private equity investment commitments and other obligations.

Notes – Danske Bank Group – Risk management

Counterparty credit risk continued

Counterparty credit risk (derivatives)

Derivatives are subject to credit risk. Positive and negative fair values of derivatives with the same counterparty are offset in the balance sheet if certain conditions are fulfilled. The Group has entered into master netting or similar agreements that include rights to additional set-off in the event of default by a counterparty. Such agreements reduce the exposure further, but they do not qualify for offsetting under IFRSs. The net current exposure to derivatives with positive market value after offsetting under master netting agreements amounted to DKK 68.6 billion (2017: DKK 74.8 billion) (see note 30). The exposure is broken down by rating category in the table below.

Net current exposure broken down by category (DKK millions)	2018	2017
1	7,074	16,979
2	15,406	23,441
3	26,674	12,988
4	10,760	9,851
5	5,962	8,551
6	1,766	1,905
7	689	660
8	128	118
9	32	111
10	79	134
11	67	83
Total	**68,636**	**74,820**

The counterparty credit risk on derivatives is managed by PFE (potential future exposure) lines on a set of maturity buckets. Line checks are performed prior to trading. The Group carries out counterparty credit risk measurement and monitoring as well as intraday line utilisation monitoring on a daily basis. Consolidated counterparty credit risk exposure is reported to senior management. The Group uses a simulation model to calculate counterparty credit risk exposure for the majority of its portfolio.

The Group makes fair value adjustments to cover the counterparty credit risk on derivatives with positive fair value (CVA) that are recognised in the financial statements. For more information, see note 30.

Bond portfolio

(DKK millions)	Central and local govern-ment bonds	Quasi-government bonds	Danish mortgage bonds	Swedish covered bonds	Other covered bonds	Corporate bonds	Total
2018							
Held-for-trading (FVPL)	93,333	883	33,302	29,801	2,798	6,214	166,331
Managed at fair value (FVPL)	14,949	486	38,187	4,026	634	320	58,602
Held to collect and sell (FVOCI)	9,071	1,261	60,543	827	2,582	-	74,284
Held to collect (AMC)	53,033	1,015	77,378	7,427	3,144	422	142,419
Total	**170,386**	**3,645**	**209,410**	**42,081**	**9,158**	**6,956**	**441,636**
2017							
Held-for-trading	74,424	1,499	40,195	47,825	3,696	5,941	173,581
Designated at fair value	31,029	649	54,585	5,240	5,819	276	97,598
Available-for-sale	2,858	939	73,490	473	1,103	-	78,863
Hold-to-maturity	62,414	1,319	73,260	6,822	2,462	420	146,697
Total	**170,725**	**4,406**	**241,530**	**60,360**	**13,080**	**6,637**	**496,739**

At 31 December 2018, the Group had an additional bond portfolio, including bond-based unit trust certificates, worth DKK 191,606 million (31 December 2017: DKK 158,061 million) recognised as assets under insurance contracts and thus not included in the table above. The section on insurance risk provides more information.

Notes – Danske Bank Group – Risk management

Bond portfolio continued

Bond portfolio broken down by geographical area

(DKK millions)	Central and local govern-ment bonds	Quasi-government bonds	Danish mortgage bonds	Swedish covered bonds	Other covered bonds	Corporate bonds	Total
2018							
Denmark	39,404	-	209,263	-	-	782	249,450
Sweden	42,755	-	146	42,081	-	1,939	86,920
UK	6,306	-	-	-	1,989	159	8,454
Norway	10,539	-	-	-	3,867	1,700	16,106
USA	11,055	338	-	-	-	4	11,397
Spain	4,360	-	-	-	2	1	4,362
France	11,421	-	-	-	948	387	12,757
Luxembourg	-	2,841	-	-	-	3	2,843
Finland	10,944	435	-	-	1,041	653	13,073
Ireland	3,738	-	-	-	8	13	3,758
Italy	1,488	-	-	-	-	2	1,490
Portugal	899	-	-	-	-	-	899
Austria	3,717	-	-	-	-	12	3,729
Netherlands	7,848	-	-	-	94	477	8,419
Germany	11,287	-	-	-	993	50	12,330
Belgium	4,625	-	-	-	85	5	4,715
Other	-	32	-	-	132	769	933
Total	**170,386**	**3,645**	**209,410**	**42,081**	**9,158**	**6,956**	**441,636**
2017							
Denmark	22,830	-	241,527	-	406	2,220	266,983
Sweden	25,882	-	-	60,360	-	1,855	88,097
UK	5,899	-	-	-	1,787	196	7,883
Norway	4,577	-	3	-	5,781	495	10,855
USA	11,014	158	-	-	-	12	11,184
Spain	12,387	-	-	-	132	-	12,519
France	20,234	-	-	-	955	613	21,802
Luxembourg	-	3,194	-	-	-	4	3,198
Finland	16,390	1,054	-	-	1,685	698	19,827
Ireland	3,252	-	-	-	3	7	3,262
Italy	8,194	-	-	-	-	7	8,201
Portugal	256	-	-	-	-	-	256
Austria	9,070	-	-	-	227	3	9,299
Netherlands	7,457	-	-	-	224	342	8,024
Germany	15,752	-	-	-	1,351	62	17,165
Belgium	7,297	-	-	-	116	4	7,418
Other	234	-	-	-	414	119	768
Total	**170,725**	**4,406**	**241,530**	**60,360**	**13,080**	**6,637**	**496,739**

Risk Management 2018 provides additional details about the risk on the Group's bond portfolio. The publication is not covered by the statutory audit.

Notes – Danske Bank Group – Risk management

Bond portfolio continued

Bond portfolio broken down by external ratings

(DKK millions)	Central and local government bonds	Quasi-government bonds	Danish mortgage bonds	Swedish covered bonds	Other covered bonds	Corporate bonds	Total
2018							
AAA	111,689	2,474	209,353	42,081	8,319	148	374,064
AA+	20,341	470	-	-	35	123	20,969
AA	22,757	701	-	-	799	1,595	25,852
AA-	4,911	-	-	-	2	173	5,087
A+	-	-	-	-	-	570	570
A	3,738	-	34	-	4	2,117	5,893
A-	1	-	-	-	-	360	362
BBB+	4,358	-	-	-	-	426	4,784
BBB	218	-	23	-	-	736	976
BBB-	2,368	-	-	-	-	281	2,649
BB+	4	-	-	-	-	170	174
BB	-	-	-	-	-	127	127
BB-	-	-	-	-	-	30	30
Sub-inv. grade or unrated	-	-	-	-	-	99	99
Total	**170,386**	**3,645**	**209,410**	**42,081**	**9,158**	**6,956**	**441,636**

(DKK millions)	Central and local government bonds	Quasi-government bonds	Danish mortgage bonds	Swedish covered bonds	Other covered bonds	Corporate bonds	Total
2017							
AAA	84,721	2,699	241,350	60,360	11,561	1,693	402,384
AA+	21,127	343	-	-	336	126	21,932
AA	32,258	1,365	57	-	192	782	34,653
AA-	8,362	-	100	-	-	92	8,554
A+	138	-	-	-	130	256	524
A	3,252	-	14	-	857	1,481	5,604
A-	-	-	-	-	-	427	427
BBB+	85	-	-	-	-	391	476
BBB	20,496	-	6	-	-	486	20,989
BBB-	-	-	-	-	-	197	197
BB+	256	-	-	-	-	141	397
BB	-	-	-	-	-	353	353
BB-	-	-	-	-	-	39	39
Sub-inv. grade or unrated	31	-	3	-	4	172	209
Total	**170,725**	**4,406**	**241,530**	**60,360**	**13,080**	**6,637**	**496,739**

Notes – Danske Bank Group – Risk management

Market risk

Market risk is the risk of losses or gains caused by changes in the market values of the Group's financial assets, liabilities and off-balance-sheet items resulting from changes in market prices or rates. Market risk affects the Group's financial statements through the valuation of on-balance-sheet and off-balance-sheet items; some of the Group's financial instruments, assets and liabilities are valued on the basis of market prices, while others are valued on the basis of market prices and valuation models developed by the Group. In addition, net interest income generated through the non-trading portfolios will be affected by the level of interest rates.

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 Market Risk Policy is supported by the Market Risk Instructions, Instructions set by the Board of Directors. The latter document defines the overall limits for various market risk factors and additional boundaries within which the trading activities are performed.

The Group's market risk management is intended to ensure proper oversight of all market risks, including both trading-related market risk and non-trading-related market risk as well as market risk in relation to fair value adjustments. The market risk framework is designed to systematically identify, assess, monitor and report market risk. The Group manages its market risk by means of three separate frameworks for the following areas:

- Trading-related activities at Corporates & Institutions
- Fair value adjustments (xVA) at Corporates & Institutions
- Non-trading portfolios at Group Treasury

Interest rate risks and other market risks associated with assets and liabilities in the non-trading portfolios are managed by Group Treasury. The market risk on assets in which the shareholders' equity of Danica Pension is invested and on assets allocated to Danica Pension's policyholders is treated as an insurance risk. The market risk on defined benefit pension plans is treated as a pension risk.

Trading-related market risk at Corporates & Institutions

The trading-related activities at Corporates & Institutions cover trading in fixed income products, derivatives, foreign exchange, money markets, debt capital markets and equities. Corporates & Institutions acts mainly as a market maker processing large client flows.

The table below shows the VaR for the trading-related activities at Corporates & Institutions.

Value-at-Risk for trading-related activities at C&I

	2018		2017	
(DKK millions)	Average	End of year	Average	End of year
Total	30	30	46	37

The Group continued to maintain a low risk in its trading operations in 2018, reducing its average trading-related market risk to DKK 30 million in 2018 (2017: DKK 46 million).

Market risk in relation to fair value adjustments

The Group's fair value adjustments (xVA) cover funding value adjustments (FVA), credit value adjustments (CVA) and debit value adjustments (DVA). The Group applies a market-implied approach that is in line with industry best practice. When managing xVA, the Group focuses on managing economic risk rather than regulatory capital. This means that the Group recognises market risk on all counterparties and not just counterparties in scope for the CVA risk charge. The Group's strategy is to continue developing the xVA model so that it remains in line with best practices in the market.

For the purpose of reducing P/L volatility caused by xVA, the Group pursues a strategy to hedge the most significant risk in financial markets to maintain income stability and predictability under this framework. In practice, the Group buys a hedge of offsetting interest rate swaps and CDS contracts in the financial markets. The Group hedges open foreign exchange risk under this framework. Conversely, the Group may maintain exposure to own funding spread risk and sovereign spread risk.

Market risk in relation to the non-trading portfolios at Group Treasury

The Group's exposure to market risk in its non-trading portfolios originates mainly from interest rate risk in the banking book (IRRBB), 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. In addition, the Group holds a portfolio of unlisted shares relating mainly to private equity funds and banking-related investments.

Notes – Danske Bank Group – Risk management

Market risk continued

Interest rate risk in the banking book (IRRBB)

The Group applies an IRRBB limit framework dedicated specifically to measuring the changes in the economic-value-based metric. The limit framework is completely separate from the framework governing trading-related market risk. This supports Group Treasury's focus on managing the risk arising from the banking book, including the liquidity buffer and banking book hedge transactions.

The Group's total interest rate sensitivity in the banking book (value-based measure) is shown below.

Interest rate risk in the banking book under the new limit framework

	2018		2017	
At last business day (DKK millions)	+100bp	-100bp	+100bp	-100bp
Total	**4,086**	**-2,471**	**3,932**	**-2,637**

The sensitivity to falling interest rates decreased from DKK 2,637 million in 2017 to DKK 2,471 million in 2018, while the sensitivity to increasing interest rates increased from DKK 3,932 million in 2017 to DKK 4,086 million in 2018.

Value-at-Risk for capital requirement purposes

The Group uses its internal VaR model to measure the risk exposure amount for market risk in its trading book. The trading book covers trading-related market risk at Corporates & Institutions and hedging in relation to fair value adjustments of interest rate risk and the part of the CDS spread risk hedging that is not included in the risk exposure amount calculations for credit value adjustment (CVA) risk..

The Group also uses the internal VaR model for calculating the stressed VaR capital charge. Incremental risks, such as default and rating migration risks on bond issuers and CDS names, are estimated in the incremental risk model.

The risk exposure amount for the Group's minor exposures to commodity risk and collective investment undertakings are calculated according to the standardised approach.

The risk exposure amount for CVA risk is mainly measured in the internal VaR model based on exposure calculations from the counterparty risk exposure model and allocated CDS spread hedges. The risk exposure amount for CVA risk from the Group's minor exposure to transactions not included in the counterparty risk exposure model is calculated according to the standardised approach.

The table below shows the VaR figures calculated at a confidence level of 99% and on a 10-day horizon used for calculating the risk exposure amount for market risk.

2018	Daily VaR				Stressed VaR			
(DKK millions)	Avg. VaR	Minimum VaR	Maximum VaR	End of year	Avg. VaR	Minimum VaR	Maximum VaR	End of year
Total VaR	**163**	**111**	**258**	**129**	**511**	**375**	**667**	**429**

2017	Daily VaR				Stressed VaR			
(DKK millions)	Avg. VaR	Minimum VaR	Maximum VaR	End of year	Avg. VaR	Minimum VaR	Maximum VaR	End of year
Total VaR	**238**	**120**	**402**	**242**	**571**	**397**	**873**	**545**

Notes – Danske Bank Group – Risk management

Liquidity risk

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

Taking on liquidity risk is an integral part of the Group's business strategy. Realkredit Danmark and Danica Pension each manage their liquidity separately and are not included in the Group's general liquidity reporting. At Realkredit Danmark, the financing of mortgage loans through the issuance of listed mortgage bonds with matching conditions has eliminated liquidity risk in all material respects. Danica Pension's balance sheet contains long-term life insurance liabilities and assets, most of which are invested in easily marketable bonds and shares. Both companies are subject to statutory limits on their exposures to Danske Bank A/S. In the following, references to the Group's liquidity thus exclude Realkredit Danmark and Danica Pension with the exception of the Group's liquidity coverage ratio, which includes Realkredit Danmark data.

Markets and funding

On the back of strong economic growth, monetary policy was tightened in the US in 2018 with interest rate increases and a reversal of quantitative easing. In Europe, many eurozone economies remain weak and rate increases are not expected in the near future. For the time being, quantitative easing is coming to an end. Other central banks have made similar moves. Liquidity is therefore becoming less abundant and the supply of wholesale deposits is weakening.

In addition, the investigation of the non-resident portfolio at the Group's Estonian branch and the subsequent downgrade of some of Danske Bank's ratings has resulted in higher credit risk premiums and thus narrowed funding opportunities somewhat for unsecured instruments. For secured instruments the effect is insignificant. However, Danske Bank has access to the funding that it needs, and the Group's stable funding profile allows it to cope with the currently challenging environment.

At the end of 2017, the Group's liquidity coverage ratio (LCR) stood at 171%. This was much higher than the targets, reflecting the abundance of liquidity. During 2018, the LCR was gradually reduced as both short term funding and the corresponding liquidity reserves were reduced. Towards the end of 2018 the LCR stabilised, ending the year at 121%. This LCR level is based primarily on core stable funding elements such as retail and corporate deposits supplemented by long term funding.

Liquidity risk management

At the group level, liquidity management is based on the monitoring and management of short- and long-term liquidity risks. Liquidity triggers make up a vital part of daily liquidity management since they are used as early warnings of a potential liquidity crisis. The triggers are monitored by various functions across the Group, depending on the type of trigger. Liquidity management is organised according to the framework described in the following sections, although it is not limited to that framework.

Distance to default

The principal aim of the Group's short-term risk management is to ensure that, in the short term, the liquidity reserve is always sufficient to absorb the net effects of known future receipts and payments from current transactions. Bond holdings that can be used in repo agreements with central banks are considered liquid assets. To take account of the potential risk of drawings under loan commitments, the Group factors in the unutilised portion of facilities in the calculation of liquidity risk.

For liquidity management purposes, the Group distinguishes between liquidity in DKK and liquidity in other currencies. This is because of the Group's strong position in the Danish market and because the Group has a net deposit surplus in DKK (deposits exceed lending) and a net deposit shortfall in SEK and NOK. Other currencies such as USD and GBP roughly balance out. The net deposit surplus in Danish kroner is a valuable, stable funding source for the Group. In addition to limits set by the Board of Directors and the Group All Risk Committee, the Group Liquidity Risk Committee sets overnight targets for each key currency.

Distance to default under stress

The Group conducts stress tests to measure its immediate liquidity risk and to ensure that it has sufficient time to respond to potential crises. The stress tests estimate liquidity risk in various scenarios, including three standard scenarios: a scenario specific to the Group, a general market crisis scenario and a combination of the two.

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

Liquidity coverage ratio, aggregated and by currency

The LCR requirement stipulates that financial institutions must have a liquidity reserve in excess of projected net outflows during a severe stress scenario lasting 30 calendar days. By executive order, Danish SIFIs are subject to currency-specific liquidity requirements. The requirements apply individually and only for currencies that are significant to the individual bank. For Danske Bank, these currencies are USD and EUR. Though also significant, NOK and SEK are not subject to such requirements due to a high degree of interechangeability for DKK, NOK and SEK assets.

Notes – Danske Bank Group – Risk management

Liquidity risk continued

Market reliance

Managing reliance on wholesale funding is a key concern for the Group. Wholesale funding is less stable than retail funding, especially in the event of general market unrest or issues specific to Danske Bank, as was the case in 2018. Large market funding needs can make the Group vulnerable to investor sentiments, market stress and market dysfunctionalities. The size and maturity profile of wholesale funding and the maturity mismatch profile must therefore be prudent.

Retail deposits, are a very important funding source for the Group. It is stable partly because most retail deposits are covered by a deposit guarantee scheme which eliminates credit exposure to the bank.

Given the relevant assumptions about a crisis scenario, stress tests show whether the Group's liquidity reserve is sufficient to withstand liquidity outflows, even if capital markets are inaccessible. Such stress tests are performed on a monthly basis to calculate the minimum reserve required to withstand a 12 month crisis scenario.

Funding sources

The Group monitors its funding mix to ensure that it is well-diversified in terms of funding sources, maturities and currencies. A diverse range of funding sources provides protection against market disruptions. The following tables break down funding sources by type and currency. It does not include mortgage bonds issued by Realkredit Danmark.

Funding sources by type of liability (%)	2018	2017
Central banks/credit institutions	8	7
Repo transactions	14	12
Short-term bonds	2	5
Long-term bonds	6	7
Other covered bonds	12	11
Deposits (business)	28	28
Deposits (personal)	21	21
Subordinated debt	1	1
Shareholders' equity	8	8
Total	**100**	**100**

Funding sources by currency (%)	2018	2017
DKK	31	31
EUR	31	32
USD	13	16
SEK	10	6
GBP	5	7
NOK	8	7
Other	1	1
Total	**100**	**100**

Notes – Danske Bank Group – Risk management

Liquidity risk continued

Liquidity reserve

The minimum size and the composition of the liquidity reserve are determined on the basis of the Group's capacity to meet its obligations in case of a stressed liquidity situation. The LCR and internal stress tests determine the minimum size.

Danske Bank's liquidity reserve consists of liquid assets available to the Group (Group Treasury) in a stressed situation. Assets received as collateral are included in the reserve, while assets used as collateral – or otherwise encumbered - are excluded. The table below shows the nominal value of the Group's liquidity reserve without haircuts. Haircuts and other restrictions are applied in order to determine liquidity values for regulatory and internal stress testing purposes. These parameters differ according to purpose. Most of the Group's bond holdings are highly liquid because they are repo eligible with central banks and in money markets. Central bank eligibility is vital for intra-day liquidity management and overnight liquidity facilities and also for determining liquidity in markets during stressed periods. Central bank eligibility is a positive indicator as is external credit rating.

Nominal value of the liquidity buffer available to the Group

(DKK billions)	2018	2017
Cash and holdings at central banks	142	289
Securities issued or guaranteed by sovereigns	122	99
Covered bonds (including mortgage bonds)	236	215
Issued by other institutions	188	187
Own issued	48	28
Other	12	15
Total	**512**	**618**

Other regulatory measures

Political agreement about the Net Stable Funding Ratio (NSFR) has now been reached between the EU legislators as part of a larger legislative package. Formal adoption is expected to occur in mid-2019 meaning that the NSFR will become binding in mid-2021.

The NSFR is a balance sheet based funding and liquidity measure with a time horizon of one year. It seeks to ensure a balance between a bank's asset side commitments and the stability of its funding.

It uses a scoring mechanism for assets and liabilities and calculates an aggregate 'stability score' for liabilities (maturities over 1 year and equity are preferred) and a 'liquidity score' for assets. The less liquid the assets are, the more stable the funding must be. Preliminary calculations indicate that Danske Bank is in compliance with the NSFR and will remain so with its current funding plan.

The so-called Supervisory Diamond provides guidelines to financial institutions in Denmark on what the authorities consider prudent policy. In practice these guidelines are binding. The diamond contains five requirements, hence the name. The requirement for liquidity resembles the LCR requirement but covers 90 days and omits certain features peculiar to the LCR.

Notes – Danske Bank Group – Risk management

Insurance risk

The Group's insurance risk consists of all risks related to its investment in Danica Pension, including market risk, life insurance risks and non-financial risks.

Net income from insurance business is derived primarily from
- the risk allowance from conventional life insurance business with guaranteed benefits
- unit-linked business
- health and accident business
- return on assets in which the shareholders' equity of Danica Pension is invested

The risk allowance is the annual return that Danica Pension may book from its conventional life insurance business (*Danica Traditionel*). The booking of the risk allowance is governed by the Danish FSA's Executive Order on the Contribution Principle. Under these rules, Danica Pension may book a risk allowance of 0.40-0.90% of the technical provisions (depending on the individual interest rate group) as long as any difference between the technical basis and the risk allowance can be covered by the bonus potentials or the profit margin.

According to the Danish FSA's Executive Order on the Contribution Principle, policyholders' funds in *Danica Traditionel* must be ring-fenced in groups with generally the same technical rate of interest, insurance risk and expenses. Danica Pension has individual investment and hedging strategies for each group. Furthermore, the collective bonus potential, the risk allowance, etc., are also determined for each group individually.

During 2018, Danica Pension's acquisition of SEB Pension took effect. In terms of product offerings and risk management, SEB Pension was very similar to Danica Pension's existing Danish operations, but enjoyed strong bonus potentials in the conventional life insurance business. As such, the acquired business has added a stable and capital efficient cash flow to Danica Pension.

Towards the end of 2018, Danica Pension announced the sale of its operations in Sweden. The transaction is subject to approval by the authorities, and is expected to take effect during 2019. Danica Pension's offering in Sweden is almost exclusively unit-link, and the sale will have a limited effect on risk.

Financial risks

Market risk involves the risk of losses on assets in which the shareholders' equity of Danica Pension is invested and the risk of losses on policies with guaranteed benefits because of changes in the fair value of assets and liabilities allocated to these contracts. Such changes in fair value can be caused by changes in interest rates, exchange rates, equity prices, property prices, credit spreads and market liquidity and also by issuer or counterparty defaults. Insurance obligations carry interest rate risk owing to the guarantees issued. For example, if market interest rates drop, the fair value of insurance obligations increases.

Danica Pension monitors the market risk on an ongoing basis and has set maximum risk targets for each asset class. In addition, Danica Pension conducts internal stress tests to ensure that it can withstand significant losses on its equity and credit exposure and substantial changes in interest rates.

The risk relating to the relationship between investment assets and guaranteed benefits is managed by keeping the interest rate sensitivity of the bond and derivatives portfolios at a suitable level. The bond spread risk is limited since, at end-2018, 63% (2017: 63%) of the portfolio consisted of government and mortgage bonds of high quality (AA-AAA ratings from the international rating agencies) or unrated mortgage bonds issued by institutions with similarly high ratings, and only 23% (2017: 21%) of the portfolio was invested in sub-investment grade bonds.

Notes – Danske Bank Group – Risk management

Insurance risk continued

Bond portfolio (insurance business) broken down by geographical area

2018 (DKK millions)	Central and local government bond	Quasi-government bonds	Danish mortgage bonds	Swedish covered bonds	Other covered bonds	Corporate bonds	Total
Denmark	10,667		85,097		537	4,927	101,228
Sweden				6,263		2,431	8,694
UK	5					1,656	1,661
Norway		10			523	1,161	1,694
USA	8,270					5,755	14,025
Spain	1,771					517	2,288
France	598					1,509	2,107
Luxembourg		13				721	734
Canada		320				222	542
Finland	162					435	597
Ireland	1,368					429	1,797
Italy	4,752					760	5,512
Portugal	1					23	24
Austria						33	33
Netherlands	74					1,995	2,069
Germany	13,722					2,706	16,428
Other	4,736	178			4	27,255	32,173
Total	**46,126**	**521**	**85,097**	**6,263**	**1,064**	**52,535**	**191,606**

2017	Central and local government bond	Quasi-government bonds	Danish mortgage bonds	Swedish covered bonds	Other covered bonds	Corporate bonds	Total
Denmark	9,636		65,155		543	3,439	78,773
Sweden				1,197		2,812	4,009
UK	9				7	2,406	2,422
Norway	18	5			633	1,087	1,743
USA	11,434					5,981	17,415
Spain	2,548					746	3,294
France						1,866	1,866
Luxembourg		11				1,021	1,032
Canada	1					240	241
Finland						155	155
Ireland	1,139					547	1,686
Italy	5,103				9	984	6,096
Portugal						18	18
Austria						37	37
Netherlands	54					1,878	1,932
Germany	16,252					2,789	19,041
Other	3,855	235			11	14,200	18,301
Total	**50,049**	**251**	**65,155**	**1,197**	**1,203**	**40,206**	**158,061**

Concentration risk and counterparty credit risk are limited because of internal investing restrictions and the use of collateral management agreements for derivatives.

Danica Pension hedges most of its foreign exchange risk. At the end of 2018, 55% was hedged (2017: 62%).

Early surrender by policyholders may force Danica Pension to sell some of its investment assets at a low price. Danica Pension reduces this liquidity risk by investing a substantial portion of funds in liquid bonds and shares. The liquidity risk is also modest since Danica Pension can, to some extent, adapt the timing of payment upon surrender of pension schemes to the situation in the financial markets.

Notes – Danske Bank Group – Risk management

Insurance risk continued

Bond portfolio (insurance business) broken down by external ratings

2018 (DKK millions)	Central and local government bond	Quasi-government bonds	Danish mortgage bonds	Swedish covered bonds	Other covered bonds	Corporate bonds	Total
AAA	32,894	5	71,340	4,040	1,036	3,409	112,724
AA+	3	1	11			4	19
AA	598	320				343	1,261
AA-	257				5	569	831
A+	1,657			12		925	2,594
A	172		2,905			900	3,977
A-	1,503	7				1,381	2,891
BBB+	36					1,485	1,521
BBB	5,357	65				2,379	7,801
BBB-	322					1,927	2,249
Sub-inv. grade or unrated	3,327	123	10,841	2,211	23	39,213	55,738
Total	**46,126**	**521**	**85,097**	**6,263**	**1,064**	**52,535**	**191,606**
2017							
AAA	37,395		52,952	405	1,171	4,797	96,720
AA+	6	4				12	22
AA	1				6	165	172
AA-	170				11	417	598
A+	1,152			25	3	1,352	2,532
A	193		1,329			955	2,477
A-	370	20				1,334	1,724
BBB+	2,580					1,532	4,112
BBB	5,921	42				2,099	8,062
BBB-	456					1,840	2,296
Sub-inv. grade or unrated	1,805	185	10,874	767	12	25,703	39,346
Total	**50,049**	**251**	**65,155**	**1,197**	**1,203**	**40,206**	**158,061**

Policyholders assume the risk on investment assets under unit-linked contracts with the exception of policies with investment guarantees. At the end of 2018, about 18% (2017: 16%) of policyholders had investment guarantees, related to *Danica Balance*, *Danica Link* and *Tidspension*. Danica Pension hedges the risks arising from guarantees in *Danica Link* and *Tidspension*. It manages the risk on *Danica Balance* guarantees by adjusting the investment allocation for the individual policies. Because of these hedging and risk management strategies, Danica Pension considers the investment risk on guarantees in unit-linked products to be minor.

Danica Pension has set a separate investment strategy for assets in which its shareholders' equity is invested.

Notes – Danske Bank Group – Risk management

Insurance risk continued

Life insurance risks

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

The various risk elements are subject to ongoing actuarial assessment for the purpose of calculating insurance obligations and making relevant business adjustments. Life insurance obligations are calculated on the basis of expected future mortality rates. Estimates are based on the Danish FSA's benchmark. The rates reflect a likely increase in future life expectancy.

For health and personal accident policies, insurance obligations are calculated on the basis of expected future recoveries and reopenings of old claims. Estimates are based on empirical data from Danica Pension's own portfolio of insurance contracts and are updated regularly.

To mitigate life insurance risk, Danica Pension reinsures large individual policy exposures. Danica Pension also reinsures the risk of losses due to disasters.

Sensitivity analysis for life insurance

The sensitivity indicators show the effect on shareholders' equity of separate changes in interest rates, equity prices, real property prices, foreign exchange rates and counterparty defaults. Losses borne by the shareholders in these scenarios are generally limited since most of the losses are absorbed by buffers or borne by the policyholders themselves.

Change in equity

(DKK billions)	2018	2017
Interest rate increase of 0.7 - 1.0 of a percentage point	0.1	-0.2
Interest rate decrease of 0.7 - 1.0 of a percentage point	-0.3	0.0
Decline in equity prices of 12%	-0.3	-0.1
Decline in property prices of 8%	-0.2	-0.3
Foreign exchange risk (VaR 99.0%)	0.0	0.0
Loss on counterparties of 8%	-0.4	-0.1

See note 1 for more information.

Notes – Danske Bank Group

(DKK millions)	2018	2017	2016	2015	2014
Highlights					
Net interest and fee income	39,496	40,885	41,976	45,090	45,713
Value adjustments	-10,332	19,134	12,947	5,831	8,563
Staff costs and administrative expenses	23,821	22,192	21,742	22,093	23,001
Loan impairment charges	-387	-1,582	-168	-61	3,718
Income from associates and group undertakings	451	566	1,009	502	107
Net profit for the year	14,689	20,900	19,858	13,123	3,948
Loans	2,043,580	1,899,975	1,907,569	1,820,918	1,834,511
Total equity	163,276	168,256	166,615	160,830	152,384
Total assets	3,578,467	3,539,528	3,483,670	3,292,878	3,453,015
Ratios and key figures					
Total capital ratio (%)	21.3	22.6	21.8	21.0	19.3
Tier 1 capital ratio (%)	20.1	20.1	19.1	18.5	16.7
Return on equity before tax (%)	11.4	15.7	15.5	11.3	5.2
Return on equity after tax (%)	8.9	12.5	12.1	8.4	2.6
Income/cost ratio (%)	169.9	208.2	203.7	160.7	120.4
Interest rate risk (%)	2.7	2.3	2.4	2.2	2.2
Foreign exchange position (%)	1.8	0.4	2.5	0.3	3.2
Foreign exchange risk (%)	0.0	-	-	-	-
Loans plus impairment charges as % of deposits	195.4	173.7	193.3	204.1	178.1
Loans as % of equity	12.5	11.3	11.4	11.3	12.0
Growth in loans (%)	2.7	1.1	4.4	2.4	0.9
Liquidity Coverage Ratio (%) **	120.6	171.0	158.3	125.0	N/A
Sum of large exposures as % of CET1 capital***	102.8	12.6	11.4	-	-
Impairment ratio (%)	-0.0	-0.1	-	-	0.2
Return on assets (%)	0.4	0.6	0.6	0.4	0.1
Earnings per share (DKK)*	16.5	22.2	20.2	12.8	3.8
Book value per share (DKK)*	174.3	172.2	162.8	153.2	146.8
Proposed dividend per share (DKK)	8.50	10.00	9.00	8.00	5.50
Share price/earnings per share (DKK)*	7.8	10.9	10.6	14.5	44.6
Share price/book value per share (DKK)*	0.74	1.40	1.32	1.21	1.14

* Ratios calculated on the assumption that additional tier I capital is classified as a liability.

** Surplus liquidity in relation to statutory liquidity requirement was replaced by Liquidity Coverage Ratio effective 30 June 2018. Comparison LCR numbers are available from 2015.

*** According to the guidelines for the Supervisory Diamond, changes have been made to the limit values and calculation method in 2018. Comparative figures for 2017 and 2016 are not restated.

The ratios and key figures are calculated in accordance with the requirements stipulated in the Danish FSA's Executive Order on Financial Reports for Credit Institutions and Investment Companies, etc., and on the basis of IFRS figures except where otherwise indicated.

Notes – Danske Bank Group

Definitions of ratios and key figures

Ratios and key figures	Definition
Earnings per share (DKK)	Net profit for the year divided by the average number of shares outstanding during the year. Net profit is stated after the deduction of interest net of tax on equity-accounted additional tier 1 capital.
Diluted earnings per share (DKK)	Net profit for the year divided by the average number of shares outstanding during the year, including the dilutive effect of share options and conditional shares granted as share-based payments. Net profit is stated after the deduction of interest net of tax on equity-accounted additional tier 1 capital.
Return on equity (%)	Net profit for the year divided by average equity (average equity at beginning and end of year), including equity-accounted additional tier 1 capital. For the definition used in the management report see page 65 on Alterntive Performance Measures.
Income/cost ratio (%)	Total income divided by expenses, including goodwill impairment charges.
Common equity tier 1 capital	Primarily paid-up share capital and retained earnings.
Additional tier 1 capital	Loans that form part of tier 1 capital. This means that additional tier 1 capital is used for covering losses if equity is lost.
Tier 1 capital	Common equity tier 1 capital plus additional tier 1 capital, less certain deductions, such as intangible assets.
Tier 2 capital	Subordinated loan capital subject to certain restrictions. For example, if the Group defaults on its payment obligations, lenders cannot claim early redemption of the loan capital.
Total capital	Tier 1 capital plus tier 2 capital, less certain deductions.
Risk exposure amount	Total risk exposure amount and off-balance-sheet items that involve credit risk, market risk and operational risk as calculated in accordance with the Capital Requirements Regulation (CRR).
Common equity tier 1 capital ratio	Common equity tier 1 capital divided by the total risk exposure amount.
Tier 1 capital ratio	Tier 1 capital divided by the total risk exposure amount.
Total capital ratio	Total capital divided by the total risk exposure amount.
Dividend per share (DKK)	Proposed dividend on the net profit for the year divided by the number of shares issued at the end of the year.
Share price at 31 December	Closing price of Danske Bank shares at the end of the year.
Book value per share (DKK)	Shareholders' equity at 31 December divided by the number of shares outstanding at the end of the year.
Number of full-time-equivalent staff at 31 December	Number of full-time-equivalent staff (part-time staff translated into full-time staff) at the end of the year. The figure does not include the staff of businesses held for sale.
Funding ratio	Lending divided by working capital less bond issues with a term to maturity shorter than one year. Working capital comprises deposits, issued bonds, subordinated debt and shareholders' equity. Lending and deposit figures do not include repo transactions.
Lending growth	Growth in lending from the beginning to the end of the year, excluding repo transactions.
Real property exposure	Share of total lending and guarantees to the Real property and Building projects industry segments as defined by Statistics Denmark.

Financial statements – Danske Bank A/S

The financial statements of the Parent Company, Danske Bank A/S, are prepared in accordance with the Danish Financial Business Act and the Danish FSA's Executive Order No. 281 of 26 March 2014 on Financial Reports for Credit Institutions and Investment Companies, etc. as amended by Executive Order No. 707 of 1 June 2016, and 1043 of 5 September 2017.

The amendments included in the Executive Order No. 1043 of 5 September 2017 incorporates changes due to IFRS 9 Financial Instruments.

The implementation of the amendment had the following key impact on the financial statements of Danske Bank A/S:

- The allowance account in Danske Bank A/S has increased by DKK 1,826 million at 1 January 2018 due to the introduction of the new expected credit loss impairment model. Further, the allowance account in subsidiaries has increased by DKK 346 million and is recognised in Danske Bank A/S using the equity method for holdings in subsidiaries.
- Amounts due from credit institutions of DKK 48,941 million, loans of DKK 173,255 million, amounts due to credit institutions and central banks of DKK 156,505 million, deposits of DKK 149,820 million and issued bonds of DKK 66,052 million in the trading units of Danske Bank A/S have been reclassified from amortised cost to fair value through profit or loss.
- A bond portfolio of DKK 75,754 million in Group Treasury was recognised as available for sale in Danske Bank Group and at fair value through profit or loss in Danske Bank A/S at 31 December 2017. After the implementation of the amendments to the Danish FSA's Executive order on Financial Reports for Credit Institutions and Investment Companies etc. this bond portfolio has been classified as 'held to collect and sell' and is therefore recognised at fair value through other comprehensive income in both Danske Bank Group and Danske Bank A/S. This change had no impact on shareholders' equity in Danske Bank A/S.
- The total impact, net of tax, is a reduction in Shareholders' equity at 1 January 2018 of DKK 1,655 million.

Note 2 to the financial statements of Danske Bank Group provides further information on changes in accounting policies applied in 2018, including the impact from the implementation of IFRS 9. As explained in the third bullet above, Danske Bank A/S further reclassified a portfolio of bonds in Group Treasury from fair value through profit or loss to fair value through other comprehensive income. Except for these changes, Danske Bank A/S has not changed its significant accounting policies from those applied in Annual Report 2017.

The accounting policies applied are identical to the Group's IFRS accounting policies, see note 1(a)-(c) in the consolidated financial statements, with the following exceptions:

- Domicile property is measured (revalued) at its estimated fair value through Other comprehensive income.
- Prior to the implementation of IFRS 9, i.e. in 2017 and prior years, the available-for-sale portfolio was not used. However, this difference no longer applies.

The estimated fair value of domicile property is determined in accordance with the Danish FSA's Executive Order on Financial Reports for Credit Institutions and Investment Companies, etc.

Holdings in subsidiaries are measured on the basis of the equity method. Net profit from these undertakings is recognised under Income from associates and group undertakings.

Group internal reorganisations (including business combinations under joint control) are generally accounted for according to the equity method. The acquirer accounts for the assets and liabilities of the acquiree at the carrying amounts at the acquisition date. Comparative information is not restated. As of 31 December 2017, Danske Bank plc in Helsinki has been merged with Danske Bank A/S. For 2017, net profit after tax in Danske Bank Plc is included in the income statement in the line item Income from associates and group undertakings.

The format of the Parent Company's financial statements is not identical to the format of the consolidated financial statements prepared in accordance with IFRS.

The table below shows the differences in net profit and shareholders' equity between the IFRS consolidated financial statements and the Parent Company's financial statements presented in accordance with Danish FSA rules.

(DKK millions)	Net profit 2018	Net profit 2017	Total equity 2018	Total equity 2017
Consolidated financial statement (IFRS)	14,689	20,900	163,276	168,256
Domicile properties	2	-46	269	267
Financial assets available for sale	-	-51	-	-
Tax effect	-	25	-32	-32
Consolidated financial statements (Danish FSA rules)	**14,691**	**20,829**	**163,513**	**168,491**

Note 36 to the consolidated financial statements lists the Group's holdings and undertakings.

Income statement – Danske Bank A/S

Note	(DKK millions)	2018	2017
2	Interest income	29,283	25,701
3	Interest expense	14,743	11,398
	Net interest income	14,540	14,303
	Dividends from shares etc.	95	195
4	Fee and commission income	13,603	12,357
	Fees and commissions paid	2,428	2,171
	Net interest and fee income	25,810	24,684
5	Value adjustments	3,516	5,109
	Other operating income	1,579	1,426
6	Staff costs and administrative expenses	19,610	15,987
	Amortisation, depreciation and impairment charges	2,349	2,129
	Other operating expenses	-1	3
	Loan impairment charges etc.	-547	-1,447
	Income from associates and group undertakings	7,752	9,278
	Profit before tax	17,245	23,825
8	Tax	2,555	2,996
	Net profit for the period	**14,691**	**20,829**
	Proposed profit allocation		
	Equity method reserve	-213	-3,898
	Dividends for the year	7,616	9,368
	Additional tier 1 capital holders	781	786
	Retained earnings	6,507	14,573
	Total	**14,691**	**20,829**

Statement of comprehensive income – Danske Bank A/S

Note	(DKK millions)	2018	2017
	Net profit for the year	14,691	20,829
	Other comprehensive income		
	Items that will not be reclassified to profit or loss		
	Remeasurement of defined benefit pension plans	-291	14
21	Tax	42	-92
	Items that will not be reclassified to profit or loss	**-249**	**-78**
	Items that are or may be reclassified subsequently to profit or loss		
	Translation of units outside Denmark	-374	-473
	Hedging of units outside Denmark	309	425
	Unrealised value adjustments of bonds at fair value (OCI)	-21	-
	Realised value adjustments of bonds at fair value (OCI)	-18	-
21	Tax	-129	-94
	Items that are or may be reclassified subsequently to profit or loss	**-233**	**-142**
	Total other comprehensive income	**-482**	**-220**
	Total comprehensive income for the year	**14,209**	**20,609**
	Portion attributable to		
	Shareholders of Danske Bank A/S (the Parent Company)	13,428	19,822
	Additional tier 1 capital holders	781	786
	Total comprehensive income for the year	**14,209**	**20,608**

Balance sheet – Danske Bank A/S

Note	(DKK millions)	2018	2017
	Assets		
	Cash in hand and demand deposits with central banks	21,333	64,574
9	Due from credit institutions and central banks	237,772	335,404
10	Loans and other amounts due at fair value	262,410	-
10	Loans and other amounts due at amortised costs	842,424	1,001,711
	Bonds at fair value	284,619	332,211
12	Bonds at amortised cost	106,354	110,128
	Shares etc.	6,250	20,062
	Holdings in associates	375	451
	Holdings in group undertakings	90,008	88,021
13	Assets under pooled schemes	50,274	54,207
	Intangible assets	7,197	6,943
	Land and buildings	296	308
14	Investment property	219	232
14	Domicile property	76	76
15	Other tangible assets	3,918	3,765
	Current tax assets	1,711	960
16	Deferred tax assets	468	613
17	Assets held for sale	154	131
18	Other assets	260,838	272,856
	Prepayments	1,151	1,278
	Total assets	**2,177,552**	**2,293,624**
	Liabilities and equity		
	Amounts due		
19	Due to credit institutions and central banks	254,085	252,924
20	Deposits and other amounts due	997,607	992,544
	Deposits under pooled schemes	50,398	55,016
21	Issued bonds at fair value	16,669	-
21	Issued bonds at amortised cost	244,730	361,568
	Current tax liabilities	572	878
22	Other liabilities	421,413	429,041
	Deferred income	696	858
	Total amounts due	**1,986,169**	**2,092,828**
	Provisions for liabilities		
	Provisions and pensions and similar obligations	143	201
16	Provisions for deferred tax	6,076	5,845
	Provisions for losses on guarantees	2,373	915
	Other provisions for liabilities	36	26
	Total provisions for liabilities	**8,628**	**6,986**
	Subordinated debt		
23	Subordinated debt	19,242	25,319
	Equity		
	Share capital	8,960	9,368
	Accumulated value adjustments	-640	-677
	Equity method reserve	23,628	24,115
	Retained earnings	109,650	111,978
	Proposed dividends	7,616	9,368
	Shareholders of Danske Bank A/S (the Parent Company)	149,213	154,152
	Additional tier 1 etc.	14,299	14,339
	Total equity	**163,513**	**168,491**
	Total liabilities and equity	**2,177,552**	**2,293,624**

Statement of capital – Danske Bank A/S

Change in equity

(DKK millions)	Share Capital	Accumulated value adjustments*	Equity method reserve	Retained earnings	Proposed dividends	Total	Additional Tier 1	Total
Total equity at 31 December 2017	9,368	-677	24,115	111,978	9,368	154,152	14,339	168,491
Effect from changed accounting practice (IFRS 9)		142	-274	-1,522		-1,655		-1,655
Total equity at 1 January 2018	9,368	-536	23,841	110,456	9,368	152,498	14,339	166,836
Net profit for the year	-	-	-213	14,123	-	13,910	781	14,691
Other comprehensive income								
Remeasurement of defined benefit pension plans	-	-	-	-291	-	-291	-	-291
Tax on remeasurement of defined benefit pension plans	-	-	-	42	-	42	-	42
Translation of units outside Denmark	-	-374	-	-	-	-374	-	-374
Hedging of units outside Denmark	-	309	-	-	-	309	-	309
Unrealised value adjustments of bonds at fair value (OCI)	-	-21	-	-	-	-21	-	-21
Realised value adjustments of bonds at fair value (OCI)	-	-18	-	-	-	-18	-	-18
Tax	-	-	-	-129	-	-129	-	-129
Total other comprehensive income	**-**	**-104**	**-**	**-378**	**-**	**-482**	**-**	**-482**
Total comprehensive income for the year	**-**	**-104**	**-213**	**13,744**	**-**	**13,428**	**781**	**14,209**
Transactions with owners								
Issuance of Additional Tier 1 (net of transactions costs)	-	-	-	-	-	-	-	-
Paid interest Additional Tier 1	-	-	-	-	-	-	-784	-784
Dividends paid	-	-	-	517	-9,368	-8,851	-	-8,851
Dividends proposed	-	-	-	-7,616	7,616	-	-	-
Share capital reduction	-409	-	-	409	-	-	-	-
Acquisition of own shares and additional tier 1 capital	-	-	-	-48,247	-	-48,247	-37	-48,284
Sale of own shares and additional tier 1 capital	-	-	-	40,181	-	40,181	-	40,181
Share based payments	-	-	-	93	-	93	-	93
Tax & other changes	-	-	-	112	-	112	-	112
Total equity at 31 December 2018	**8,960**	**-640**	**23,628**	**109,650**	**7,616**	**149,213**	**14,299**	**163,513**

* Accumulated value adjustments includes foreign currency transaction reserve, reserve for bonds at fair value through other comprehensive income (FVOCI) and valuation reserve.

At the end of 2018, the share capital consisted of 895,953,621 shares of a nominal value of DKK 10 each. All shares carry the same rights; there is thus only one class of shares.

Statement of capital – Danske Bank A/S

Change in equity (mio DKK)	Share Capital	Foreign currency translation reserve	Equity method reserve	Retained earnings	Proposed dividends	Total	Additional Tier 1	Total
Total equity at 1 January 2017	9,837	-629	28,013	106,469	8,853	152,543	14,343	166,885
Net profit for the year	-	-	-3,898	23,940	-	20,042	786	20,829
Other comprehensive income								
Remeasurement of defined benefit pension plans	-	-	-	14	-	14	-	14
Tax on remeasurement of defined benefit pension plans	-	-	-	-	-	-	-	-
Translation of units outside Denmark	-	-473	-	-	-	-473	-	-473
Hedging of units outside Denmark	-	425	-	-	-	425	-	425
Tax	-	-	-	-186	-	-186	-	-186
Total other comprehensive income	**-**	**-48**	**-**	**-172**	**-**	**-220**	**-**	**-220**
Total comprehensive income for the year	**-**	**-48**	**-3,898**	**23,768**	**-**	**19,822**	**786**	**20,608**
Transactions with owners								
Paid interest on additional tier 1 capital	-	-	-	-	-	-	-786	-786
Dividends paid	-	-	-	521	-8,853	-8,332	-	-8,332
Dividends proposed	-	-	-	-9,368	9,368	-	-	-
Share capital reduction	-469	-	-	469	-	-	-	-
Acquisition of own shares and additional tier 1 capital	-	-	-	-51,642	-	-51,642	-176	-51,819
Sale of own shares and additional tier 1 capital	-	-	-	41,447	-	41,447	173	41,620
Share based payments	-	-	-	150	-	150	-	150
Tax	-	-	-	163	-	163	-	163
Total equity at 31 December 2017	**9,368**	**-677**	**24,115**	**111,978**	**9,368**	**154,152**	**14,339**	**168,491**

At the end of 2017, the share capital consisted of 936,827,722 shares of a nominal value of DKK 10 each. All shares carry the same rights; there is thus only one class of shares.

Statement of capital – Danske Bank A/S

Holding of own shares - Danske Bank A/S	Number of shares	Nominal value (DKK m)	Percentage of share capital	Sales/purchase price (DKK m)
Holding at 1 January 2017	46,758,353	468	4.75	
Reduction of share capital in 2017	46,885,113	469	4.77	10,000
Acquired in 2017	258,212,573	2,582	27.56	51,387
Sold in 2017	217,272,494	2,173	28.20	41,260
Holding at 31 December 2017	**40,813,319**	**408**	**4.36**	
Reduction of share capital in 2018	40,874,101	409	4.36	10,000
Acquired in 2018	246,845,062	2,468	26.35	48,424
Sold in 2018	208,498,817	2,085	22.26	40,388
Holding at 31 December 2018	**38,285,463**	**383**	**4.09**	

Acquisitions in 2018 and 2017 comprised shares acquired under the share buy-back programme, shares acquired for the trading portfolio and shares acquired on behalf of customers.

Danske Bank shares held by subsidiaries	Number of shares	Nominal value (DKK m)	Percentage of share capital	Sales/purchase price (DKK m)
Holding at 1 January 2017	1,694,689	17	0.16	
Acquired in 2018	1,054,842	11	0.11	255
Sold in 2018	785,950	8	0.08	187
Holding at 31 December 2017	**1,963,581**	**20**	**0.21**	
Acquired in 2018	1,242,852	12	0.14	214
Addition by business combinations	624,164	6	0.07	125
Sold in 2018	957,827	10	0.11	155
Holding at 31 December 2018	**2,872,770**	**29**	**0.32**	

Acquisitions in 2018 and 2017 comprised shares acquired on behalf of customers.

Statement of capital – Danske Bank A/S

(DKK millions)	2018	2017
Total equity	163,276	168,256
Revaluation of domicile property at fair value	269	267
Tax effect of revaluation of domicile property at fair value	-32	-32
Total equity calculated in accordance with the rules of the Danish FSA	163,513	168,491
Additional tier 1 capital instruments included in total equity	-14,133	-14,158
Accrued interest on additional tier 1 capital instruments	-166	-169
Tax on accrued interest on additional tier 1 capital instruments	37	37
Common equity tier 1 capital instruments	149,250	154,201
Adjustment to eligible capital instruments	-225	-1,060
IFRS 9 reversal due to transitional rules	1,301	-
Prudent valuation	-767	-749
Prudential filters	-356	-211
Proposed dividends	-7,616	-9,368
Intangible assets of banking operations	-7,197	-6,943
Deferred tax on intangible assets	225	377
Deferred tax assets that rely on future profitability excluding temporary differences	-127	-125
Defined benefit pension plan assets	-345	-451
Statutory deduction for insurance subsidiaries	-5,987	-1,349
Other statutory deductions	-141	-308
Common equity tier 1 capital	**128,016**	**134,012**
Additional tier 1 capital instruments	23,677	18,574
Statutory deduction for insurance subsidiaries	-	-169
Tier 1 capital	**151,693**	**152,418**
Tier 2 capital instruments	9,161	19,343
Statutory deduction for insurance subsidiaries	-	-169
Total capital	**160,854**	**171,592**
Total risk exposure amount	**650,955**	**661,884**
Common equity tier 1 capital ratio (%)	19.7	20.2
Tier 1 capital ratio (%)	23.3	23.0
Total capital ratio (%)	24.7	25.9

The total capital and tier 1 capital ratios are calculated in accordance with the Danish Financial Business Act and applicable executive orders.

Internal Capital Adequacy Assessment 2018 (not covered by the statutory audit) provides more details on the solvency need of Danske Bank A/S. The section on risk exposure for Danske Bank Group in the risk management notes provides information about the Group's financial risks and financial risk management.

Notes – Danske Bank A/S

1. Net interest and fee income and value adjustments broken down by business segment

(DKK millions)	2018	2017
Banking DK	8,463	7,927
Banking Nordic	7,857	6,238
C&I	8,661	10,802
Wealth Management	3,479	3,614
Other Activities	845	1,217
Total	**29,305**	**29,798**
Geographical segmentation		
Denmark	12,698	14,922
Finland	3,887	503
Ireland	164	425
Norway	5,015	5,276
UK	326	485
Sweden	6,630	7,540
Baltics	351	415
Germany	118	125
Poland	116	107
Total	**29,305**	**29,798**

Geographical segmentation is based on the location in which the individual transaction is recorded. The figures for Denmark include financing costs related to investments in activities outside Denmark.

2. Interest income

(DKK millions)	2018	2017
Reverse transactions with credit institutions and central banks	-128	-184
Other transactions with credit institutions and central banks	-763	-440
Reverse loans	-1,295	-1,156
Loans and other amounts due	18,751	17,054
Bonds	942	1,069
Derivatives, total	5,632	5,585
Currency contracts	4,283	3,389
Interest rate contracts	1,276	2,212
Equity contracts	72	-16
Other interest income	236	179
Total	**23,373**	**22,107**

Negative interest income amounts to DKK 3,295 million (2017: DKK 1,824 million) and relates primarily to Repo transactions. In the table above, negative interest income is offset against interest income. In the Income statement, negative interest income is presented as interest expenses and negative interest expenses as interest income.

3. Interest expense

(DKK millions)	2018	2017
Repo transactions with credit institutions and central banks	-76	-185
Other transactions with credit institutions and central banks	1,537	1,759
Repo deposits	-259	-234
Deposits and other amounts due	1,941	1,364
Issued bonds	3,818	3,587
Subordinated debt	1,674	1,126
Other interest expenses	199	388
Total	**8,833**	**7,804**

Negative interest expenses amount to DKK 2,614 million (2017: DKK 1,770 million) and relates primarily to Repo transactions. In the table above, negative interest expenses are offset against interest expenses. In the Income statement, negative interest expenses are presented as interest income and negative interest income as interest expenses.

Notes – Danske Bank A/S

4. Fee and commission income

(DKK millions)	2018	2017
Securities trading and custody account fees	6,629	6,601
Payment services fees	2,356	1,877
Origination fees	1,879	1,673
Guarantee commissions	968	925
Other fees and commissions	1,771	1,282
Total	**13,603**	**12,357**

5. Value adjustments

(DKK millions)	2018	2017
Loans at fair value	-577	-274
Bonds	-264	950
Shares etc.	-512	1,155
Currency	2,177	498
Derivatives	1,884	-507
Assets under pooled schemes	182	-68
Other liabilities	624	3,354
Total	**3,516**	**5,109**

6. Staff costs and administrative expenses

(DKK millions)	2018	2017
Remuneration of the Executive Board and the Board of Directors		
Executive Board	87	86
Board of Directors	11	10
Total	**98**	**96**

The remuneration of the Executive Board includes remuneration for membership of the board of directors of one or more of the Group's subsidiaries. Such remuneration is deducted from the contractual remuneration. See note 34 of the consolidated financial statements for Remuneration of material risk takers of Danske Bank Group and Danske Bank A/S.

Staff costs

(DKK millions)	2018	2017
Salaries	9,417	8,357
Pensions	1,096	1,037
Financial services employer tax and social security costs	1,637	1,572
Total	**12,150**	**10,966**
Other administrative expenses	**7,362**	**4,925**
Total staff costs and administrative expenses	**19,610**	**15,987**
Number of full-time-equivalent staff (avg.)	**16,524**	**14,307**

Other administrative expenses includes a provision of DKK 1.5 billion related to the former non-resident portfolio in Estonia. Note 34 of the consolidated financial statements contains additional information about the remuneration of the Board of Directors, the Executive Board, and other material risk takers.

Notes – Danske Bank A/S

7. Audit fees

(DKK millions)	2018	2017
Audit firms appointed by the general meeting		
Fees for statutory audit of the parent company financial statements	11	8
Fees for other assurance engagements	3	3
Fees for tax advisory services	-	-
Fees for other services	4	1
Total	**18**	**12**

8. Tax

(DKK millions)	2018	2017
Calculated tax charge for the year	2,322	3,381
Deferred tax	279	-44
Adjustment of prior-year tax charges	-46	-341
Lowering of tax rate	-	-
Total	**2,555**	**2,996**
Effective tax rate	(%)	(%)
Danish tax rate	22.0	22.0
Non-taxable income and non-deductible expenses	4.1	1.2
Difference between tax rates of units outside Denmark and Danish tax rate	0.4	-0.2
Adjustment of prior-year tax charges	-0.5	-2.4
Lowering of tax rate	-	-
Effective tax rate	26.0	20.6
Portion included under Income from associates and group undertakings	-11.2	-8.0
Total	**14.8**	**12.6**
Tax on other comprehensive income		
Remeasurement of defined benefit plans	42	-92
Hedging of units outside Denmark	-129	-93
Fair value adjustment of domicile property	-	-
Total	**-87**	**-185**

Notes – Danske Bank A/S

9. Due from credit institutions and central banks

(DKK millions)	2018	2017
On demand	76,236	43,081
Up to 3 months	130,631	267,138
From 3 months to 1 year	5,661	21,185
From 1 to 5 years	23,393	2,403
Over 5 years	1,851	1,597
Total	**237,772**	**335,404**
Due from credit institutions	82,495	82,408
Term deposits with central banks	155,277	252,996
Total	**237,772**	**335,404**
Reverse transactions included in above item	**57,122**	**60,649**

From 1 January 2018 and due to the implementation of IFRS 9, DKK 58,125 million of Due from credit institutions and central banks are recognised at fair value through profit or loss.

10. Loans and other amounts due

(DKK millions)	2018	2017
On demand	81,205	67,733
Up to 3 months	363,687	239,116
From 3 months to 1 year	145,106	143,643
From 1 to 5 years	227,014	228,893
Over 5 years	287,822	322,326
Total	**1,104,835**	**1,001,711**
Revers transactions included in above item	**268,906**	**181,785**

Loans and other amounts due includes Loans and other amounts due at amortised cost and Loans and other amounts due at fair value.

Loans and guarantees broken down by sector and industry (%)

	2018	2017
Public sector	4.3	4.2
Business customers		
Agriculture, hunting, forestry and fisheries	3.0	1.5
Manufacturing industries and extraction of raw materials	11.1	9.3
Energy and utilities	2.1	1.5
Building and construction	2.3	2.1
Trade	6.4	4.8
Transport, hotels and restaurants	4.5	3.8
Information and communication	0.0	1.1
Finance and insurance	9.0	23.8
Property administration	18.9	14.3
Other	5.7	3.6
Total Busines customers	-	65.7
Personal customers	32.7	30.1
Total	**100.0**	**100.0**

The relative distribution between industries includes loans at amortised cost, loans at fair value, loan commitments and guarantees.

Notes – Danske Bank A/S

11. Impairment charges for loans and guarantees

Reconciliation of total allowance account

(DKK millions)	Due to credit institutions and central banks			Loans and other amounts due at AMC			Loan commitments and guarantees			
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Total
Collective and individual impairment charges under IAS 39										16,398
Transition effect (ECL at 1 January 2018)	6	1	2	288	3,730	11,754	606	976	957	18,320
Transferred to Stage 1	-	-	-	479	-455	-24	86	-84	-2	-
Transferred to Stage 2	-	-	-	-13	208	-194	-4	29	-25	-
Transferred to Stage 3	-	-	-	-3	-109	112	-18	-69	87	-
ECL on new assets	10	1	-	139	419	915	32	118	101	1,736
ECL on assets derecognised	-2	-1	-	-143	-505	-1,057	-66	-149	-243	-2,165
Impact of net remeasurement of ECL (incl. changes in models)	-2	-	-	-376	338	207	-119	135	-165	18
Write offs debited to the allowance account	-	-	-	-	-	-624	-	-	-	-624
Foreign exchange adjustments	-	-	-	-8	2	-36	-	6	6	-30
Other changes	-	-	-	-	-	-87	-	-	-165	-251
ECL allowance 31 December 2018	**12**	**1**	**2**	**363**	**3,628**	**10,966**	**518**	**961**	**551**	**17,003**

The table above excludes the allowance account of DKK 4 million on bonds at amortised cost or fair value through other comprehensive income (all in stage 1). In general, the Group does not purchase credit-impaired financial assets and the category therefore relates to originated credit-impaired facilities, typically originated in relation to forbearance measures. For further information on the decomposition of the allowance account on facilities in stages 1-3 and originated credit-impaired facilities, see the notes on credit risk in the consolidated financial statements of Danske Bank Group.

(DKK millions)	Loans, advances and guarantees, individual impairment	Loans, advances and guarantees, collective impairment	Other amounts due, individual impairment	Other amounts due, collective impairment	Total
Impairment charges at 1 January 2017	15,362	4,163	7	8	19,540
Impairment charges during the year	3,695	121	-	-	3,816
Reversals of impairment charges from previous years	3,284	1,336	24	3	4,646
Addition from merger	1,116	108	12	5	1,241
Other changes	-3,673	115	10	-5	-3,553
Impairment charges at 31 December 2017	**13,216**	**3,171**	**5**	**6**	**16,398**
Value adjustment of assets taken over	-	-	-	-	-

12. Bonds at amortised cost

(DKK millions)	2018	2017
Fair value of held-to-collect bonds	107,342	110,128
Carrying amount of held-to-collect bonds	106,354	111,519

Notes – Danske Bank A/S

13. Assets under pooled schemes

(DKK millions)	2018	2017
Bonds at fair value	15,962	25,322
Shares	14,644	13,684
Unit trust certificates	20,004	15,346
Cash deposits etc.	-212	664
Total assets before elimination	50,398	55,016
Own shares	228	354
Other internal balances	-105	455
Total	**50,274**	**54,207**

14. Investment and domicile property

	2018		2017	
(DKK millions)	Investment property	Domicile property	Investment property	Domicile property
Fair value/revaluation at 1 January	232	76	277	92
Additions, including property improvement expenditure	3	-	5	-
Disposals	12	19	36	17
Depreciation charges	1	2	-	2
Value adjustment recognised through profit or loss	-	3	2	3
Other changes including properties moved to Assets held for sale	-3	-	-16	-
Fair value/revaluation at 31 December	**219**	**58**	**232**	**76**
Required rate of return for calculation of fair value/revaluation (% p.a.)	**5.0 - 6.0**	**5.0 - 8.0**	**5.0 - 6.0**	**5.0 - 8.0**

Fair value and revaluations are assessed by the Group's valuers.

15. Other tangible assets

(DKK millions)	2018	2017
Cost at 1 January	8,237	7,382
Foreign currency translation	-30	-63
Additions, including leasehold improvements	1,847	1,882
Disposals	1,330	1,398
Addition from merger	-	434
Cost at 31 December	**8,724**	**8,237**
Depreciation and impairment charges at 1 January	4,472	3,953
Foreign currency translation	-22	-31
Depreciation charges	1,124	1,159
Depreciation and impairment charges for assets sold	785	1,009
Addition from merger	17	399
Depreciation and impairment charges at 31 December	**4,806**	**4,472**
Carrying amount at 31 December	**3,918**	**3,765**

Notes – Danske Bank A/S

16. Change in deferred tax

2018 (DKK millions)	At 1 Jan.	Foreign currency translation	Recognised in profit for the year	Recognised in shareholders' equity	Addition from merger	At 31 Dec.
Intangible assets	-225	1	191	117		84
Tangible assets	338	-2	136	-	-	472
Securities	-3	-	-22	-		-25
Provisions for obligations	-209	-1	210	-31	-	-31
Tax loss carry forwards	-125	-	10	-		-115
Recapture of tax loss	5,833	-	-27	-		5,806
Other	-377	3	-209	-	-	-583
Total	**5,232**	**1**	**289**	**86**	**-**	**5,608**
Adj. of prior-year tax charges included in above item			**41**			
2017 (DKK millions)						
Intangible assets	-149	11	65	-152		-225
Tangible assets	173	-14	177	-	2	338
Securities	-5	1	1	-		-3
Provisions for obligations	-	-1	-190	-18		-209
Tax loss carry forwards	-242	7	110	-		-125
Recapture of tax loss	5,954	-	-121	-		5,833
Other	-153	-	-40	-	-184	-377
Total	**5,579**	**4**	**2**	**-170**	**-182**	**5,232**
Adj. of prior-year tax charges included in above item			**46**			

Unrecognised tax loss carryforwards amounted to DKK 2.9 billion at the end of 2018 (31 December 2017: DKK 2.9 billion).

Deferred tax (DKK millions)	2018	2017
Deferred tax assets	468	613
Provisions for deferred tax	6,076	5,845
Deferred tax, net	**5,608**	**5,232**

17. Assets held for sale and liabilities in disposal groups held for sale

Assets held for sale includes domicile properties amounting to DKK 131 million classified as held for sale (2017: 131 million).

18. Other assets

Other assets (DKK millions)	2018	2017
Positive fair value of derivatives	250,005	261,918
Other assets	10,834	10,939
Total	**260,838**	**272,856**

Notes – Danske Bank A/S

19. Due to credit institutions and central banks

(DKK millions)	2018	2017
On demand	39,384	37,161
Up to 3 months	195,178	194,615
From 3 months to 1 year	3,340	5,047
From 1 to 5 years	15,315	15,230
Over 5 years	869	871
Total	**254,085**	**252,924**
Reverse transactions included in above item	**102,503**	**92,599**

From 1 January 2018 and due to the implementation of IFRS 9, DKK 189,089 million of Due to credit institutions and central banks are designated at fair value through profit or loss. For further information see note 20 to the financial statements of Danske Bank Group.

20. Deposits and other amounts due

(DKK millions)	2018	2017
On demand	736,282	745,786
Term deposits	34,631	44,319
Time deposits	49,410	50,486
Repo deposits	162,225	137,049
Special deposits	15,060	14,904
Total	**997,607**	**992,544**
On demand	736,240	745,744
Up to 3 months	239,590	221,290
From 3 months to 1 year	4,416	9,375
From 1 to 5 years	8,960	8,013
Over 5 years	8,401	8,122
Total	**997,607**	**992,544**

From 1 January 2018 and due to the implementation of IFRS 9, DKK 171,591 million of depostis are designated at fair value through profit or loss. For further information see note 20 to the financial statements of Danske Bank Group.

21. Issued bonds

(DKK millions)	2018	2017
On demand	-	-
Up to 3 months	23,465	72,680
From 3 months to 1 year	41,943	87,444
From 1 to 5 years	171,659	173,748
Over 5 years	24,302	27,696
Total	**261,370**	**361,568**

Issued bonds include the line items Issued bonds at fair value and Issued bonds at amortised cost. From 1 January 2018 and due to the implementation of IFRS 9, DKK 16,669 million of depostis are designated at fair value through profit or loss. For further information see note 22 to the financial statements of Danske Bank Group.

22. Other liabilities

(DKK millions)	2018	2017
Negative fair value of derivatives	248,263	251,705
Other liabilities	173,149	177,335
Total	**421,413**	**429,041**

Notes – Danske Bank A/S

23. Subordinated debt

Subordinated debt consists of liabilities in the form of subordinated loan capital and hybrid capital, which, in the event of Danske Bank's voluntary or compulsory winding-up, will not be repaid until the claims of ordinary creditors have been met. Hybrid capital ranks below subordinated loan capital. Early redemption of subordinated debt must be approved by the Danish FSA.

Subordinated debt is included in the capital base in accordance with section 128 of the Danish Financial Business Act.

Currency	Nominal (millions)	Interest Rate	Year of Issue	Maturity	Redemption Price	2018 (DKK millions)	2017 (DKK millions)
Subordinated debt, excluding liability accounted additional tier 1 capital							
Redemmed loans							10911
SEK	900	4.750	2013	05.06.2024	100	654	681
SEK	1,600	var.	2013	05.06.2024	100	1,163	1,211
DKK	1,700	var.	2013	06.06.2024	100	1,700	1,700
DKK	1,150	4.125	2013	09.12.2025	100	1,150	1,150
CHF	150	3.125	2013	18.12.2025	100	997	954
EUR	500	2.750	2014	19.05.2026	100	3,734	3,723
Subordinated debt, excluding liability accounted additional tier 1 capital						**9,398**	**20,330**
Liability accounted additional tier 1 capital							
Redeemed loans							-
USD	750	6,125	2017	Perpetual	100	4,891	4,655
USD	750	7.0	2018	Perpetual	100	4,891	-
Liability accounted additional tier 1 capital						**9,782**	**4,655**
Nominal subordinated debt						19,180	24,985
Fair value hedging of interest rate risk						103	356
Own holding of subordinated sebt						-41	-22
Total subordinated debt						**19,242**	**25,319**
Portion included in total capital as additional tier 1 or tier 2 capital instruments						**18,705**	**23,759**
Interest on subordinated debt and related items							
Interest						1,674	1,126
Origination and redemption costs						41	8
Extraordinary repayments						-	11,669

In addition, total capital includes DKK 14.1 billion of additional tier I bonds accounted for as equity.

Note 22 to the consolidated financial statements contains additional information about subordinated debt and contractual terms.

Notes – Danske Bank A/S

24. Assets deposited as collateral

At the end of 2018, Danske Bank A/S had deposited DKK 18,214 million worth of securities as collateral with Danish and international clearing centres and other institutions (31 December 2017: DKK 17,253 million). In addition, the Group had deposited DKK 5,373 million worth of own bonds (31 December 2017: DKK 0 million). The amount has been eliminated in the balance sheet.

In repo transactions, which involve selling securities to be repurchased at a later date, the securities remain in the balance sheet, and the amounts received are recognised as deposits. Repo transaction securities are treated as assets provided as collateral for liabilities. Counterparties are entitled to sell the securities or deposit them as collateral for other loans.

Assets sold in repo transactions (DKK millions)	2018	2017
Bonds at fair value	247,987	215,262
Shares etc.	-	-
Total	**247,987**	**215,262**
Total collateral deposited for subsidiaries	-	-

In addition, the Group had deposited DKK 15,346 million worth of own bonds as collateral for repo transactions and securities lending (31 December 2017: DKK 12,903 million). The amount has been eliminated in the balance sheet.

At the end of 2018, Danske Bank A/S had provided DKK 63,029 million worth of cash and securities as collateral for derivatives transactions (31 December 2017: DKK 71,184 million).

Danske Bank A/S had registered DKK 207,476 million worth of loans and advances and DKK 4,551 million worth of other assets as collateral for covered bonds at the end of 2018 (31 December 2017: DKK 193,942 million and DKK 9,297 million, respectively).

Notes – Danske Bank A/S

25. Contingent liabilities

The Group uses a variety of loan-related financial instruments to meet the financial requirements of its customers. These include loan offers and other credit facilities, guarantees and instruments that are not recognised in the balance sheet.

Guarantees and other liabilities (DKK millions)	2018	2017
Guarantees etc.		
Financial guarantees	8,010	10,036
Mortgage finance guarantees	59,259	60,387
Registration and remortgaging guarantees	24,070	33,406
Other guarantees	82,656	111,698
Total	**173,996**	**215,527**
Other liabilities		
Loan commitments shorter than 1 year	142,259	125,563
Loan commitments longer than 1 year	154,964	162,855
Other obligations	2,301	100
Total	**299,524**	**288,518**

Danske Bank is in dialogue with the authorities regarding the terminated non-resident portfolio at Danske Bank's Estonian branch, which was active between 2007 and 2015. This includes criminal investigations in Estonia, Denmark and the USA. Danske Bank is cooperating with these authorities. The timing of the completion of the investigations, the outcome and the subsequent discussions with the authorities are uncertain. At present, it is not possible to reliably estimate the timing or amount of any potential settlement or fines, which could be material.

In the third quarter of 2018, Danske Bank recognised a provision of DKK 1.5 billion based on the estimated gross income from the non-resident portfolio in the Estonia branch in the period from 2007 to 2015. The amount is based on the decision not to benefit financially from suspicious transactions that took place in our Estonian non-resident portfolio in the period from 2007 to 2015 and to donate the estimated gross income from these transactions to an independent foundation. The foundation will be set up to support initiatives aimed at combating international financial crime. Any confiscated or disgorged gross income will be deducted from the donation to the foundation.

In January 2019, the Bank received a letter from an investigating judge of the French Tribunal de Grande Instance de Paris court summoning the Bank to an interview to discuss matters relating to the ongoing investigation into organised money laundering of tax evasion proceeds and stating that the judge envisages placing the Bank under formal investigation. The letter also indicated that the scope had been expanded to include transactions in the amount of approximately EUR 28 million in total between 2007 and 2014, which was transferred to France by former customers of the non-resident portfolio in Estonia..

On 9 January 2019, an action was filed in the United States District Court for the Southern District of New York by an alleged holder of the Bank's American Depositary Receipts, representing its ordinary shares, against the Bank and certain of its officers and former officers and/or directors. The complaint alleges that the defendants violated Section 10(b) and Section 20(a) of the Securities Exchange Act of 1934 by, among other things, making false and misleading statements and/or failing to disclose adverse information regarding the Bank's business and operations in relation to AML matters relating to the Bank's Estonian branch and related matters. The complaint seeks unspecified damages on behalf of a putative class of purchasers of the Bank's American Depositary Receipts between 9 January 2014 and 23 October 2018. The Bank intends to defend against these claims. The timing of the completion of the lawsuit and the outcome is uncertain.

For further information, see section regarding AML in Management's report on page 5 and 7-9.

Owing to its business volume, Danske Bank is continually a party to various other lawsuits and disputes and has an ongoing dialogue with public authorities, such as the Danish FSA on other matters. In general, Danske Bank does not expect the outcomes of any of these other pending lawsuits and disputes or its dialogue with public authorities to have any material effect on its financial position. Provisions for litigations are included in Other liabilities, see note 23.

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

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

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

Note 25 of the consolidated financial statements contains additional information about contingent liabilities.

Notes – Danske Bank A/S

26. Related parties

(DKK millions)	Parties with significant influence 2018	Parties with significant influence 2017	Associates 2018	Associates 2017	Group undertakings 2018	Group undertakings 2017	Board of Directors 2018	Board of Directors 2017	Executive Board 2018	Executive Board 2017
Loans and loan commitments	7,545	10,306	1,730	1,222	70,482	33,643	7	7	8	5
Securities and derivatives	637	631	1,058	835	127,889	114,510	-	-	-	-
Deposits	3,861	1,403	110	80	18,350	22,701	87	24	38	14
Derivatives	304	197	-	-	13,310	9,157	-	-	-	-
Issued bonds	-	-	-	-	1,826	36,303	-	-	-	-
Pension obligation										
Guarantees issued	416	615	1	2	64,888	96,439	-	-	-	-
Guarantees and collateral received	1,414	520	264	581	18,867	3,055	7	7	5	2
Interest income	143	85	40	29	1,353	765	-	-	-	-
Interest expense	107	5	-	-	60	-41	-	-	-	-
Fee income	8	17	1	2	89	330	-	1	-	-
Dividend income	6	4	32	115	8,094	7,642	-	-	-	-
Other income	6	6	-	-	-8	16	-	-	-	-
Loan impairment charges	-	-	-3	-1	-	-	-	-	-	-
Trade in Danske Bank shares										
Acquisitions	-	-	-	-	-	-	-	-	-	-
Sales	886	2348	-	-	-	-	-	-	-	8

Related parties with significant influence include shareholders with holdings exceeding 20% of Danske Bank A/S's share capital. The A.P. Møller and Chastine Mc-Kinney Møller Foundation and companies of A.P. Møller Holding Group, Copenhagen, hold 20.5% of the share capital. The consolidated financial statements specify significant group holdings and holdings in associates under Group holdings and undertakings. The Board of Directors and Executive Board columns list the personal facilities, deposits, etc. held by members of the Board of Directors and the Executive Board and their dependants, and facilities with businesses in which these parties have a controlling or significant influence.

In 2018, the average interest rates on credit facilities granted to members of the Board of Directors and the Executive Board were 2.2% (2017: 2.1%) and 3.8% (2017: 2.3%), respectively. Notes 34 and 35 of the consolidated financial statements specify the remuneration and shareholdings of management.

Pension funds set up for the purpose of paying out pension benefits to employees of Danske Bank A/S are also considered related parties. In 2018, transactions with these funds comprised loans and advances in the amount of DKK 1 million (2017: DKK 1 million), deposits in the amount of DKK 81 million (2017: DKK 89 million), derivatives with a positive fair value of DKK 0 million (2017: DKK 0 million), derivatives with a negative fair value of DKK 333 million (2017: DKK 308 million), interest expenses of DKK 3 million (2017: DKK 2 million) and pension contributions of DKK 13 million (2017: DKK 17 million).

Danske Bank A/S acts as the bank of a number of its related parties. Payment services, trading in securities and other instruments, depositing of surplus liquidity and provision of short- and long-term financing are the primary services provided by Danske Bank A/S. In addition, Danske Bank A/S and group undertakings receive interest on holdings, if any, of listed bonds issued by Realkredit Danmark A/S. Note 16 of the consolidated financial statements specifies the Group's holdings of own mortgage bonds.

Danske Bank A/S handles a number of administrative functions, such as IT operations and development, HR management, procurement and marketing activities for group undertakings. Danske Bank A/S received a total fee of DKK 1,369 million for services provided in 2018 (2017: DKK 2,025 million).

The figures above do not include debt to related parties in the form of issued notes or bonds. Such notes or bonds are bearer securities, which means that Danske Bank does not know the identity of the holders. Danske Bank shares may be registered by name. Related parties' holdings of Danske Bank shares equalling 5% or more of Danske Bank's share capital are determined on the basis of the most recent reporting of holdings to Danske Bank.

Transactions with related parties are settled on an arm's-length basis, whereas transactions with group undertakings are settled on a cost-reimbursement basis.

Notes – Danske Bank A/S

27. Hedging of risk

(DKK millions)	2018 Carrying amount	2018 Amortised/ notional value	2017 Carrying amount	2017 Amortised/ notional value
Assets				
Due from credit institutions	1,010	1,009	765	763
Loans	41,745	40,492	51,423	49,783
Total	**42,756**	**41,501**	**52,188**	**50,546**
Financial instruments hedging interest rate risk				
Derivatives	-3,462	46,055	-3,680	63,691
Liabilities				
Deposits	224	223	2,094	2,087
Due to credit institutions	15,111	15,088	15,026	15,063
Issued bonds	241,040	237,050	261,196	256,820
Subordinated debt	9,591	9,398	20,759	20,330
Total	**265,966**	**261,760**	**299,076**	**294,300**
Financial instruments hedging interest rate risk				
Derivatives	8,405	326,891	10,005	343,467

Note 12 of the consolidated financial statements includes additional information about hedge accounting.

28. Group holdings and undertakings

Note 36 of the consolidated financial statements lists the Group's major holdings and undertakings as well as associates.

Notes – Danske Bank A/S

	2018	2017	2016	2015	2014
Highlights					
Net interest and fee income	25,810	24,684	26,170	27,549	27,945
Value adjustments	3,516	5,109	2,238	-880	-653
Staff costs and administrative expenses	19,610	15,987	15,420	15,562	16,386
Loan impairment charges etc.	-547	-1,447	-145	-50	2,745
Income from associates and group undertakings	7,752	9,278	9,244	8,018	7,301
Net profit for the period	14,691	20,829	19,581	12,933	4,034
Loans	1,104,834	1,001,711	940,381	878,321	901,168
Total equity	163,513	168,491	166,885	161,542	153,921
Total assets	2,177,552	2,293,624	2,168,239	2,037,190	2,276,448

Ratios and key figures	2018	2017	2016	2015	2014
Total capital ratio (%)	24.7	25.9	27.5	25.5	24.4
Tier 1 capital ratio (%)	23.3	23.0	24.2	22.5	21.2
Return on equity before tax (%)	10.4	14.2	13.8	9.6	3.9
Return on equity after tax (%)	8.8	12.4	11.9	8.2	2.6
Income/cost ratio (%)	180.5	242.9	232.0	171.5	119.0
Interest rate risk (%)	3.4	3.2	3.6	1.5	1.6
Foreign exchange position (%)	1.7	0.5	2.0	1.2	3.4
Foreign exchange risk (%)	-	-	-	-	-
Loans plus impairment charges as % of deposits	106.8	97.1	117.8	125.6	110.3
Liquidity Coverage Ratio (%) *	109.9	154.3	133.5	-	-
Sum of large exposures as % of CET1 capital ***	101.8	12.5	11.4	-	-
Impairment ratio (%)	-	-0.1	-	-	0.3
Growth in loans (%) **	2.0	11.4	7.7	4.7	-
Loans as % of equity	6.8	5.9	5.6	5.4	5.9
Funding ratio	0.7	0.6	0.6	0.6	0.6
Real property exposure	14.9	14.0	12.0	12.0	10.0
Return on assets (%)	0.7	0.9	0.9	0.6	0.4
Earnings per share (DKK)	16.9	21.7	19.7	12.8	3.8
Book value per share (DKK)	190.6	188.0	178.1	165.2	153.6
Proposed dividend per share (DKK)	8.5	10.0	9.0	8.0	5.5
Share price end of period/earnings per share (DKK)	7.6	11.1	10.9	14.4	43.0
Share price end of period/book value per share (DKK)	0.68	1.30	1.20	1.12	1.09

* Surplus liquidity in relation to statutory liquidity requirements was replaced by Liquidity Coverage Ratio effective 30 June 2018. Comparison LCR figures are available from 2016 as this was the first year LCR was published for Danske Bank A/S.

** As of 31 December 2017, Danske Bank plc in Helsinki has been merged with Danske Bank A/S contributing to the increase in Growth in loans.

*** According to the guidelines for the Supervisory Diamond, changes have been made to the limit values and calculation method in 2018. Comparative figures for 2017 and 2016 are not restated.

The ratios are defined by the Danish FSA in, for example, its Executive Order on Financial Reports for Credit Institutions and Investment Companies, etc.

Statement by the management

The Board of Directors and the Executive Board (the management) have considered and approved the annual report of the Danske Bank Group for 2018.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU, and the Parent Company financial statements have been prepared in accordance with the Danish Financial Business Act. Furthermore, the annual report has been prepared in accordance with Danish disclosure requirements for annual reports of listed financial institutions.

In our opinion, the consolidated financial statements and the Parent Company financial statements give a true and fair view of the Group's and the Parent Company's assets, liabilities, shareholders' equity and financial position at 31 December 2018 and of the results of the Group's and the Parent Company's operations and the consolidated cash flows for the financial year 2018. Moreover, in our opinion, the management's report includes a fair review of developments in the Group's and the Parent Company's operations and financial position and describes the significant risks and uncertainty factors that may affect the Group and the Parent Company.

The management will submit the annual report to the general meeting for approval.

Copenhagen, 1 February 2019

Executive Board

Jesper Nielsen
Interim CEO

Jacob Aarup-Andersen

Christian Boris Baltzer

James Ditmore

Carsten Rasch Egeriis

Henriette Fenger Ellekrog

Jakob Groot

Glenn Söderholm

Frederik Gjessing Vinten

Philippe Vollot

Board of Directors

Karsten Dybvad
Chairman

Carol Sergeant
Vice Chairman

Jan Thorsgaard Nielsen
Vice Chairman

Ingrid Bonde

Lars-Erik Brenøe

Jens Due Olsen

Rolv Erik Ryssdal

Hilde Tonne

Bente Bang
Elected by the employees

Kirsten Ebbe Brich
Elected by the employees

Thorbjørn Lundholm Dahl
Elected by the employees

Charlotte Hoffmann
Elected by the employees

Independent auditor's report

To the shareholders of Danske Bank A/S

Opinion
We have audited the consolidated financial statements and the parent financial statements of Danske Bank A/S for the financial year 1 January 2018 to 31 December 2018, pages 70-229, which comprise the income statement, statement of comprehensive income, balance sheet, statement of capital and notes, including the summary of significant accounting policies, for the Group as well as for the Parent, and the cash flow statement of the Group. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed financial companies, and the parent financial statements are prepared in accordance with the Danish Financial Business Act.

In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position at 31 December 2018, and of its financial performance and cash flows for the financial year 1 January 2018 to 31 December 2018 in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed financial companies.

Also, in our opinion, the parent financial statements give a true and fair view of the Parent's financial position at 31 December 2018, and of its financial performance for the financial year 1 January 2018 to 31 December 2018 in accordance with the Danish Financial Business Act.

Our opinion is consistent with our audit book comments issued to the Audit Committee and the Board of Directors.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements* section of this auditor's report. We are independent of the Group in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

To the best of our knowledge and belief, we have not provided any prohibited non-audit services as referred to in Article 5(1) of Regulation (EU) No 537/2014.

We were appointed auditors of Danske Bank A/S for the first time on 18 March 2015 for the financial year 2015. We have been reappointed annually by decision of the general meeting for a total contiguous engagement period of 4 years up to and including the financial year 2018.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements and the parent financial statements for the financial year 1 January 2018 to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements and the parent financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters | How the matters were addressed in our audit

Regulatory investigations and litigation relating to anti-money laundering ("AML")

Key audit matters

The regulatory investigations and litigation in respect of the non-resident portfolio in the Estonian Branch, and any potential regulatory action as a result of the need to improve the quality and the efficiency of the AML controls in general, are deemed to be a key audit matter as the recognition and measurement of provisions and the measurement and disclosure of contingent liabilities require significant judgements by Management.

The significant judgements include considering whether to record a provision for future potential fines or settlements/litigation in respect of the non-resident portfolio in the Estonian Branch by assessing whether the criteria for recognition of an obligation is met at 31 December 2018 by determining if:

- it is more likely than not that an economic outflow based on the investigations and litigation will occur; and
- the amount of the payment (or other economic outflow) can be reliably estimated.

The timing of the completion of the investigations, the outcome and the subsequent discussions with the authorities are uncertain. At present, Management consider that it is not yet possible to reliably estimate the timing or amount of any potential settlement or fines, which could be material.

Management has provided further information about the anti-money laundering including regulatory investigations and litigation in note 25 to the consolidated financial statements.

How the matters were addressed in our audit

We have considered: Management's assessment as to whether the criteria for recognition of an obligation is met, including a provision for future potential fines or settlements/litigation, the disclosure of contingent liabilities; and the assumptions made.

Our considerations included the following elements:

- Testing of key controls over the identification, recording and disclosure of exposures to AML breaches of anti-money laundering regulation arising from the non-resident portfolio in the Estonian Branch including Management's review of the appropriateness of the provision and disclosure when assessed against IAS 37 Provisions, Contingent Liabilities and Contingent Assets.
- Making enquiries of members of the Executive Board and the Board of Directors, Head of Legal and Head of Compliance.
- Inspecting and assessing correspondence from the regulatory authorities and claims against the Group.
- Inspecting and assessing legal claims made against the Group.
- Making enquiries of the Group's third party legal advisers and examining correspondence between the legal advisers and the Group.
- Attending relevant meetings with the Bank including those conducted with the Group's third party legal advisers.
- Inspecting and analysing Management's responses made to regulatory authorities on completion of the Group's AML programme.
- Inspecting and analysing reports by the Group's control functions on the adequacy of the current state of the Group's AML controls.
- Inspecting and analysing reports by a third party consultant on the progress of the Group's AML programme.
- Involving a forensic expert to assist us in our procedures.

Impairment charges for loans and provisions for guarantees

Key audit matters

Loans for the Group amounted to DKK 2,043,580 million at 31 December 2018 (DKK 1,899,975 million at 31 December 2017), and the total allowance account for the Group amounted to DKK 21,170 million at 31 December 2018 (DKK 20,749 million at 31 December 2017).

From 1 January 2018, the Group has adopted IFRS 9, resulting in impairment charges being recognised when losses are expected rather than when they have been incurred. Management has disclosed information regarding the transitional effect of IFRS 9 in note 2(a) including the impact on shareholders' equity and income statement at 1 January 2018.

Measurement of loan impairment charges for loans and provisions for guarantees is deemed a key audit matter as the determination of assumptions for expected credit losses is highly subjective due to the level of judgement applied by Management.

The most significant judgements are:

- Assumptions used in the expected credit loss models to assess the credit risk related to the exposure and the expected future cash flows of the customer.
- Timely identification of exposures with significant increase in credit risk and credit impaired exposures.
- Valuation of collateral and assumptions of future cash flows on manually assessed credit-impaired exposures.
- Management overlays for particular high-risk portfolios, which are not appropriately captured in the expected credit loss model.

Management has provided further information about the loan impairment charges and provisions for guarantees in notes 1(b), 11, 15, 16 and 23 to the consolidated financial statements.

How the matters were addressed in our audit

Based on our risk assessment and industry knowledge, we have examined the impairment charges for loans and provisions for guarantees and evaluated the methodology applied as well as the assumptions made according to the description of the key audit matter.

Our examination included the following elements:

- Testing of key controls over assumptions used in the expected credit loss models to assess the credit risk related to the exposure and the expected future cash flows of the customer.
- Obtaining and substantively testing evidence to support the assumptions used in the expected credit loss models applied in stage allocation, assumptions applied to derive lifetime possibility of default and methods applied to derive loss given default.
- Testing of key controls over timely identification of exposures with significant increase in credit risk and timely identification of credit impaired exposures.
- Obtaining and substantively testing evidence of timely identification of exposures with significant increase in credit risk and timely identification of credit impaired exposures.
- Testing of key controls over models and manual processes for valuation of collateral and assumptions of future cash flows.
- Obtaining and substantively testing evidence to support appropriate determination of assumptions for loan impairment charges and provisions for guarantees including valuation of collateral and assumptions of future cash flows on manually assessed credit impaired exposures.
- Testing of key controls over Management overlays applied to manage non-linearity that are not included in the modelled expected credit losses
- Obtaining and substantively testing evidence of Management overlays for high-risk portfolios with particular focus on the methodology applied, evidence of assumptions-setting processes and the consistency thereof by:
  - Assessing the key developments since last year against industry standards and historical data.
  - Assessing the appropriateness of the different identified Management overlays compared with the embedded macro forecasts applied in the expected credit loss models.
  - Challenging the methodologies applied by using our industry knowledge and experience.

Key audit matters	How the matters were addressed in our audit

Measurement of liabilities under insurance contracts

Liabilities under insurance contracts for the Group amounted to DKK 417,279 million at 31 December 2018 (DKK 322,726 million at 31 December 2017).

Measurement of liabilities under insurance contracts is deemed a key audit matter as the determination of assumptions for the measurement of life insurance contract liabilities requires Management to apply judgements about future events.

Changes in assumptions and the methodology applied may have a material impact on the measurement of liabilities under insurance contracts.

The most significant judgements are:

- Determining disability rates, mortality rates and surrender probabilities.
- Assumptions related to regulatory and reporting requirements, including risk and interest.

Management has provided further information about liabilities under insurance contracts in notes 1(b) and 18 to the consolidated financial statements.

Based on our risk assessment, we have examined the valuation of liabilities under insurance contracts and evaluated the methodology applied and the assumptions made.

Our examination included the following elements, where we also made use of our internationally qualified actuaries:

- Testing of key controls over the actuarial models, data collection and analysis and the assumptions-setting processes.
- Evaluating the disability and mortality rates and surrender probabilities used in the calculation against historical data and market practice.
- Assessing the key changes in the assumptions against regulatory and reporting requirements and industry standards.
- Analysing developments, particularly within risk, interest and cost results by using our industry knowledge and experience.

Fair value measurement of derivatives

Derivatives classified as assets for the Group amounted to DKK 244,274 million (DKK 256,891 million at 31 December 2017) and derivatives classified as liabilities for the Group amounted to DKK 240,992 million (DKK 244,689 million at 31 December 2017) for the Group.

Of derivative assets and liabilities held by the Group and those with non-observable inputs held at 31 December 2018 amounted to DKK 4,372 million (DKK 5,458 million at 31 December 2017) and DKK 3,568 million (DKK 5,852 million at 31 December 2017), respectively.

Measurement of derivatives with non-observable inputs is deemed a key audit matter, as they require Management to apply significant judgements in:

- Choosing the models to be used to calculate and validate the market values.
- Identifying the most relevant market data for the models.

Changes in the models may have a significant impact on the measurement of derivatives.

Management has provided further information about fair value measurement of derivatives in notes 1(b), 12 and 31 to the consolidated financial statements.

Based on our risk assessment, we have examined the valuation carried out by Management and evaluated the methodology applied and the assumptions made.

Our examination included the following elements:

- Testing of the independent pricing controls over derivatives with non-observable inputs.
- Using our own internationally qualified valuation experts, re-calculating the carrying amounts on a sample basis by using independent data for derivatives with limited observable market data.
- Challenging the choice of models and relevant market data used to calculate and validate the fair value of derivatives with non-observable inputs by:
  - Using our industry knowledge and experience, focusing on changes in the models since last year.
  - Assessing key changes in the assumptions against industry standards and historical data.

Measurement of deferred tax assets and liabilities

The Group has recognised deferred tax assets of DKK 546 million (DKK 448 million in 2017), of which DKK 291 million (DKK 335 million at 31 December 2017) is the tax base of unused tax losses at 31 December 2018. The losses primarily relate to the Group's banking operations in Ireland.

At 31 December 2018, the Group has recognised a deferred tax liability of DKK 7,869 million (DKK 7,594 million at 31 December 2017), of which the tax base of international joint taxation accounts for DKK 5,806 million (DKK 5,883 million at 31 December 2017). Recapture of tax loss consists of the full deferred tax liability arising from joint taxation.

Measurement of deferred tax assets and liabilities is deemed a key audit matter as it is highly judgemental in:

- The assumptions and forecasts on future earnings.
- The assessment of tax payable at exit of international joint taxation.

Management has provided further information about deferred tax assets and liabilities in notes 1(b) and 21 to the consolidated financial statements.

Based on our risk assessment, we have examined the forecasts prepared by Management and evaluated the method used to determine the amount of tax assets and liabilities recognised.

Our examination included the following elements:

- Testing of key controls over the assumptions-setting processes and forecasts on future earnings.
- Challenging the reasonableness of Management's assumptions and forecasts of future profits in light of the historical accuracy of such forecasts and the current earnings.
- Evaluating compliance with current tax regulation using our tax experts.
- Assessing Management's judgements over the measurement of tax payable in relation to the international joint taxation.

Statement on the Management's report
Management is responsible for the Management's report.
Our opinion on the consolidated financial statements and the parent financial statements does not cover the Management's report, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the parent financial statements, our responsibility is to read the Management's report and, in doing so, consider whether the Management's report is materially inconsistent with the consolidated financial statements and the parent financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's report provides the information required under the Danish Financial Business Act.

Based on the work we have performed, we conclude that the Management's report is in accordance with the consolidated financial statements and the parent financial statements and has been prepared in accordance with the requirements of the Danish Financial Business Act. We did not identify any material misstatement of the Management's report.

Management's responsibilities for the consolidated financial statements and the parent financial statements
Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed financial companies, as well as for the preparation of parent financial statements that give a true and fair view in accordance with the Danish Financial Business Act, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements and parent financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the parent financial statements, Management is responsible for assessing the Group's and the Parent's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in the preparation of the consolidated financial statements and the parent financial statements unless Management either intends to liquidate the Group or the Parent or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and these parent financial statements.

As part of an audit in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:
- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the parent financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the parent financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements and the parent financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, 1 February 2019

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Erik Holst Jørgensen
State-Authorised
Public Accountant
MNE no 9943

Jens Ringbæk
State-Authorised
Public Accountant
MNE no 27735


It is our policy to conduct our business in a responsible and transparent manner and to support financial stability by being solid, balanced and predictable.


EMBERS
PARTNERS

Management and directorships – Board of Directors

Karsten Dybvad
Chairman
Elected by the General Meeting

Born on 5 November 1956
Nationality: Danish
Gender: Male
Joined the Board on 7 December 2018
Appointed Chairman on 7 December 2018
Term expires in 2019
Independent

Chairman of the Remuneration Committee and member of the Nomination Committee and the Risk Committee

Competencies:
- Broad experience with community and authority relationships, financial and regulatory competencies with extensive knowledge about the framework conditions of financial institutions
- Broad experience with board work both as member and chairman in various lines of business, mainly in the public sector

Directorships and other offices:
Private-sector directorships:
PensionDanmark Pensionsforsikringsaktieselskab and Pension Danmark Holding A/S (vice chairman)
Bygnings- og udviklingsfonden DTM 4.0 (chairman)

Entities which do not pursue predominantly commercial objectives:
Copenhagen Business School (chairman)

Carol Sergeant
Vice Chairman
Elected by the General Meeting

Born on 7 August 1952
Nationality: British
Gender: Female
Joined the Board on 18 March 2013
Most recently re-elected in 2018
Term expires in 2019
Independent

Chairman of the Risk Committee and Member of the Nomination Committee

Competencies:
- Senior management and board experience in the public, private and charity sectors
- Broad and in-depth knowledge of financial services business, credit and risk management and regulatory issues in the UK and Europe
- Significant change management experience

Directorships and other offices:
Private-sector directorships:
BNY Mellon SA/NV (member of the board of directors, chairman of the risk committee and member of the audit committee)
Threadneedle Solutions Ltd. (company director)

Entities which do not pursue predominantly commercial objectives:
British Standards Institute, Standards Policy and Strategy Committee (chairman)
Lloyds Register Foundation (trustee and member of the audit and investment committee)
The Governing Council of the Centre for the Study of Financial Innovation (CSFI) (trustee)

Jan Thorsgaard Nielsen
Vice Chairman
Elected by the General Meeting

Chief Investment Officer (CIO), A.P. Møller Holding A/S

Born on 6 June 1974
Nationality: Danish
Gender: Male
Joined the Board on 7 December 2018
Term expires in 2019
Non-independent

Member of the Audit Committee

Competencies:
- Several years of experience from the global financial sector and broad experience with board work in different lines of business
- Major experience with business development and change management with a strong profile within building talent

Directorships and other offices:
Private-sector directorships:
APMH Invest (member of the board of directors)
A.P. Møller Capital P/S (member of the board of directors)
A.P. Møller Capital GP ApS (member of the board of directors)
LEGO A/S (member of the board of directors)

Ingrid Bonde
Elected by the General Meeting

Born on 27 December 1959
Nationality: Swedish
Gender: Female
Joined the Board on 15 March 2018
Term expires in 2019
Independent

Member of the Audit Committee and the Risk Committee

Competencies:
- Extensive executive experience from various industries including life insurance industry as well as from public financial services regulatory bodies
- Considerable board and chairman experience across various industries, mainly from public companies

Directorships and other offices:
Private-sector directorships:
Hoist Finance (chairman)
Loomis AB (member of the board of directors)
Securitas AB (member of the board of directors)
I. Bonde AB (executive officer and owner)

Entities which do not pursue predominantly commercial objectives:
Climate Policy Council (chairman)
Swedish Corporate Governance Board (member)

Lars-Erik Brenøe
Elected by the General Meeting

Executive Vice President, Head of Chairman's Office, A.P. Møller-Mærsk A/S

Born on 22 March 1961
Nationality: Danish
Gender: Male
Joined the Board on 17 March 2016
Most recently re-elected in 2018
Term expires in 2019
Non-independent

Chairman of the Nomination Committee

Competencies:
- Broad and in-depth experience with board work and corporate governance
- Financially literate
- Knowledge of relevant legal/regulatory issues
- Knowledge of stakeholder management
- Experience with international business and the markets/regions in which Danske Bank operates

Directorships and other offices:
Private-sector directorships:
The A.P. Møller and Hustru Chastine Mc-Kinney Møller Foundation (member of the boards of directors or the executive boards of eight affiliated undertakings)
Maersk Broker A/S (chairman or vice chairman of the boards of directors of six affiliated undertakings)
LINDØ port of Odense A/S (member of the board of directors)
Navigare Capital Partners A/S (chairman)

Entities which do not pursue predominantly commercial objectives:
A.P. Møller og Hustru Chastine Mc-Kinney Møllers Familiefond (The A.P. Moller Family Foundation) (member of the board of directors)
The Danish Committee on Foundation Governance (vice chairman)
The Confederation of Danish Industry (DI) (member of the Central Board)

Jens Due Olsen
Elected by the General Meeting

Born on 5 November 1963
Nationality: Danish
Gender: Male
Joined the Board on 15 March 2018
Term expires in 2019
Independent

Chairman of the Audit Committee and member of the Risk Committee

Competencies:
- Extensive executive experience from large international public and private equity-backed companies
- Significant board and chairman experience of both public and private equity-backed companies
- Strong financial literacy
- Strong experience in strategy, consolidation and change management

Directorships and other offices:
Private-sector directorships:
KMD Holding ApS (chairman and chairman of four affiliated undertakings)
NKT A/S (chairman and chairman of one affiliated undertaking)
Nilfisk Holding A/S (chairman)
HusCompagniet (member of the board of directors)
JDO Invest ApS (executive officer)
JDO Invest 2 ApS (executive officer)

Entities which do not pursue predominantly commercial objectives:
BørneBasketFonden (not-for-profit) (chairman)
The Danish Committee on Corporate Governance (vice chairman)

Rolv Erik Ryssdal
Elected by the General Meeting

CEO, Marketplaces International ASA

Born on 7 November 1962
Nationality: Norwegian
Gender: Male
Joined the Board on 18 March 2014
Most recently re-elected in 2018
Term expires in 2019
Independent

Member of the Remuneration Committee

Competencies:
- Extensive consumer business experience, including experience with communication strategies
- In-depth knowledge of digital business models and transformation processes

Directorships and other offices:
Private-sector directorships:
Marketplaces International ASA (chairman or member of the boards of directors of nine affiliated undertakings)
Finn No A/S (vice chairman)

Hilde Tonne
Elected by the General Meeting

Executive Director and Chief Innovation Officer, Ramboll Group

Born on 16 September 1965
Nationality: Norwegian
Gender: Female
Joined the Board on 17 March 2016
Most recently re-elected in 2018
Term expires in 2019
Independent

Member of the Remuneration Committee

Competencies:
- Extensive executive management experience from large international companies
- Significant board experience
- Financially literate
- In-depth knowledge of the consumer business, customer needs and change management
- People and culture expertise
- Strong grasp of IT and digitalisation

Directorships and other offices:
The Research Council of Norway (chairman)

Bente Bang
Elected by the employees

Member of the board of directors of Danske Kreds

Born on 22 January 1963
Nationality: Danish
Gender: Female
Joined the Board on 15 March 2018
Term expires in 2022

Competencies:
- In-depth understanding of banking
- Specialist within the field of pensions
- Trained adviser with strong customer-oriented focus
- Experienced in communicating financial solutions to customers and employees

Directorships and other offices:
Danske Kreds Jubilæumsfond (member of the board of directors)
Danske Banks Velfærdsfond af 1993 (member of the board of directors)

Kirsten Ebbe Brich
Elected by the employees

Chairman of Danske Kreds

Born on 15 July 1973
Nationality: Danish
Gender: Female
Joined the Board on 18 March 2014
Most recently re-elected in 2018
Term expires in 2022

Competencies:
- Extensive experience with collective bargaining agreements and political management
- Broad knowledge of sector and labour market relationships
- Extensive experience with change management and processes
- Experience within and knowledge of digitalisation and IT

Directorships and other offices:
Danske Kreds' Jubilæumsfond (chairman)
Danske Unions (transnational association of local Danske Bank Group staff unions) (chairman)
Bikubens Personaleforening (member of the board of directors)
Danske Banks Pensionskasse for Førtidspensionister (member of the board of directors)
Danske Banks Velfærdsfond af 1993 (member of the board of directors)
Finansforbundet (The Financial Services Union in Denmark) (member of the executive committee)

Thorbjørn Lundholm Dahl
Elected by the employees

Head of Cross Journeys, Group Development

Born on 4 May 1978
Nationality: Danish
Gender: Male
Joined the Board on 15 March 2018
Term expires in 2022

Competencies:
- Implementation of new regulation across market areas
- Capital planning and liquidity management
- Strategy, business development and cross-functional projects

Directorships and other offices:
None

Charlotte Hoffmann
Elected by the employees

Personal Adviser

Born on 8 October 1966
Nationality: Danish
Gender: Female
Joined the Board on 14 March 2006
Most recently re-elected in 2018
Term expires in 2022

Member of the Remuneration Committee

Competencies:
- Advising personal customers on housing, pension and investments
- Customer satisfaction, customer development, customer focus and all-round advisory services

Directorships and other offices:
None

Management and directorships – Executive Board

Jesper Nielsen
Interim CEO and Head of Banking DK

Born on 20 October 1968
Joined the Board on 1 October 2016

Directorships and other offices:
e-nettet (chairman)
Realkredit Danmark A/S (chairman)
MobilePay A/S and MobilePay Denmark A/S (chairman)
FinansDanmark (second vice chairman)
Danske Banks Fond (member of the board of directors)
Grænseforeningen (member of the board of directors)

Jacob Aarup-Andersen
Head of Wealth Management

Born on 6 December 1977
Joined the Board on 1 April 2016

Directorships and other offices:
Danica Pension, Livsforsikringsaktieselskab (chairman)
Danica Pensionsforsikring A/S (chairman)
Forsikringsselskabet Danica,
Skadeforsikringsaktieselskab af 1999 (chairman)
Danske Bank International S.A. (chairman)
Danske Invest Management A/S (chairman)
Kreditforeningen Danmarks Pensionsafviklingskasse (chairman)
Realkredit Danmark A/S (vice chairman)
Danske Banks Fond (member of the board of directors)

Christian Baltzer
Chief Financial Officer

Born on 18 April 1978
Joined the Board on 15 October 2018

Directorships and other offices:
Danica Pension Livsforsikringsaktieselskab (member of the board of directors)
Danica Pensionsforsikring A/S (member of the board of directors)
Forsikringsselskabet Danica,
Skadesforsikringsaktieselskab af 1999 (member of the board of directors)
Realkredit Danmark A/S (member of the board of directors)

James Ditmore
Head of Group Services & Group IT (COO)

Born on 10 July 1960
Joined the Board on 21 April 2014

Directorships and other offices:
ITPeopleNetwork (member of the customer advisory board)
Northern Bank Limited (member of the board of directors)
MobilePay A/S and MobilePay Denmark A/S (member of the board of directors)
A&R Farms llc (owner)
Danske Banks Fond (member of the board of directors)

Carsten Rasch Egeriis
Head of Group Risk

Born on 18 June 1976
Joined the Board on 1 August 2017

Directorships and other offices:
Northern Bank Limited (member of the board of directors)
Realkredit Danmark A/S (member of the board of directors)
Danske Banks Fond (member of the board of directors)

Henriette Fenger Ellekrog
Head of Group HR

Born on 29 April 1966
Joined the Board on 2 May 2018

Directorships and other offices:
Finanssektorens Arbejdsgiverforening (The employer association for the finance sector) (chairman)
Realkredit Danmark A/S (member of the board of directors)
Fondet for Dansk-Norsk Samarbejde (The Danish-Norwegian Collaboration Foundation) (member of the board of directors)
The Confederation of Danish Industry's (DI's) Advisory Board for 'Women on Board' (member of the advisory board)

Jakob Groot
Head of Corporates & Institutions

Born on 26 June 1967
Joined the Board on 2 May 2018

Directorships and other offices:
International Capital Markets Association (member of the board of directors)
Realkredit Danmark A/S (member of the board of directors
GFO ApS (executive officer and owner)

Glenn Söderholm
Head of Banking Nordic

Born on 26 July 1964
Joined the Board on 1 November 2013

Directorships and other offices:
Danske Hypotek AB (chairman)
Danske Leasing A/S (chairman)
Danske Mortgage Bank PLC (chairman)
NASDAQ Nordic Ltd. (member of the board of directors)
Danske Banks Fond (member of the board of directors)

Frederik Gjessing Vinten
Head of Group Development

Born on 3 May 1979
Joined the Board on 2 May 2018

Directorships and other offices:
GateTu (member of the board of directors)
MobilePay A/S and MobilePay Denmark A/S (member of the board of directors)

Philippe Vollot
Chief Compliance Officer

Born on 5 February 1967
Joined the Board on 26 November 2018

Directorships and other offices:
None

Supplementary information

Financial calendar	
18 March 2019	Annual general meeting
30 April 2019	Interim report – first quarter 2019
18 July 2019	Interim report – first half 2019
1 November 2019	Interim report – first nine months 2019

Contacts	
Christian Boris Baltzer Chief Financial Officer	+45 45 14 60 02
Claus Ingar Jensen Head of Investor Relations	+45 45 12 84 83

Links	
Danske Bank	danskebank.com
Denmark	danskebank.dk
Finland	danskebank.fi
Sweden	danskebank.se
Norway	danskebank.no
Northern Ireland	danskebank.co.uk
Ireland	danskebank.ie
Realkredit Danmark	rd.dk
Danske Capital	danskecapital.com
Danica Pension	danicapension.dk

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

Other Danske Bank Group publications, available at danskebank.com/reports:

Corporate Responsibility 2018

Risk Management 2018

Danske Bank A/S
Holmens Kanal 2-12
DK-1092 København K

Tel. +45 33 44 00 00
CVR No. 611262 28-København
danskebank.com

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