Annual Report 2016

Danske Bank Group

Danske Bank

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Letter to our shareholders

Dear shareholders,
We are pleased to report that 2016 was another year of solid progress for Danske Bank. In a challenging environment of slow economic growth and low interest rates, we managed to deliver satisfactory financial results, strengthen our market position and lay the foundation for future success.

With a net profit of DKK 19.9 billion and a return on equity of 13.1%, we reached our target of at least 12.5% two years ahead of time. The results once again reflect the strength of our diversified business model and demonstrate that our efforts to become a more customer-centric, simple and efficient bank continue to yield results.

Particularly encouraging were the improvements in customer satisfaction. We saw increases in all business units and markets that brought us in line with our ambitions in most areas and give us a solid platform for continued growth and success. We also made progress in realising the full Nordic potential of Danske Bank. We continued to attract new customers in Norway and Sweden, and business volume grew in most markets. In Sweden and Finland, we entered into new strategic partnerships that will provide further growth opportunities.

We see this progress as evidence that our focus on combining our more than 145 years of banking experience with a strong desire to create innovative solutions gives us a competitive market position in all customer segments. Throughout the year, we launched a number of new products and services intended to make both daily banking and important financial decisions easy, and innovation will continue to be a priority for us.

To further strengthen our position within asset management, life insurance, pension savings and private banking, we established a new business unit, Wealth Management. We are confident that, with our scale, strong expertise and attractive and innovative offerings, the new unit will enable us to capture a larger share of growth in the Nordic wealth management market.

Last but not least, our capital position remained strong, with a common equity tier 1 capital ratio of 16.3% at the end of the year.

The Board of Directors is proposing a dividend of DKK 9.0 per share, or 45% of net profit for the year. Furthermore, we plan to initiate another share buy-back programme that will total DKK 10 billion.

The way forward
The financial services industry is undergoing significant changes driven by a number of powerful forces. Technological developments in particular, as well as macroeconomic conditions, changing customer expectations, intensified competition and increased regulatory pressure, will continue to make for a challenging business climate. But these developments will also create many opportunities for us to strengthen our position and deliver long-term value for all our stakeholders, not least our shareholders.

While we are satisfied with the progress we made in 2016, we remain committed to continuing the execution of our strategy and realising our vision of being recognised as the customers' most trusted financial partner. In 2017, our focus areas will be continuing to improve the customer experience through innovation and digitalisation, maintaining a strong financial performance, further strengthening our compliance and risk management capabilities as well as growing further in the Nordic countries.

The solid progress we made this year, the satisfactory financial results we delivered, and the value we created for all our stakeholders would not have been possible without the hard work and dedication of our more than 19,000 employees around the world. We would like to express our gratitude to all of them for their efforts.

Thomas F. Borgen
Chief Executive Officer

Ole Andersen
Chairman of the Board of Directors

Financial highlights – Danske Bank Group

Income statement*
(DKK millions)

	2016	2015	Index 16/15	2014	2013	2012
Net interest income	22,028	21,402	103	22,198	22,077	22,778
Net fee income	14,183	15,018	94	14,482	9,468	8,866
Net trading income	8,607	6,848	126	6,895	5,799	10,562
Other income	3,140	2,343	134	1,755	1,308	1,285
Net income from insurance business	-	-	-	-	1,088	2,171
Total income	47,959	45,611	105	45,330	39,740	45,662
Operating expenses	22,642	23,237	97	23,927	23,794	24,642
Goodwill impairment charges	-	4,601	-	9,098	-	-
Profit before loan impairment charges	25,317	17,773	142	12,260	15,947	21,020
Loan impairment charges	-3	57	-	2,788	4,111	7,680
Profit before tax, core	25,320	17,716	143	9,472	11,836	13,340
Profit before tax, Non-core	37	46	80	-1,503	-1,777	-4,801
Profit before tax	25,357	17,762	143	7,969	10,059	8,539
Tax	5,500	4,639	119	4,020	2,944	3,814
Net profit for the year	19,858	13,123	151	3,948	7,115	4,725
Net profit for the year before goodwill impairment charges	19,858	17,724	112	13,047	7,115	4,725
Attributable to additional tier 1 etc.	663	607	109	261	-	4
Balance sheet (end of year) (DKK millions)						
Due from credit institutions and central banks	200,544	75,221	267	63,786	53,714	113,657
Repo loans	244,474	216,303	113	290,095	316,079	307,177
Loans	1,689,155	1,609,384	105	1,563,729	1,536,773	1,640,656
Trading portfolio assets	509,678	547,019	93	742,512	695,722	812,966
Investment securities	343,337	343,304	100	330,994	161,917	107,724
Assets under insurance contracts	285,398	265,572	107	268,450	246,484	241,343
Total assets in Non-core	19,039	27,645	69	32,329	41,837	33,100
Other assets	192,046	208,431	92	161,120	174,531	228,326
Total assets	3,483,670	3,292,878	106	3,453,015	3,227,057	3,484,949
Due to credit institutions and central banks	155,085	137,068	113	126,800	132,253	241,238
Repo deposits	199,724	177,456	113	400,618	331,091	359,276
Deposits	859,435	816,762	105	763,441	776,412	783,759
Bonds issued by Realkredit Danmark	726,732	694,519	105	655,965	614,196	614,325
Other issued bonds	392,512	363,931	108	330,207	310,178	340,005
Trading portfolio liabilities	478,301	471,131	102	550,629	435,183	531,860
Liabilities under insurance contracts	314,977	285,030	111	288,352	262,468	266,938
Total liabilities in Non-core	2,816	5,520	51	4,950	17,476	4,831
Other liabilities	149,641	140,640	106	138,642	135,924	136,928
Subordinated debt	37,831	39,991	95	41,028	66,219	67,785
Additional tier 1 etc.	14,343	11,317	127	5,675	-	4
Shareholders' equity	152,272	149,513	102	146,708	145,657	138,000
Total liabilities and equity	3,483,670	3,292,878	106	3,453,015	3,227,057	3,484,949
Ratios and key figures						
Dividend per share (DKK)	9.0	8.0		5.5	2.0	-
Earnings per share (DKK)	20.2	12.8		3.8	7.1	5.0
Return on avg. shareholders' equity (%)	13.1	8.5		2.5	5.0	3.6
Return before goodwill impairment charges on avg. shareholders' equity (%)	13.1	11.6		8.6	5.0	3.6
Return on avg. tangible equity (%)	14.0	12.9		10.5	6.4	5.3
Net interest income as % p.a. of loans and deposits	0.86	0.88		0.95	0.95	0.94
Cost/income ratio (%)	47.2	61.0		73.0	59.9	54.0
Cost/income ratio before goodwill impairment charges (%)	47.2	50.9		52.9	59.9	54.0
Total capital ratio (%)	21.8	21.0		19.3	21.4	21.3
Common equity tier 1 capital ratio (%)	16.3	16.1		15.1	14.7	14.5
Share price (end of year) (DKK)	214.2	185.2		167.4	124.4	95.7
Book value per share (DKK)	162.8	153.2		146.8	145.6	138.0
Full-time-equivalent staff (end of year)	19,303	19,049		18,603	19,122	20,126

See note 3 to the financial statements for an explanation of differences in the presentation between IFRS and the financial highlights. For a definition of ratios, see Definition of Alternative Performance Measures on page 44.

** The financial highlights for 2015 and 2014 have been restated owing to the treatment of Danica Pension under the new Wealth Management unit and reclassification of equity finance income from Net trading income to Net fee income. See note 2 for more information on restatement of 2015.*

Executive summary

"The year 2016 was another year of solid progress for Danske Bank. In a challenging environment, we delivered satisfactory financial results, while at the same time strengthening our market position. With a return on equity of 13.1%, we delivered on our long-term target," says Thomas F. Borgen, Chief Executive Officer.

"The results reflect our diversified business model and our efforts to become a more customer-centric, simple and efficient bank. We kept a high innovation pace and launched a number of new advisory products and easy-to-use solutions. We also saw a continued improvement in customer satisfaction and managed to attract new customers and grow our volume, while maintaining high credit quality and reducing costs.

We are satisfied with the progress and remain committed to continuing the execution of our strategy and to realising the full potential of Danske Bank on our journey to become recognised as the most trusted financial partner."

With a net profit of DKK 19.9 billion, up from DKK 17.7 billion before goodwill impairment charges in 2015, and a return on shareholders' equity after tax of 13.1%, against 11.6% before goodwill impairment charges in 2015, Danske Bank delivered a satisfactory result for 2016. The year was characterised by low growth and negative interest rates, but our underlying business remained robust, and we benefited from our diversified business model. Our results were driven by improving net interest income, strong net trading income, decreasing costs and very low impairment charges. The result was also positively impacted by a number of special items.

The results reflect that our strategy of becoming an even more customer-focused, simple and efficient bank continued to yield results.

Our clear ambition remains to provide the best customer experience by making daily banking and important financial decisions as easy as possible. We continued our efforts to fulfil this ambition through ongoing digitalisation to increase efficiency. We enhanced the customer journey by improving existing customer offerings and by launching a wide range of new products and services. As a result, we saw an inflow of new business and good volume growth. Customer satisfaction improved further, bringing us to a satisfactory position in most markets.

Uncertainty concerning future economic growth and lower interest rates for longer remained key challenges, and we do not expect this to change in the short to medium term. GDP growth in Denmark, Norway and Finland was modest in 2016, while Swedish growth decelerated, though from a higher level. On aggregate, our lending, driven especially by activities in Norway and Sweden, grew 5% in 2016.

Net interest income was influenced by strong competition in all markets, but good volume growth compensated for this, while net fee income was affected by lower customer activity. We therefore maintained our strong focus on improving cost efficiency through digitalisation, better utilisation of our global workforce set-up and more efficient processes. Further, corporate and institutional activity in the financial markets was strong in 2016, which resulted in high net trading income.

With a return on shareholders' equity of 13.1% in 2016, we delivered ahead of plan on our longer-term ambition of at least 12.5%.

Capital, funding and liquidity

Our capital position remained strong, with a total capital ratio of 21.8% and a CET1 capital ratio of 16.3%. On the basis of fully phased-in CRR and CRD IV rules and requirements, our CET1 capital ratio stood at 16.2%, versus our current fully phased-in regulatory CET1 capital requirement of 12.0% and our target range of 14-15% in the short to medium term.

At 1 February 2017, the DKK 9.0 billion share buy-back programme initiated in February 2016 had been completed.

On the basis of our strong capital position, the Board of Directors is proposing a dividend of DKK 9.0 per share, or 45% of net profit. In addition, the Board has decided to initiate a new share buy-back programme of DKK 10.0 billion that will start on 3 February 2017 and run for no more than 12 months.

Issuance in covered bonds, senior bonds and additional tier 1 capital in 2016 totalled DKK 85 billion, compared with the DKK 60 to DKK 80 billion funding plan.

At 31 December 2016, our liquidity coverage ratio stood at 158%.

Outlook for 2017

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

Net fee income is expected to be somewhat higher than in 2016, subject to customer activity.

Net trading income and Other income are expected to be less impacted by positive special items compared to 2016.

Expenses are expected to decline somewhat from the level in 2016.

Loan impairments are expected to remain low, although higher than in 2016.

We expect net profit to be in the range of DKK 17-19 billion.

The outlook is subject to uncertainty and macroeconomic developments.

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

Strategy execution

Danske Bank is a Nordic universal bank and our 145-year history in the Nordics gives us a unique combination of experience and skills. The universal banking model provides a strong, diversified platform, delivering considerable synergies across our core markets. We have attractive market positions and strong capabilities. Our vision is to become the most trusted financial partner by creating long-term value for all our stakeholders.

Four strategic themes set the direction
The financial industry is undergoing rapid change driven by five strong factors: The macro economic conditions of low growth and low interest rates, changed and increased customer expectations, digitalisation, intensified competition and increased regulation.

To stay competitive, we must adapt to the changes in the market, which also offer us many opportunities to strengthen our relationships with our customers and our position in the market. Our response to the changes is to work diligently to realise our full Nordic potential, to fully exploit all digitalisation opportunities, to ensure a high level of innovation and efficiency, to continue to develop a strong work force and to constantly improve the customer experience.

We have expressed these responses in four strategic themes that set the direction for our efforts:

- Nordic potential
- Innovation and digitalisation
- Customer experience
- People and culture

Nordic potential
In 2016, we continued our efforts to realise our full Nordic potential. To diversify our business and strengthen our footprint, we continued our growth strategy in Norway and Sweden, where we see significant potential.

At Personal Banking and Wealth Management, we remain in challenger positions. At Business Banking, where our market shares in Sweden and Norway are more developed than in Personal Banking, we continued to grow. At Corporates & Institutions, the adjustment towards a more customer-driven business model continued throughout all our markets.

At Personal Banking in Sweden and Norway, we continued to attract new customers through strategic partnerships with Saco and Akademikerne. Lending at Personal Banking in Sweden and Norway in 2016 was up 8% and 19%, respectively. In December, we signed a new partnership agreement with the Swedish Confederation of Professional Employees (TCO), comprising 14 affiliated trade unions with 1.3 million members, which takes effect in April 2017.

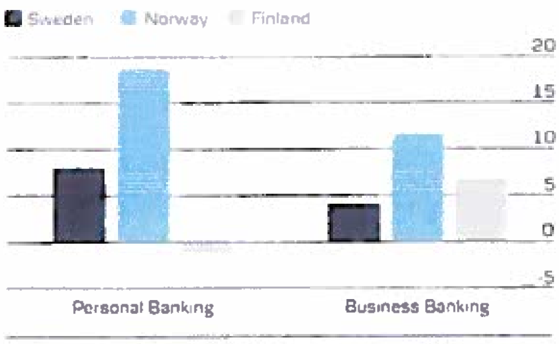
The partnership agreements have enabled us to grow from low levels in a controlled manner that is profitable, with sound credit quality and high customer satisfaction.

In Sweden, we established a new domestic funding programme that we expect to become operational in 2017.

In Finland, Personal Banking focuses on being a frontrunner in digitalisation in order to attract and on-board new customers. Late in the year, we announced an agreement with the five largest affiliates of Akava (the Confederation of Unions for Professional and Managerial Staff in Finland) to collaborate on customer life cycle and service development. The agreement is a strong platform for expanding our business in Finland.

With total market shares of 5.2%, 5.9% and 9.5% in Sweden, Norway and Finland, our Nordic strategy holds considerable potential for future growth.

Loan growth 2016
(%)



As part of our efforts to simplify the organisation and improve efficiency, we are looking into the possibilities of merging our activities in Finland – our subsidiary, Danske Bank Plc, and our Finnish branch, Danske Bank A/S, Helsinki branch – into a single branch. In doing so, we would achieve a uniform organisational structure across the Nordic markets.

The change would be primarily of a technical nature and would not change the way in which we serve our customers, nor would employees experience changes.

As part of our preparations, we have initiated a dialogue with the authorities, and during 2017, we expect to take initiatives that may lead to branchification.

In addition to growing our business, realising our Nordic potential is also about developing a more balanced business model. In 2016, Corporates & Institutions demonstrated the results of making the business more customer-driven, less capital intensive and with lower risk.

Strong client activity across the Nordics at Corporates & Institutions produced higher net trading income in 2016. Our FICC business in particular has a strong position to take advantage of client-driven activity across currencies.

Innovation and digitalisation
Digitalisation continues to transform the financial sector and to offer opportunities for Danske Bank to deliver on our strategy of becoming a more customer-driven, simple and efficient bank.

Making our existing processes more efficient, with an end-to-end perspective, has both improved the customer experience and reduced costs, for example through digital signing of agreements.

Furthermore, we are investing substantial resources in innovation, as ongoing, high-paced innovation is a responding pre-requisite for staying competitive and relevant to our customers and responding to new competitive forces. As part of this, we also explore partnerships to a much larger degree to accelerate our efforts.

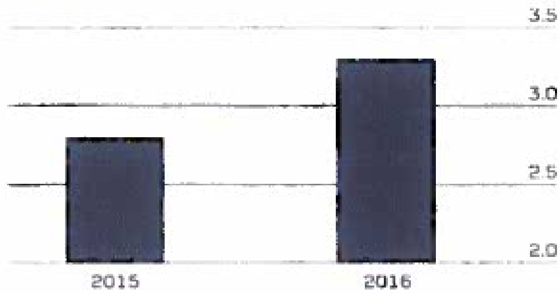
With the "open banking" trend and lower transaction costs, the payment landscape is changing. In 2016, we launched a new partnership model for MobilePay in order to increase the reach significantly.

In October, Nordea joined the partnership in Denmark and Norway, and Jyske Bank and more than 60 other Danish banks followed. These partnerships, together with our recently established partnerships with Verifone and Bambora, form a strong basis for further developing MobilePay and making it an attractive and innovative mobile payment platform for a vast group of new users and businesses in the Nordic region.

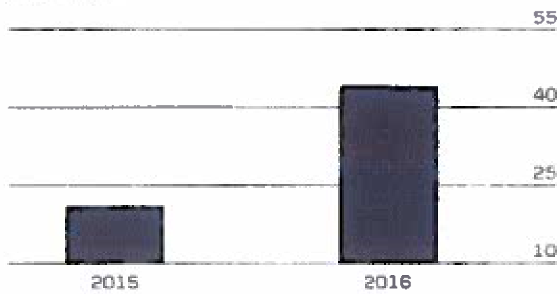
The members of the partnership will contribute to the further development of the platform.

MobilePay is Danske Bank's mobile payment platform. It has around 3.3 million registered users in Denmark, up from around 2.8 million at the end of 2015. In Norway and Finland, MobilePay has 240,000 and 205,000 registered users, respectively, following strong growth in 2016. The total volume of transactions in MobilePay increased from DKK 20.7 billion in 2015 to DKK 44.4 billion in 2016.

Number of registered users in Denmark
(Millions)



Volume of transactions in MobilePay Denmark
(DKK billions)



With our new life-event-based website and our Sunday universe, we aim to further strengthen relationships with our customers and attract new ones by providing users with easily accessible advice that makes financial decisions easy. The Sunday universe offers multiple services, ranging from home search to advice on financing, loan approval and loan monitoring.

Customer experience
Customer satisfaction continued to increase overall and remains on a good trajectory. Customer satisfaction remains a key priority.

At Personal Banking, customer satisfaction saw a positive development across our markets. We are on target in Denmark, Sweden and Finland. In Norway, we are number three.

At Business Banking, we ended 2016 with the highest customer satisfaction scores ever. We are on target in all our Nordic markets and saw positive trends in customer satisfaction, particularly in Denmark.

At Corporates & Institutions, customer satisfaction ratings remained high throughout 2016. Overall, we are ranked number one, but in Norway, we were ranked number four and continue our efforts to improve our overall position.

At Wealth Management, we made progress during 2016 and were ranked the number one Private Banking supplier in the Nordics for the first time, according to Prospera. Among institutions, Danske Capital improved to number one in Denmark. In Sweden, however, customer satisfaction ratings remained unsatisfactory.

In Northern Ireland, business customer satisfaction is on target, while personal customer satisfaction is below target.

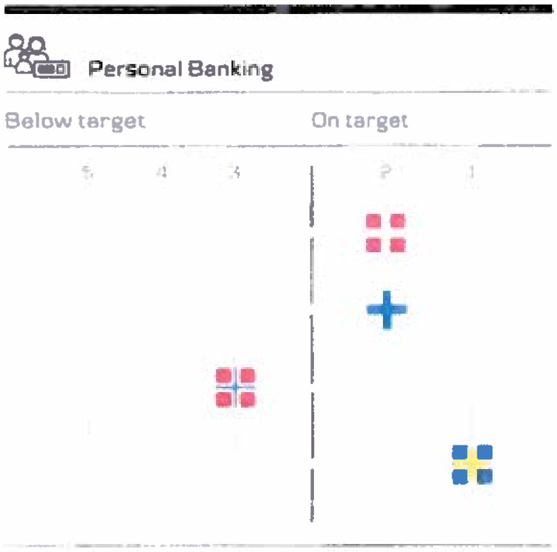
Our customer promise is to "help customers be financially confident and achieve their ambitions by making daily banking and important financial decisions easy". Our ambitions frame the experiences we want to deliver, and they will serve as our benchmark throughout the Group.

Our efforts in digitalisation and accessibility are key factors in creating a leading customer experience.

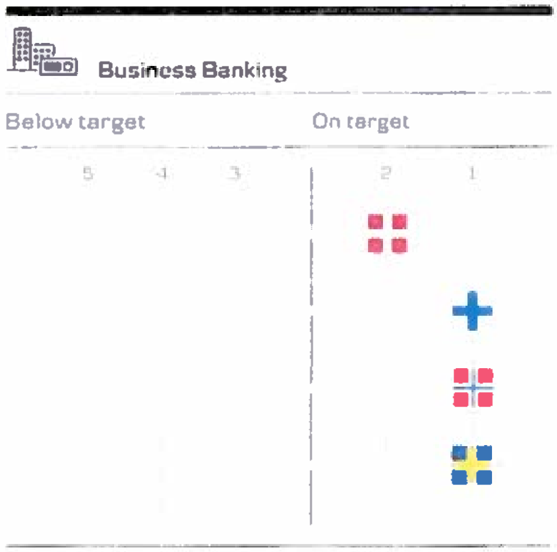
At Personal Banking, the customer programme remains a cornerstone of our value proposition. It is designed to meet the needs of specific customer segments, and customers can now sign up online in a simple process and manage their cards in the Mobile Banking app. In Sweden, we offer a strong value proposition through our partnership agreements with Saco and TCO. In Norway, we continued to develop new solutions for our customers, including an offering for young Akademikerne customers. In Finland, we launched a new range of home loans suited to various life situations and announced an agreement with five major affiliates of Akava (the Confederation of Unions for Professional and Managerial Staff in Finland) to collaborate on customer life cycle and service development.

At Business Banking, we offer tailor-made solutions for large customers with more complex needs. Our digital onboarding process, which enables customers to use our systems within days, was successful in attracting customers. An example of our improved offering for small businesses is The Hub, a digital platform that supports companies with growth ambitions. In addition, we introduced a new value proposition to support the ambitions of high-growth companies.

We continue to improve our understanding of customers' expectations, needs and motivational drivers and make it more sophisticated on an ongoing basis. That is the foundation for all our efforts to improve the customer experience.



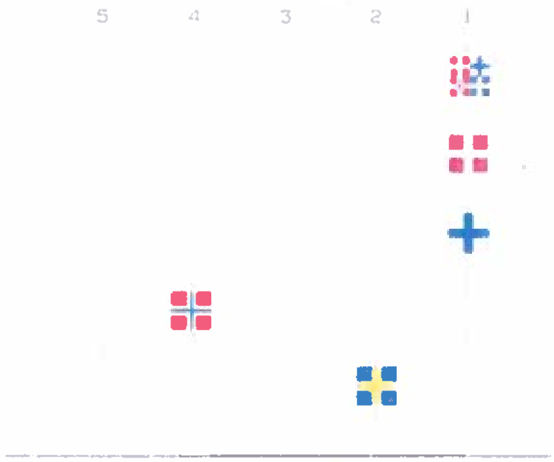
Source: PB Strategy & Insights, Customer Insights



Source: BD Sales & Customer Engagement, Customer Insights

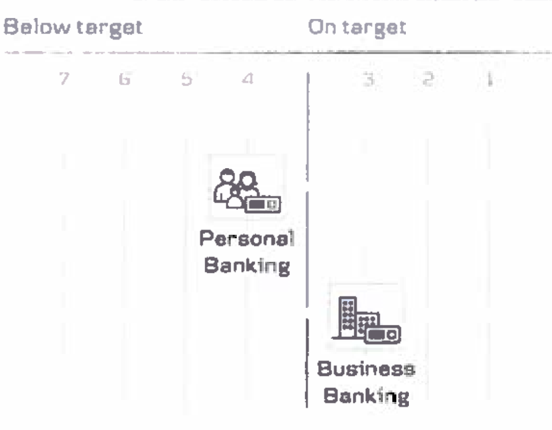
Corporates & Institutions

Market position, all (rolling year)



The chart shows the current average ranking over a full set of reports for all Prospera surveys to which Corporates & Institutions subscribes (106) in comparison with the main competitors in each geographical market. A number one position in a market indicates best average ranking in that market.

Northern Ireland



Source: PB Strategy & Insights, Customer Insights and BD Sales & Customer Engagement, Customer Insights

People and culture
Ensuring a high-performing, agile organisation with the skill set needed to match increasing customer expectations and the changing environment in which we operate remains a key priority. While continually developing existing capabilities, we also need to build new areas of expertise and attract and retain employees with a more diverse educational background. We seek to do this through improved talent management and workforce planning and by tapping into global talent pools through our presence in geographies with highly skilled employees, such as India and Lithuania.

To meet customer expectations, we strive to foster an innovative and truly customer-centric culture. This effort is guided by our strongly anchored values. Our five core values serve as guidance for our behaviour and decisions, and also play an important role in ensuring a strong compliance culture.

As described by our core values, we strive to

- deliver expertise
- act with integrity
- create value
- progress through agility
- believe in collaboration

High employee engagement is a key driver for delivering the best customer experience. We are committed to creating an inspiring work environment with an open and honest feedback culture and motivational leadership. We continue to integrate our core values in everything we do to ensure a customer-centric culture, which also incites empowerment and cooperation; a culture where results are rewarded and mistakes are learned from. They help us create a culture that balances short-term performance and long-term value creation.

Wealth Management
Danske Bank established the Wealth Management unit in April 2016, driven by the ambition to capture the expected growth in Nordic wealth accumulation and our aim to create an even more customer-centric organisation, with employee engagement and innovation in digital solutions.

We believe that the wealth and asset management market holds considerable potential, and we aim to grow our market shares in the Nordics.

We leverage the full strength of the Group across our retail, business and corporate and institutional activities to help our customers be financially confident in the wealth area.

In 2016, we continued to expand our offering of sustainable investments, and we introduced a new health package that is unique in the Nordics.

As an example of the digital focus at Wealth Management, we developed a beta version of June. June is an online investment advice solution that empowers customers to invest easily at low cost after their risk profile and time horizon have been identified. June exemplifies our objective of making investments more broadly available to customers, including people who are not customers of Danske Bank.

The Wealth Management unit has assets under management of over DKK 1,400 billion and accounted for almost half of Group net fee income and 19% of Group profit before tax in 2016.

Financial review

Income statement
(DKK millions)

	2016	2015	Index 16/15	Q4 2016	Q3 2016	Index Q4/Q3	Q2 2016	Q1 2016
Net interest income	22,028	21,402	103	5,790	5,492	105	5,489	5,259
Net fee income	14,183	15,018	94	4,032	3,414	118	3,354	3,382
Net trading income	8,607	6,848	126	2,323	2,549	91	2,138	1,597
Other income	3,140	2,343	134	757	589	128	562	1,231
Total income	47,959	45,611	105	12,902	12,044	107	11,543	11,469
Operating expenses	22,642	23,237	97	6,056	5,471	111	5,805	5,310
Goodwill impairment charges	-	4,601	-	-	-	-	-	-
Profit before loan impairment charges	25,317	17,773	142	6,847	6,573	104	5,738	6,159
Loan impairment charges	-3	57	-	-160	264	-	22	-130
Profit before tax, core	25,320	17,716	143	7,007	6,309	111	5,715	6,289
Profit before tax, Non-core	37	46	80	32	-42	-	65	-18
Profit before tax	25,357	17,762	143	7,039	6,267	112	5,780	6,271
Tax	5,500	4,639	119	1,449	1,362	106	1,362	1,326
Net profit for the year	19,858	13,123	151	5,590	4,905	114	4,418	4,945
Net profit for the year before goodwill impairment charges	19,858	17,724	112	5,590	4,905	114	4,418	4,945
Attributable to additional tier 1 etc.	663	607	109	177	164	108	161	161

In 2016, Danske Bank Group posted a profit before tax from core activities of DKK 25.3 billion, an increase of 43% from the level in 2015.

Income

Total income amounted to DKK 48.0 billion, up 5% from the level in 2015, driven mainly by higher net trading income and other income.

Net interest income totalled DKK 22.0 billion and was 3% higher than in 2015. Lending growth and lower funding costs offset the competitive pressure on margins.

Net fee income amounted to DKK 14.2 billion and decreased 6% from the level in 2015. Remortgaging activity normalised compared with the high level in especially the first half of 2015, and this caused a decline in net fee income. Fee income was also adversely affected by the turbulence in the financial markets, which led to lower customer activity within investment products. On the other hand, net fee income benefited from higher performance fees at Wealth Management.

Net trading income totalled DKK 8.6 billion, representing an increase of 26% from the level in 2015. The increase was driven by good customer activity within Corporates & Institutions, improved market conditions, the gain on the sale of VISA Europe, and positive fair value adjustments of the liquidity and private equity portfolios. The sale of our shares in Danmarks Skibskredit A/S in the fourth quarter also contributed to the increase in net trading income. Credit value adjustments (CVA) due to model improvements had an adverse effect on net trading income.

Other income amounted to DKK 3.1 billion, an increase of 34%, owing mainly to the sale of domicile properties and positive value adjustment of shares in associated companies.

Expenses

Operating expenses amounted to DKK 22.6 billion and were reduced 3% from the level in 2015. The main reasons for the decline in expenses were our ongoing efforts to reduce operating expenses, a lower net contribution to the Danish Resolution Fund and the Guarantee Fund, and lower depreciation on intangible assets. Increasing regulatory costs and rental costs following the sale of domicile properties had a negative effect on operating expenses.

The number of full-time equivalent staff increased 1% from the number at the end of 2015. The increase was driven primarily by insourcing of IT competencies in India and upstaffing within operations in Lithuania, specifically within the anti-money laundering area.

Loan impairments

Loan impairment charges remained low with a minor decrease from the level in 2015. Strengthened credit quality and stable macroeconomic conditions meant that loan impairments, especially at Personal Banking, continued to diminish. In the oil sector at Corporates & Institutions, however, impairments increased, reflecting the continuation of weak market conditions.

Loan impairment charges
(DKK millions)

	2016		2015	
	Charges	% of credit exposure*	Charges	% of credit exposure*
Personal Banking	-477	-0.07	390	0.06
Business Banking	-235	-0.04	191	0.03
Corporates & Institutions	1,071	0.27	65	0.01
Wealth Management	-137	-0.20	-29	-0.04
Northern Ireland	-234	-0.47	-561	-1.21
Other Activities	9	0.24	1	0.01
Total	-3	-	57	-

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

Tax

Tax on the profit for the year amounted to DKK 5.5 billion, or 21.7% of profit before tax.

Changes to the financial highlights

The financial highlights reflect a number of changes to the presentation of the income statement and key figures compared with 2015, owing to the treatment of Danica Pension under the new Wealth Management unit and reclassification of equity finance income from Net trading income to Net fee income.

The changes mostly affect Net fee income, Other income and Operating expenses. All Danica Pension costs are now included in Operating expenses, which are presented as a gross figure. The presentation of the financial highlights for 2015 and onwards has been changed, and key figures have been restated accordingly.

All developments in financial figures described are based on the restated financial highlights for 2015, as are our expectations in the outlook section. See note 1 for more information.

Q4 2016 vs Q3 2016

In the fourth quarter of 2016, Danske Bank posted a net profit of DKK 5.6 billion, against DKK 4.9 billion in the third quarter of 2016.

Net interest income amounted to DKK 5.8 billion, up 5% from the level in the third quarter. The increase was caused mainly by the positive effect of increasing lending volumes and improved use of the liquidity buffer.

Net fee income amounted to DKK 4.0 billion and was up 18% from the level in the third quarter. An increase in performance fees at Wealth Management was the main driver.

Net trading income amounted to DKK 2.3 billion, against DKK 2.5 billion in the third quarter. The decrease was due to lower client activity in the fourth quarter, but was partly offset by the gain on the sale of shares in Danmarks Skibskredit A/S.

Other income increased 28% from the level in the third quarter owing to proceeds from the sale of minor domicile properties and higher sales of lease assets.

Operating expenses increased to DKK 6.1 billion, up 11% from the level in the third quarter, due to severance pay, higher IT costs and depreciation on intangible assets.

Loan impairments showed a net reversal of DKK 0.2 billion, down from a charge of DKK 0.3 billion in the third quarter, reflecting a continued improvement in credit quality and higher collateral values.

Balance sheet

Lending (end of period)
(DKK billions)

	2016	2015	Index 16/15	Q4 2016	Q3 2016	Index Q4/Q3	Q2 2016	Q1 2016
Personal Banking	741.7	720.5	103	741.7	741.3	100	730.7	722.5
Business Banking	662.1	629.9	105	662.1	661.5	100	657.5	646.2
Corporates & Institutions	197.2	172.2	115	197.2	189.1	104	192.1	188.0
Wealth Management	72.5	68.4	106	72.5	71.7	101	70.7	69.5
Northern Ireland	45.6	52.2	87	45.6	45.7	100	46.1	48.1
Other Activities incl. eliminations	-7.1	-6.9	-	-7.1	-9.9	-	8.8	-8.5
Allowance account, lending	22.8	26.9	85	22.8	24.4	94	24.6	25.7
Total lending	1,689.2	1,609.4	105	1,689.2	1,675.0	101	1,663.7	1,640.1

Deposits (end of period)
(DKK billions)

	2016	2015	Index 16/15	Q4 2016	Q3 2016	Index Q4/Q3	Q2 2016	Q1 2016
Personal Banking	267.1	256.4	104	267.1	267.4	100	267.4	255.8
Business Banking	230.1	226.0	102	230.1	224.3	103	224.2	223.3
Corporates & Institutions	233.3	213.5	109	233.3	249.7	93	238.8	215.6
Wealth Management	62.9	52.9	119	62.9	63.9	98	62.9	58.4
Northern Ireland	59.2	63.6	93	59.2	57.6	103	58.8	59.7
Other Activities incl. eliminations	6.8	4.4	155	6.8	9.1	75	2.4	-1.2
Total deposits	859.4	816.8	105	859.4	872.0	99	854.5	811.6

Covered bonds
(DKK billions)

	2016	2015	Index 16/15	Q4 2016	Q3 2016	Index Q4/Q3	Q2 2016	Q1 2016
Bonds issued by Realkredit Danmark	726.7	694.5	105	726.7	715.7	102	756.0	682.5
Own holdings of bonds	44.6	56.6	79	44.6	56.1	79	174.3	64.9
Total Realkredit Danmark bonds	771.3	751.1	103	771.3	771.8	100	50.9	747.4
Other covered bonds issued	154.3	171.4	90	154.3	168.2	92	225.1	172.3
Own holdings of bonds	63.1	49.8	127	63.1	50.8	124	50.9	48.5
Total other covered bonds	217.4	221.2	98	217.4	219.1	99	225.1	220.7
Total deposits and issued mortgage bonds etc.	1,848.1	1,789.1	103	1,848.1	1,862.7	99	1,835.7	1,779.7
Lending as % of deposits and issued mortgage bonds etc.	91.4	90.0	-	91.4	89.9	-	90.6	92.2

Lending

At the end of December 2016, total lending was up 5% from the level at the end of 2015. Lending increased at almost all banking units.

In Denmark, new gross lending, excluding repo loans, amounted to DKK 87.0 billion. Lending to personal customers accounted for DKK 36.9 billion of this amount.

Our market share of total lending in Denmark, excluding repo loans, rose sligthly from 26.5% at the end of 2015 to 26.6% at the end of December 2016. In Sweden and Norway, our market shares of lending also rose. In Finland our market share of lending fell slightly.

Market shares of lending
(%)

	31 December 2016	31 December 2015
Denmark incl. RD (excl. repo)	26.6	26.5
Finland*	9.5	9.6
Sweden (excl. repo)*	5.2	4.9
Norway*	5.9	5.7

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

Lending equalled 91.4% of the total amount of deposits, mortgage bonds and other covered bonds, against 90.0% at the end of 2015.

Deposits

At the end of December 2016, total deposits were up 5% from the level at the end of 2015, with increases in most markets. The Group maintained its strong funding position.

Market shares of deposits
(%)

	31 December 2016	31 December 2015
Denmark (excl. repo)	28.7	28.3
Finland*	12.7	13.5
Sweden (excl. repo)*	3.6	3.8
Norway*	5.4	5.5

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

Credit exposure

Credit exposure from lending activities in core segments totalled DKK 2,534 billion, against DKK 2,323 billion at the end of 2015.

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

Credit quality

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

The risk management notes on pp. 139-140 provide more information about non-performing loans.

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

	31 December 2016	31 December 2015
Gross NPL	40,406	47,820
Individual allowance account	18,505	23,151
Net NPL	21,900	24,670
Collateral (after haircut)	18,033	19,848
NPL coverage ratio (%)	82.7	82.8
NPL coverage ratio of which is in default (%)	94.7	92.8
NPL as percentage of total gross exposure	1.6	2.0

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

Accumulated individual impairments amounted to DKK 18.5 billion, or 0.9% of lending and guarantees. Accumulated collective impairments amounted to DKK 5.0 billion, or 0.3% of lending and guarantees. The corresponding figures at 31 December 2015 were DKK 23.2 billion and DKK 4.3 billion, respectively.

Allowance account by business units
(DKK millions)

	2016		2015	
	Accum. impairm. charges*	% of lending and guarantees	Accum. impairm. charges*	% of lending and guarantees
Personal Banking	5,584	0.77	6,614	0.91
Business Banking	13,324	2.05	15,091	2.37
Corporates & Institutions	2,762	0.69	2,369	0.59
Wealth Management	534	0.75	606	0.85
Northern Ireland	1,273	2.48	2,814	5.32
Other Activities incl. eliminations	1	-	2	-
Total	23,479	1.23	27,496	1.44

** Relating to lending activities in core segments.*

Recognised losses amounted to DKK 4.8 billion. Of these losses, DKK 0.4 billion was attributable to facilities not already subject to impairment.

Trading and investment activities
Credit exposure from trading and investment activities amounted to DKK 854 billion at 31 December 2016, against DKK 891 billion at 31 December 2015.

Danske Bank has made netting agreements with many of its counterparties concerning positive and negative market values of derivatives. The net exposure was DKK 84.8 billion, against DKK 94 billion at the end of 2015, and it was mostly secured through collateral management agreements.

The value of the bond portfolio was DKK 503 billion. Of the total bond portfolio, 73.5% was recognised at fair value and 26.5% at amortised cost.

Other balance sheet items
The financial highlights on page 6 provide information about our balance sheet.

The net position towards central banks, credit institutions and repo counterparties has changed from a liability of DKK 23.0 billion at the end of 2015 to an asset of DKK 90.2 billion at the end 2016, primarily due to higher deposits with central banks.

Bond portfolio
(%)

	31 December 2016	31 December 2015
Government bonds and bonds guaranteed by central or local governments	33	38
Bonds issued by quasi-government institutions	-	1
Danish mortgage bonds	50	46
Swedish covered bonds	12	9
Other covered bonds	3	3
Corporate bonds	2	3
Total holdings	100	100
Hold-to-maturity bonds included in total holdings	26	22
Available-for-sale bonds included in total holdings	14	9

A reduction of the bond portfolio was the main reason for the reduction in trading portfolio assets and trading portfolio liabilities from net assets of DKK 75.9 billion at the end of 2015 to net assets of DKK 31.4 billion at the end of 2016.

Liabilities under insurance contracts rose DKK 29.9 billion from the level at the end of 2015, primarily due to an increase in unit-linked products and increased use of repo transactions and derivatives. Assets under insurance contracts rose DKK 19.8 billion from the level at the end of 2015.

As a consequence of the continued winding-up of the Non-core portfolios, total assets in Non-core were reduced by DKK 8.6 billion from the level at the end of 2015 and amounted to DKK 19.0 billion at the end of 2016. In June, the sale of the residential mortgage loan portfolio relating to Non-core mass personal customer business in Lithuania and Latvia was completed.

Other assets is the sum of several small line items. The decrease of DKK 16.4 billion from the end of 2015 to the end of 2016 was caused by lower on-demand deposits with central banks.

Capital and liquidity management

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

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

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

At the end of December 2016, the total capital ratio was 21.8%, and the CET1 capital ratio was 16.3%, against 21.0% and 16.1%, respectively, at the end of 2015.

The increase in the CET1 capital ratio during 2016 was driven by earnings and a decline in the REA, while our share buy-back programme initiated in 2016 reduced the CET1 capital ratio by 1.1 percentage points.

During 2016, the REA decreased DKK 18 billion to DKK 815 billion. The net decrease covered an increase from the implementation of new models and a decrease resulting from lower market risk, the sale of Danmarks Skibskredit A/S and revised prudential treatment of LR Realkredit A/S.

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

At the end of December 2016, the solvency need was 10.6%, against 10.7% at the end of 2015. The solvency need consists of the 8% minimum capital requirement under Pillar I and a capital add-on under Pillar II.

A combined buffer requirement applies in addition to the solvency need. At the end of December 2016, the Group's combined capital buffer requirement was 2.2%. When fully phased-in, the buffer requirement will be 6.0%, bringing the fully phased-in CET1 capital requirement to 12.0% and the fully phased-in total capital requirement to 16.6%.

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

Capital ratios and requirements
(% of the total REA)

	2016	Fully phased in*
Capital ratios		
CET1 capital ratio	16.3	16.2
Total capital ratio	21.8	19.9
Capital requirements (incl. buffers)**		
CET1 requirement	8.2	12.0
- portion from countercyclical buffer	0.4	0.5
- portion from capital conservation buffer	0.6	2.5
- portion from SIFI buffer	1.2	3.0
Total capital requirement	12.8	16.6
Excess capital		
CET1 capital	8.1	4.2
Total capital	9.0	3.3

** Based on fully phased-in CRR and CRD IV rules and requirements.*
*** The total capital requirement consists of the solvency need and the combined buffer requirement. The fully phased-in countercyclical capital buffer is based on the buffer rates announced at the end of 2016*

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

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

At 31 December 2016, we had bought back 43.1 million shares for a total purchase amount of DKK 8.1 billion (figures at trade date) of our planned DKK 9.0 billion share buy-back programme initiated in 2016 The programme ended on 1 February 2017 with a total buy-back of 46.9 million shares for a total purchase amount of DKK 9.0 billion. The Board of Directors will propose to the annual general meeting in 2017 that the shares bought back be cancelled.

Ratings
In 2016 all three rating agencies maintained their long-term rating at the A-level, and the positive underlying rating trend continued.

On 8 July 2016, S&P Global upgraded Danske Bank's standalone credit profile (SACP) from A- to A as a result of Danske Bank's improved capitalisation. Consequently, Danske Bank's tier 2 subordinated debt rating improved from BBB to BBB+, and the rating of Danske Bank's additional tier 1 instruments improved from BB+ to BBB-. Also, the rating of Danica Pension improved from A- to A, and the rating of Danica Pension's tier 2 subordinated debt instruments improved from BBB to BBB+.

On 12 October 2016, Moody's upgraded Danske Bank's long-term deposit rating from A2 to A1 and changed its outlook on Danske Bank A/S from stable to positive as a result of the continued improvements in earnings, capitalisation and credit quality.

Danske Bank's ratings

	Moody's	S&P Global	Fitch Ratings
Long-term deposits	A1		
Long-term senior debt	A2	A	A
Short-term deposits	P-1		
Short-term senior debt	P-1	A-1	F1
Outlook	Positive	Stable	Stable

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

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

Funding and liquidity
We met our estimated funding need for the year by issuing senior debt for DKK 62.6 billion and covered bonds for DKK 19.2 billion. In November 2016, we made an issue of additional tier 1 capital of DKK 3 billion, which brought total issuance in 2016 to DKK 84.8 billion. We thus took advantage of benign market conditions to pre-fund part of our need for 2017.

The funding need for 2017 is expected to be at a level similar to that for 2016. We access various markets and currencies to cover our funding need, as evidenced by our issuance activity in 2016. This includes regular issues in the EUR benchmark format, both covered bonds and senior unsecured debt, as well as issues on the domestic USD market for senior debt in the Rule 144A format. We supplement the benchmark issues with private placements of bonds.

As a Nordic universal bank, we see the Nordic currencies as an important source of funding that we intend to utilise further in future. We have applied to the Swedish FSA for permission to establish a mortgage finance institution in Sweden, and we expect to be able to issue Swedish covered bonds in benchmark format in 2017. We will also, from time to time, issue in GBP, JPY, CHF and other currencies when market conditions allow. Issuing subordinated debt in the additional tier 1 or tier 2 formats may cover part of our funding need. However, the issuance plans for subordinated debt will continue to be driven by balance sheet growth and redemptions on the one side and our capital targets on the other.

With a liquidity buffer of DKK 538 billion at the end of 2016, Danske Bank's liquidity position remained robust. Our liquidity coverage ratio stood at 158% at 31 December 2016. Stress tests show that we have a sufficient liquidity buffer well beyond 12 months.

At the end of 2016, the total nominal value of outstanding long-term funding, excluding additional tier 1 capital and debt issued by Realkredit Danmark, was DKK 337 billion, against DKK 323 billion at the end of 2015.

Danske Bank excluding Realkredit Danmark
(DKK billions)

	31 December 2016	31 December 2015
Covered bonds	154	171
Senior unsecured debt	144	112
Subordinated debt	38	40
Total	337	323

The Supervisory Diamond

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

At 31 December 2016, 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.

Supervisory Diamond
(%)

	Threshold value	2016	2015
Sum of large exposures	<125	11	-
Lending growth	<20	8	5
Real property exposure	<25	12	12
Funding ratio	<100	64	64
Surplus liquidity in relation to statutory liquidity requirements	>50	202	193

New regulation

In 2017, we expect the Danish FSA to set the minimum requirement for own funds and eligible liabilities (MREL) for systemically important banks, including transitional arrangements.

Political negotiations on the European Commission's proposals to review a significant part of EU financial regulation (the CRR, CRD IV and BRRD) will take place in 2017. We support further harmonisation of such regulation, but transitional measures are needed to ensure a proper implementation of the revised requirements.

Part of the review of CRR includes the implementation of a leverage ratio requirement of 3%. At the end of 2016, the Group's leverage ratio was 4.6% when transitional rules are taken into account. Assuming fully phased-in tier 1 capital under CRR/CRD IV without taking into account any refinancing of non-eligible additional tier 1 instruments, the leverage ratio would be 4.3%.

Furthermore, we also expect to see the Basel Committee's final revised standards for calculating the REA later in 2017. The revised standards are expected to include proposals to constrain the use of internal models and could include introduction of a permanent REA floor. It is still too early to assess the final effects of these potential changes since the political dialogue on how and when to implement the revised standards in the EU has not yet been initiated.

Beginning on 1 January 2018, the Group will implement IFRS 9, the new accounting standard for financial instruments. As part of IFRS 9, the IASB has introduced a new, expected credit loss impairment model that will require earlier recognition of expected credit losses. Specifically, the new standard requires the Group to account for 12-month expected credit losses at the initial recognition of a financial instrument and to make an earlier recognition of lifetime expected credit losses.

We are in the process of making the changes in our models, data, reporting and governance necessary to ensure compliance with IFRS 9. Part of the work is to ensure continued compliance with the interpretation by national regulators, and its final form has not yet been issued.

On the basis of our work and the current expectations for national interpretation of IFRS 9, we expect that the implementation of IFRS 9 will result in an increase in the allowance account of DKK 3-5 billion. The effect will be recognised as a reduction in shareholders' equity at 1 January 2018.

We expect that the impact on capital ratios will be neutralised or subject to phasing-in until international standards on the treatment for capital purposes of the expected loss provisioning have been established. The transitional approach is expected to be finalised in the EU in 2017.

We monitor developments in future regulation closely.

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.

To maintain and build stakeholder relations, we hold roadshows after the release of our financial reports as well as roadshows on major transactions and other topics for debt investors.

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

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 and conducts shareholder identification studies regularly.

In 2016, investor events were held in the Nordic countries, other European countries, Asia and the US, with more than 500 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 20 CAP Index (OMXC20CAP). At the end of 2016, Danske Bank shares had an index weighting of 13.8%.

Danske Bank's share price rose from DKK 185.2 at 31 December 2015 to DKK 214.2 at 31 December 2016, an increase of 15.7%. In comparison, the OMXC20CAP index fell 1.9%, while the MSCI Europe Banks index fell 3.2%.

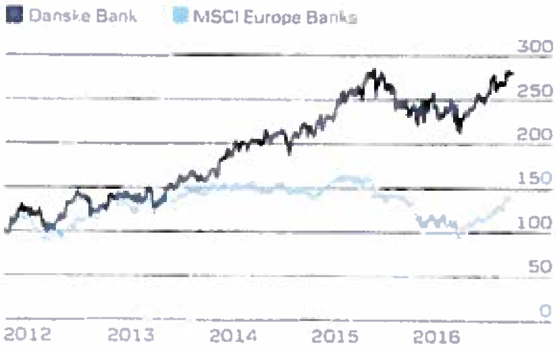
Danske Bank shares
(DKK)

	2016	2015
Share capital (millions)	9,837	10,086
Share price (end of year)	214.2	185.2
Total market capitalisation (end of year) (billions)	200.3	180.8
Earnings per share	20.2	12.8
Dividend per share	9.0	8.0
Book value per share	162.8	153.2
Share price/book value per share	1.3	1.2

At the end of 2016, 32 equity analysts covered Danske Bank.

The average daily trading volume of Danske Bank shares was 1.8 million. Danske Bank shares were the sixth most actively traded shares on Nasdaq Copenhagen during 2016.

Danske Bank shares
Index 2012 = 100



Shareholders
At the end of 2016, Danske Bank had about 266,000 shareholders. The 10 largest shareholders together owned about 39% of the share capital.

We estimate that shareholders outside Denmark, mainly in the US and the UK, hold around 54% of the share capital.

Danske Bank shareholders 2016

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

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

- The A.P. Møller Holding Group holds 20.0% of the share capital.

In addition, Danske Bank A/S holds, through direct and indirect holdings, 5.0% of the shares and the voting rights of Danske Bank A/S. The holding of own shares is attributable mainly to the DKK 9.0 billion share buy-back programme launched by Danske Bank on 4 February 2016.

The Board of Directors intends to propose to the general meeting in 2017 that these shares be cancelled.

The holding also includes shares held to compensate employees in the form of conditional shares granted under share programmes in previous years and for investments on behalf of Danica Pension policyholders and under pooled investment schemes.

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

Corporate responsibility

Corporate responsibility is an important part of Danske Bank's strategy. We want to create long-term value for all our stakeholders, and we want them to feel confident that we manage our business with proper attention to environmental, social, ethical and governance issues. This applies to credit granting, investing, responsible sourcing, and our contribution to financial stability and economic growth. We consider responsible business conduct a precondition for long-term value creation.

Reporting on corporate responsibility
We report on our corporate responsibility activities and performance in the independently assured Corporate Responsibility Report 2016. 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. (sections 135 and 135a) on corporate responsibility reporting. The report is available at danskebank.com/crreport.

The report is supplemented by our Corporate Responsibility Fact Book 2016. Our combined reporting offers a comprehensive and balanced view of material corporate responsibility matters relating to our business activities. These reports and further information about our CR initiatives and projects are available at danskebank.com/responsibility.

Organisation and management

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

In 2016, the annual general meeting was held on 17 March.

Danske Bank's Articles of Association, available at danskebank.com/aoa, contain information about the notice of the general meeting, shareholders' rights to table proposals and to have special items added to the agenda, admission and voting rights.

All shareholders have equal voting rights (one share equals one vote), and there are no limitations on holdings or voting rights.

Only the general meeting can amend the Articles of Association. Amendments require a two-thirds majority of the votes cast and a two-thirds majority 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 at least three-quarters of the votes cast and by at least three-quarters of the share capital represented at the general meeting and entitled to vote.

Board of Directors
The Board currently consists of 12 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 the employees serve on the Board of Directors for a four-year term.

The Nomination Committee identifies and recommends candidates for the Board of Directors. Board candidates are nominated by the Board of Directors or the shareholders and are elected by the general meeting. The retirement age for board members is 70, which means that board members must retire at the first annual general meeting after they have reached the age of 70.

At the annual general meeting held on 17 March 2016, Lars Förberg and Jim Hagemann Snabe did not seek re-election. The general meeting elected Hilde Merete Tonne and Lars-Erik Brenøe as their replacements.

Work of the Board of Directors in 2016
In the fourth quarter, the Board of Directors carried out its annual evaluation of the performance and achievements of its members, both individually and collectively. To ensure anonymity, an external consulting firm facilitated the evaluation. All members of the Board of Directors and the Executive Board answered a comprehensive questionnaire. The findings and conclusions were subsequently presented to and discussed by the full Board of Directors.

With only minor new areas in need of improvement, the results of the 2016 evaluation were generally positive and the overall conclusion was that the Board functions well and works efficiently. The relationship between the Board of Directors and the Executive Board, including the CEO, was highly rated, and the composition and competencies of the Board were also rated positively. The Board of Directors will continue to work on its performance.

Executive Board
The Executive Board consists of Thomas F. Borgen, Chief Executive Officer; Jacob Aarup-Andersen, Chief Financial Officer and Head of CFO area; Tonny Thierry Andersen, Head of Wealth Management; James Ditmore, Chief Operating Officer and Head of COO area; Gilbert Kohnke, Group Chief Risk Officer and Head of Group Risk Management; Lars Mørch, Head of Business Banking; Jesper Nielsen, Head of Personal Banking and Glenn Söderholm, Head of Corporates & Institutions.

At the end of March 2016, CFO Henrik Ramlau-Hansen left Danske Bank and was replaced as CFO and on the Executive Board by Jacob Aarup-Andersen.

Tonny Thierry Andersen was appointed Head of Wealth Management with effect from 1 April 2016.

Jesper Nielsen was appointed Head of Personal Banking and member of the Executive Board with effect from 1 October 2016.

Corporate governance recommendations
Corporate governance recommendations issued by the Danish Committee on Corporate Governance can be found at corporategovernance.dk. The recommendations are best practice guidelines that all companies with shares traded on Nasdaq Copenhagen should generally follow. If a company fails to comply with a recommendation, it must explain why it deviates from the recommendation and what it has done differently. Danske Bank complies with all the 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/cgreport. The report includes an explanation of Danske Bank's status on all recommendations.

The Corporate Governance Code of the Danish Bankers Association, which applies to all member institutions, can be found at danskebank.com/dba. All 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 2016.

Compliance
Danske Bank focuses on having a strong compliance culture to ensure that compliance is conducted at all levels of the Group and that we thus act with integrity. In 2016, we continued to allocate significant resources to anti-money laundering measures and to the compliance organisation.

We want regulatory requirements to be a natural part of our interaction with customers. We therefore have projects in place to ensure that customers are always treated fairly, for example, by designing new and sustainable processes.

In 2016, the compliance organisation was strengthened by the establishment of a global function responsible for group-wide transaction monitoring to identify possible money laundering, financing of terrorism, customer tax evasion and market abuse activities. This enabled us to ensure proper awareness and understanding of compliance throughout the Group and thereby to meet the standards of the European banking industry.

The Group makes extensive efforts to comply with regulations and prevent criminals from abusing its services to commit financial crimes. In 2016, we focused on developing existing Know Your Customer systems and processes, increasing transaction monitoring, improving employee training and updating the customer database.

In March 2016, after an on-site anti-money laundering inspection, the Danish FSA issued eight orders to Danske Bank, and in September 2016, we submitted a statement to the effect that, in our assessment, we were in compliance with the orders. The final statement from the Danish FSA included a notification to the Danish Public Prosecutor for Serious Economic and International Crime, and we were reported to the police for non-compliance with AML legislation on correspondent banks. At the end of 2016, the authorities had not yet approached us to instigate further investigations.

In 2016, Danske Bank implemented arrangements to comply with the new Market Abuse Regulation and ensure integrity and transparency throughout the organisation. The new setup includes a robust system of insider lists and investment recommendations and a surveillance system.

Personal Banking

Profit before tax and goodwill impairment charges rose 34%, driven mainly by declining expenses and net impairment reversals. Income was under pressure due to persistently negative interest rates and activity levels that could not reach the high 2015 levels. Good customer inflow in Norway and Sweden contributed to the 3% increase in lending, and in Sweden and Finland, we established two new partnerships that hold significant potential for further growing our business.

Personal Banking
(DKK millions)

	2016	2015	Index 16/15	Q4 2016	Q3 2016	Index Q4/Q3	Q2 2016	Q1 2016
Net interest income	7,660	7,909	97	1,938	1,899	102	1,919	1,904
Net fee income	3,306	3,494	95	819	890	92	808	789
Net trading income	562	517	109	176	121	146	103	162
Other income	613	609	101	157	144	110	187	124
Total income	12,141	12,529	97	3,091	3,054	101	3,017	2,979
Operating expenses	7,654	8,444	91	1,995	1,926	104	1,939	1,795
Goodwill impairment charges	-	3,155	-	-	-	-	-	-
Profit before loan impairment charges	4,486	930	-	1,096	1,128	97	1,079	1,184
Loan impairment charges	-477	390	-	-188	-110	-	-14	-165
Profit before tax	4,963	540	-	1,284	1,238	104	1,093	1,349
Profit before tax and goodwill impairment charges	4,963	3,695	134	1,284	1,238	104	1,093	1,349
Loans, excl. reverse transactions before impairments	741,651	720,532	103	741,651	741,254	100	730,694	722,498
Allowance account, loans	5,133	6,011	85	5,133	5,426	95	5,583	5,815
Deposits, excluding repo deposits	267,067	258,394	104	267,067	267,371	100	267,351	255,759
Bonds issued by Realkredit Danmark	398,766	392,484	102	398,766	399,694	100	395,484	391,672
Allowance account, guarantees	450	603	75	450	485	93	530	525
Allocated capital (average)*	22,759	22,002	103	23,582	22,957	103	22,335	22,157
Net interest income as % p.a. of loans and deposits	0.76	0.81		0.77	0.76		0.77	0.78
Profit before tax and goodwill impairment charges as % p.a. of allocated capital (ROAC)*	21.8	16.6		21.8	21.6		19.6	24.4
Cost/income ratio before goodwill impairment charges (%)	63.0	67.4		64.5	63.1		64.3	60.3
Full-time-equivalent staff	4,623	5,120	90	4,623	4,971	93	5,070	5,080

Fact Book Q4 2016 provides financial highlights at the country level for Personal Banking. Fact Book Q4 2016 is available at danskebank.com/ir.
** From 2016, allocated capital is based on a regulatory approach and is calibrated to the Group's CET1 capital ratio target.*

2016 vs 2015

We saw a satisfactory increase in the inflow of customers in Norway and Sweden, particularly as a result of our partnerships with Akademikerne and Saco, which had a positive effect on our result.

Profit before tax and goodwill impairment charges increased 34% to DKK 5.0 billion. The increase was due mainly to the continued decrease in expenses and net impairment reversals.

Total income declined DKK 0.4 billion to DKK 12.1 billion. Short-term interest rates decreased further in Denmark, Finland and Sweden, and this put net interest income under pressure. The increase in lending volume could not compensate for the downward trend in lending margins, and net interest income thus declined 3% from the level in 2015.

Net fee income fell 5% from the level recorded in 2015. The decline was caused partly by a fall in remortgaging activity from the extraordinarily high level in 2015 and partly by lower investment-related income, as market turbulence adversely affected investment volumes and customer activity. In general, activity levels picked up in the second half of 2016, although not enough to compensate for the lower levels in the first half of the year.

The pressure on income was to some extent offset by an inflow of business with new customers from our partnerships with Akademikerne in Norway and Saco in Sweden. Towards the end of 2016, we announced new partnership agreements with the Swedish Confederation of Professional Employees (TCO) and with Akava in Finland. Both agreements become operational in 2017.

Operating expenses declined 9%, primarily due to increased efficiency and lower depreciation of intangible assets. In addition, the costs associated with the deposit guarantee scheme were replaced with a lower contribution to the Danish Resolution Fund.

Credit quality

Credit quality continues to improve in most of our markets on the basis of more favourable macroeconomic conditions, the low level of interest rates and our continued efforts to improve credit quality.

The delinquency rate at Realkredit Danmark remained low and stable throughout the year.

Loan impairments continued to diminish in most markets, resulting in net reversals of DKK 477 million in 2016.

Overall, the LTV level improved in all markets in 2016.

Loan-to-value ratio, home loans

	31 December 2016		31 December 2015	
	LTV (%)	Net credit exposure (DKK bn)	LTV (%)	Net credit exposure (DKK bn)
Denmark	65.5	459	67.2	453
Finland	60.7	83	61.9	84
Sweden	59.0	70	62.1	64
Norway	62.5	93	64.2	78
Total	63.9	706	65.7	679

Credit exposure

Credit exposure increased to DKK 771 billion in 2016, mainly due to growth in all our markets. In Denmark, credit exposure increased owing to both increased lending and a net positive effect of fair value adjustments.

	Net credit exposure		Impairments (%)
(DKK millions)	31 December 2016	31 December 2015	31 December 2016
Denmark	489,455	476,726	-0.11
Finland	90,514	90,294	0.08
Sweden	77,955	72,295	-
Norway	113,432	96,269	-0.02
Other	-	-	-
Total	771,357	735,585	-0.07

Business initiatives

In 2016, we delivered further on our ambition to create the best customer experience by making banking and financial decisions easy.

Building strong customer relationships

In Denmark, customer satisfaction saw a positive trend, which reflects our commitment to having an attractive value proposition for all customers and to proactively advise customers on the basis of their lives and needs, regardless of whether they choose to meet us online, on the phone or face-to-face.

The customer programme, which is designed to meet the needs of the individual customer, remains a cornerstone of our value proposition. Our offering to young and student customers complements the programme, with multiple benefits designed specifically to accommodate the demands of this age group.

During the year, we saw a positive trend in the number of customers who gathered their business with us, and our overall share of the Danish market was stable.

Realising our Nordic growth potential
In Sweden, our customer programme was a strong driver in attracting new customers. Its clear offering and intuitive digital solutions were also popular among the many new customers who joined us through our partnership with Saco, and the customer programme was one of the main reasons why Privata Affärer, the largest Nordic personal finances magazine, named Danske Bank "Bank of the year" for the second year running.

In December, we announced a partnership agreement with the Swedish Confederation of Professional Employees (TCO), comprising 14 affiliated trade unions with 1.3 million members representing a wide range of professions, including engineers, economists, journalists, nurses and teachers. Under the agreement, we offer TCO members a strong value proposition. The agreement, which takes effect in April 2017, establishes an exclusive partnership between Danske Bank and TCO and a strong foundation for growing our Swedish business.

An important part of our strategy for growing our Swedish franchise and strengthening our position as a trusted partner for our customers is to secure stable funding in local currency. We therefore applied to the Swedish FSA for permission to establish a mortgage finance institution in Sweden, and we aim for the funding programme to become operational in 2017.

In Norway, the inflow of new customers from our agreement with Akademikerne continued throughout the year. We continued to develop solutions for our customers, including a new offering targeted at the needs of young Akademikerne customers and an improved pension savings overview in eBanking.

Meeting customer demand for flexibility
In Finland, we launched a range of home loans to suit various life situations. With the many options, such as interest rate protection, interest-only months, free loan amendment, loan services discounts and fund savings with Danske Invest with no subscription fee, the loans offer homeowners unique financial flexibility and security.

Towards the end of the year, we announced an agreement with the five largest affiliates of Akava (the Confederation of Unions for Professional and Managerial Staff in Finland) to collaborate on life event research and service development. Initially, the collaboration will focus on understanding young graduates' life situation and supporting their goals by offering customised financial advisory services and benefits. And most recently, we announced a partnership with Frank Students (a Finnish student benefit and identification service provider to well over 200,000 Finnish students) to jointly develop solutions that make students' everyday life easier. Young people are important customers for us, and the agreement establishes an excellent platform for further developing our business in Finland in the long term.

Taking digital financial services to the next level
We launched new digital solutions to enhance the customer experience while also simplifying internal workflows.

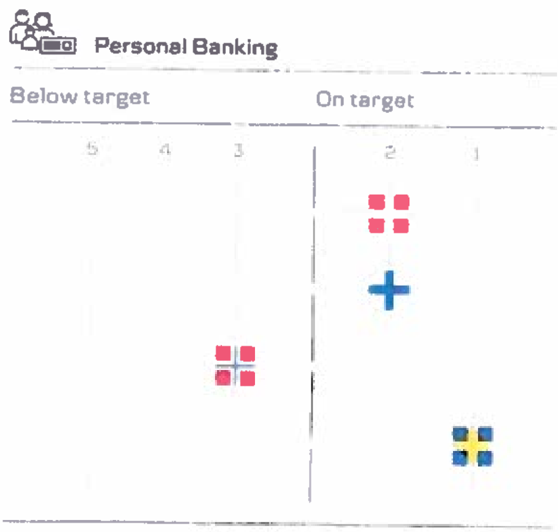
For example, new customers can now sign up online in a simple process, and in Denmark, customers can manage their cards in their Mobile Banking app. They can also try out the beta version of our new Mobile Banking app that aims to create a new platform for customers' day-to-day banking and dialogue with us. With our new life-event-based websites and our Sunday universe, we aim to further strengthen relations with existing customers and attract new ones by providing easily accessible advisory services.

With more than 3.3 million regular users and high business growth rates, users in Denmark have truly embraced MobilePay. In the fourth quarter, we opened up the MobilePay platform to distribution partners. So far, we have welcomed Nordea in Denmark and Norway – along with Jyske Bank and more than 60 other Danish banks, and we invite all interested banks to join. These partnerships, together with our recently established partnerships with Verifone and Bambora, form a strong basis for further developing MobilePay and making it an attractive and innovative mobile payment platform for a vast group of new users and businesses in the Nordic region.

We also launched the WeShare app that allows smartphone users in Denmark, Norway and Finland to easily keep track of and share expenses with friends and settle payments via MobilePay.

Customer satisfaction
Over the year, customer satisfaction developed positively across our markets. We are now number two in Denmark, number two in Finland, number three in Norway and number one in Sweden. The latest survey from Svensk Kvalitetsindex showed increasing satisfaction among personal customers of Danske Bank Sweden.

The positive trend confirms our commitment to constantly improve the customer experience at all touch points and to proactively provide advisory services that match our customers' expectations and life situation. Because we know that the more interaction we have with our customers, the more they value our competencies and services.



Source: PB Strategy & Insights, Customer Insights

Q4 2016 vs Q3 2016

Profit before tax increased 4% to DKK 1.3 billion in the fourth quarter of 2016.

Total income increased 1%, driven by higher net trading income related to mortgages in Denmark.

Fee income decreased 8%, reflecting lower remortgaging activity in Denmark.

Net trading income increased 46%, primarily as a result of seasonal mortgage refinancing in Denmark.

Operating expenses increased 4%, mainly owing to severance pay in the fourth quarter.

Loan impairments showed a net reversal, reflecting a continued improvement in credit quality and higher collateral values.

Business Banking

Profit before tax and goodwill impairment charges increased 3% from the level in 2015. The increase was driven primarily by a net reversal of loan impairment charges due to our continued efforts to improve credit quality as well as higher property prices. Income decreased 1% from the level in 2015, mainly because remortgaging activity was extraordinarily high in 2015. Net interest income increased despite low or even negative interest rates and a difficult macroeconomic environment.

Business Banking
(DKK millions)

	2016	2015	Index 16/15	Q4 2016	Q3 2016	Index Q4/Q3	Q2 2016	Q1 2016
Net interest income	8,427	8,309	101	2,148	2,078	103	2,117	2,085
Net fee income	1,629	1,864	87	405	435	93	396	393
Net trading income	568	606	94	176	100	175	138	153
Other income	588	581	101	183	117	156	156	132
Total income	11,212	11,360	99	2,912	2,729	107	2,808	2,763
Operating expenses	4,791	4,704	102	1,264	1,198	106	1,187	1,142
Goodwill impairment charges	-	1,296	-	-	-	-	-	-
Profit before loan impairment charges	6,421	5,360	120	1,648	1,532	108	1,621	1,621
Loan impairment charges	-235	191	-	-181	-31	-	5	-29
Profit before tax	6,657	5,169	129	1,829	1,563	117	1,616	1,650
Profit before tax and goodwill impairment charges	6,657	6,465	103	1,829	1,583	117	1,616	1,650
Loans, excl. reverse transactions before impairments	662,130	629,909	105	662,130	661,496	100	657,462	646,235
Allowance account, loans	12,996	14,756	88	12,996	13,812	94	13,929	14,448
Deposits, excluding repo deposits	230,096	225,964	102	230,096	224,288	103	224,190	223,348
Bonds issued by Realkredit Danmark	323,469	301,799	107	323,469	322,661	100	310,216	303,688
Allowance account, guarantees	327	336	97	327	363	90	356	357
Allocated capital (average)*	41,380	34,267	121	41,470	41,387	100	40,969	41,688
Net interest income as % p.a. of loans and deposits	0.96	0.99		0.98	0.95		0.98	0.98
Profit before tax and goodwill impairment charges as % p.a. of allocated capital (ROAC)*	16.1	18.8		17.6	15.1		15.8	15.8
Cost/income ratio before goodwill impairment charges (%)	42.7	41.4		43.4	43.9		42.3	41.3
Full-time-equivalent staff	2,662	2,761	96	2,662	2,712	98	2,704	2,689

Fact Book Q4 2016 provides financial highlights at the country level for Business Banking. Fact Book Q4 2016 is available at danskebank.com/ir.

** From 2016, allocated capital is based on a regulatory approach and is calibrated to the Group's CET1 capital ratio target.*

2016 vs 2015

Profit before tax and goodwill impairments increased 3% to DKK 6.7 billion, owing mainly to a net reversal of loan impairment charges resulting from improved credit quality and higher property prices.

Income fell 1% from the level in 2015, mainly because remortgaging activity was extraordinarily high in 2015.

Net interest income increased despite low or even negative interest rates and a difficult macroeconomic environment. Good business momentum and increasing volumes were the main drivers of the improvement in net interest income.

Income from fees and trading fell, owing mainly to a decline in remortgaging activity from 2015, which benefited from an extraordinarily high level in the first half-year, when declining interest rates resulted in extensive remortgaging.

Operating expenses rose 2% as severance pay and increased regulatory costs more than offset continued efficiency improvements.

Strong credit quality

Relatively stable macroeconomic conditions and continued initiatives to remedy weak exposures contributed to a net reversal of impairments of DKK 235 million in 2016, of which DKK 181 million were made in the fourth quarter.

The lower level of impairments was due primarily to net reversals in Denmark and Finland, whereas impairment charges were made in Norway.

In Denmark, impairment charges were made primarily against facilities to customers in the agricultural sector, but generally positive developments in several other industries resulted in net reversals.

Credit exposure

Credit exposure amounted to DKK 768 billion, against DKK 728 billion at the end of 2015.

Furthermore, our strong value propositions enable us to reach profitable growth levels in countries where we have relatively small market shares.

	Net credit exposure		Impairments (%)
(DKK millions)	31 December 2016	31 December 2015	31 December 2016
Denmark	448,533	423,842	-0.07
Finland	71,337	67,766	-0.11
Sweden	150,276	147,743	0.02
Norway	77,840	70,418	0.19
Baltics	19,801	18,687	-0.19
Other	7	8	-
Total	767,794	728,465	-0.04

Business initiatives

At Business Banking, our ambition is to deliver the best customer experience by creating value for our customers and making banking with us easy and efficient. As part of our efforts to achieve this ambition, we strengthened our Nordic setup in 2016 by improving our value proposition. At the core of the improvement was a more simple and digital onboarding model as well as increased focus on value-adding services for customers with more complex needs.

Nordic growth potential

The improved value proposition was well received in our markets, and this enabled us to do more business with both new and existing customers and thus to increase the business momentum in all markets.

In Denmark, the combination of easy-to-use packaged solutions and digital onboarding of small business customers led to an increase in customer inflow.

In Norway and Sweden, we continued to attract customers with complex needs, and our focus on offering a wide range of products generated good results.

In Finland, we continued to develop our offering and delivery model by digitalising more processes and introducing new solutions. We saw good progress in business volume, growing slightly more than the market, and we thus consolidated our position as a leading bank for SMEs.

Customer experience

To deliver the best customer experience, we are digitalising our processes and launching a wide range of new solutions to better support our customers.

We offer tailor-made solutions for large customers, and this has proven effective in attracting customers with more complex needs. In 2016, we expanded our solutions for change of ownership, Nordic expansion and international trade so that we can better support our customers' needs. In 2017, we will continue to introduce new solutions to support our customers throughout their lifecycle.

We continued to improve our offerings for small businesses and saw a very good inflow of customers also in 2016.

Another example of our improved offering for small businesses is TheHub, an online platform that supports businesses with growth ambitions, helping them with recruitment and access to funding and best practice tools. The platform has received good feedback from the startup community. For instance, startup businesses have posted more than 1,800 jobs on TheHub since its launch, and more than 19,000 people have applied for a job via the platform. In addition to the platform, we introduced a new value proposition to support the ambitions of Nordic high-growth tech companies. The objective is to build relations with this important segment in the startup phase so that we can support their business.

Digitalisation
In 2016, we continued to digitalise solutions and processes to improve the customer experience and make it easier to bank with us. Together with our customers, we will co-create new solutions to make banking with us even easier and more efficient in 2017. We enabled small businesses in Denmark to become customers online in a fast and easy process, and both customers and non-customers can now provide proof of identity directly in our Mobile Business app.

In Norway, we enabled all types of businesses to become customers online, giving them the opportunity to provide proof of identity and sign agreements online when it suits them. We also made it possible for customers in Finland to sign agreements digitally, which saves time for both the customers and us.

Together with Corporates & Institutions, we launched DynamicPay, an online invoice payment solution that helps optimise the collaboration between buyers and suppliers. DynamicPay offers an overview of invoices, automates the entire payment flow and gives suppliers instant access to liquidity by offering early payment against a discount to the buyer.

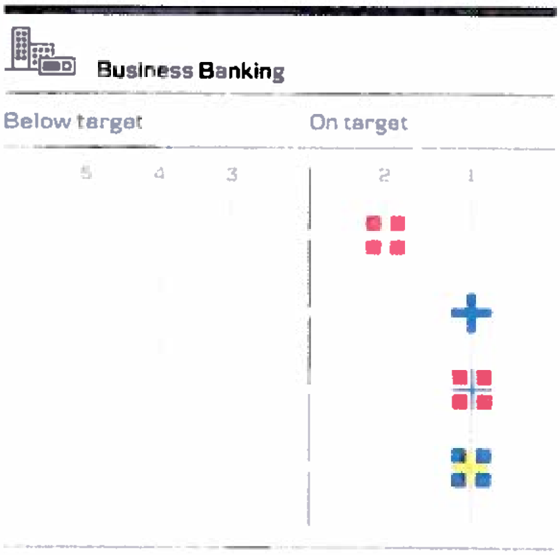
We offer MobilePay Business in Denmark, Norway and Finland. The full range of solutions, which is available only in Denmark at the moment, is the market-leading offer in the area. The solution makes it easier for all types of business customers to receive payments and process bills with point-of-sale, e-commerce and invoice features, for example. In December, we launched MobilePay Payout, a new solution that enables businesses to send payments to personal customers with only the customer's name and telephone number. We expect that the agreement with Nordea and the majority of Danish banks will accelerate the expansion of MobilePay Business.

Customer satisfaction
Our efforts to deliver value were recognised by our customers, and we ended 2016 with the highest customer satisfaction scores ever.

In all our Nordic markets, but particularly in Denmark, we saw positive trends in customer satisfaction.

We reached our 2016 customer satisfaction goal as we are number one or two among customers in our prioritised segments in all our Nordic markets. We are ranked number one in Norway, Sweden and Finland, although we share the position as number one in Sweden. In Denmark, we share a position as number two and have seen a positive trend in relation to our peers since the beginning of 2016, when we were ranked number four.

Towards 2020, our goal is to reach a position as number one on customer satisfaction among customers in all our segments in all our Nordic markets.



Source: BD Sales & Customer Engagement, Customer Insights

Q4 2016 vs Q3 2016

Profit before tax increased 17% to DKK 1.8 billion as a result of higher income and reversals of loan impairment charges.

Total income increased 7% from the level in the third quarter, primarily due to seasonality and higher activity at Realkredit Danmark.

Net interest income increased 3%, mainly as a result of larger lending and deposit volumes.

Net trading income was up DKK 76 million from the third quarter, primarily as a result of seasonal mortgage refinancing in Realkredit Danmark, but also as a result of higher activity in the fourth quarter.

Operating expenses rose from the preceding quarter, partly due to severance costs and costs relating to regulatory compliance.

Loan impairments remained at a very low level, amounting to a net reversal of DKK 181 million in the fourth quarter.

Corporates & Institutions

Total income for 2016 amounted to DKK 10.6 billion, an increase of 7% from the level in 2015. This was owing to increased client activity, mainly within FICC, Corporate Finance and Debt Capital Markets. Profit before tax amounted to DKK 4.8 billion, a decline of DKK 0.6 billion from 2015, caused primarily by impairment charges relating to the oil sector. Higher regulatory costs and an improvement to the credit value adjustment model also affected the profit before tax.

Corporates & Institutions
(DKK millions)

	2016	2015	Index 16/15	Q4 2016	Q3 2016	Index Q4/Q3	Q2 2016	Q1 2016
Net interest income	3,061	2,660	115	795	778	102	761	727
Net fee income	2,221	2,408	92	626	478	131	574	543
Net trading income	5,263	4,799	110	1,329	1,560	85	1,284	1,090
Other income	16	7	227	-5	5	-	3	14
Total income	10,561	9,873	107	2,745	2,821	97	2,622	2,374
Operating expenses	4,648	4,412	105	1,151	1,176	98	1,219	1,103
Profit before loan impairment charges	5,913	5,461	108	1,594	1,644	97	1,403	1,271
Loan impairment charges	1,071	65	-	282	468	60	125	195
Profit before tax	4,842	5,396	90	1,312	1,176	112	1,278	1,076
Loans, excl. reverse transactions before impairments	197,212	172,176	115	197,212	189,130	104	192,100	187,991
Allowance account, loans	2,466	2,155	114	2,466	2,209	112	1,825	1,857
Allowance account, credit institutions	40	6	-	40	38	104	40	26
Deposits, excluding repo deposits	233,315	213,532	109	233,315	249,733	93	238,847	215,647
Bonds issued by Realkredit Danmark	17,722	22,030	80	17,722	18,640	95	19,686	20,992
Allowance account, guarantees	256	208	123	256	251	102	228	246
Allocated capital (average)*	38,024	36,471	104	38,207	36,749	104	36,864	40,346
Net interest income as % p.a. of loans and deposits	0.72	0.69		0.74	0.71		0.71	0.72
Profit before tax as % p.a. of allocated capital (ROAC)	12.7	14.8		13.7	12.8		13.9	10.7
Cost/income ratio (%)	44.0	44.7		41.9	41.7		46.5	46.5
Full-time-equivalent staff	1,796	1,832	98	1,796	1,812	99	1,828	1,810

Total income
(DKK millions)

	2016	2015	Index 16/15	Q4 2016	Q3 2016	Index Q4/Q3	Q2 2016	Q1 2016
FICC	4,525	4,049	112	1,116	1,376	81	1,078	955
Capital Markets	1,670	1,535	109	510	337	151	455	369
General Banking	4,366	4,289	102	1,119	1,107	101	1,089	1,050
Total income	10,561	9,873	107	2,745	2,821	97	2,622	2,374

* From 2016, allocated capital is based on a regulatory approach and is calibrated to the Group's CET1 capital ratio target.

2016 vs 2015

Corporates & Institutions saw a slow start to the year, but client activity picked up in March, primarily as a result of ECB policy decisions. Political change in the major economies, such as uncertainty around the UK Brexit, and, to some degree, the US election contributed to good client activity throughout the second, third and fourth quarters.

Total income increased 7% to DKK 10.6 billion.

Net interest income rose 15% as a result of increased lending and less margin pressure than in 2015.

Net fee income dropped 8% owing to a decline in activity early in the year. From the second quarter, activity picked up, mainly in Debt Capital Markets and Corporate Finance.

Net trading income rose 10% to DKK 5.3 billion even though it was negatively affected by an improvement to the credit value adjustment model. The increase was driven by good client activity from the second quarter onwards and improved market conditions.

Total income from Fixed Income, Currencies and Commodities (FICC) increased 12% from the level in 2015, owing to a combination of high daily client activity throughout the year and event-driven transactions in the wake of the UK referendum in June, for example. The satisfactory increase was driven primarily by the recalibration of the business model towards more stable client-driven income. As a consequence, income volatility and capital use were reduced due to lower risk levels.

Capital Markets income amounted to DKK 1.7 billion and increased 9% from the level in 2015. Debt Capital Markets and Corporate Finance were the areas with most activity during 2016, while Equities saw subdued activity. Activity in Equities rebounded somewhat after the US election due to a general sector rotation, with clients shifting their investment assets from low-risk sectors to higher-risk sectors.

Capital Markets continued the efforts to further realise the potential in the Nordic markets. We were an even more active participant in syndicated loans and won a number of important mandates and transactions, including the sale of the JO Tankers shipping company to Stolt-Nielsen, a joint global co-ordinator role in both the IPO of telecommunications company DNA and the placing for NKT as part of the financing of its acquisition of ABB Cables. Danske Bank also supported a number of bond issues, for example for technology corporation Kongsberg and developer conglomerate Aspo.

Income from General Banking was up 2% from 2015. Trade Finance was adversely affected by the low market activity that was a consequence of the general state of the world economy, whereas derivatives and securities services continued to be an area of growth.

Operating expenses increased 5% owing to increased regulatory costs (the Danish Resolution Fund and regulatory measures).

Credit quality

Total loan impairments at Corporates & Institutions increased to DKK 1,071 million in 2016 from a low level in 2015. The increase was owing primarily to charges relating to the oil sector. At the end of the year, the oil price reached around USD 55 per barrel, which stabilises the situation for oil companies active on the Norwegian continental shelf. It is the expectation, however, that it will take time before the full effect of this stabilisation feeds through to the subcontractors in the sector.

Despite increased impairments, the loan portfolio quality at Corporates & Institutions is considered to be strong. At the end of 2016, total credit exposure from lending activities, including repo transactions, amounted to DKK 817 billion, an increase of 22% from the level at the end of 2015. The rise was caused mainly by increased cash deposits with central banks as a consequence of the increase in liquid assets, which improved the liquidity coverage ratio (LCR). Furthermore, credit exposure to corporate clients increased slightly in 2016.

	Net credit exposure		Impairments (%)
(DKK millions)	31 December 2016	31 December 2015	31 December 2016
Sovereign	248,195	77,722	-0.01
Financial institutions	197,811	256,758	-
Corporate	370,988	332,771	0.56
Other	145	31	-
Total	817,139	667,283	0.27

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

Business initiatives
During 2016, Corporates & Institutions continued to calibrate its business and develop its offering to create value for its clients.

The repositioning of FICC towards a more client-driven business model continued throughout 2016. The client business is now better balanced between corporate and institutional clients, and market risk utilisation was adjusted to the new model, which brought down capital consumption steadily through the year. The new business model delivered substantially lower income volatility and continued to be adapted to new regulation impacting the industry.

In General Banking, we enhanced the range of advisory services to help clients fulfil regulatory compliance requirements. Business initiatives included the launch of new data management solutions that help clients better understand and calculate the risk of a portfolio fund investment.

Corporates & Institutions and Wealth Management collaborated on alternative investments across Nordic Institutional Banking and our asset management platforms. Danske Bank was also the first Nordic bank to partner with Climate Bond Initiative to develop universal standards for the future green bond market.

Customer experience
To support the growing demand for strategic advisory services, Corporates & Institutions continued to strengthen its organisation during the year. Among other things, new competencies were added and cross-functional teams were assembled in order to address client needs holistically. In addition, we continued to develop our equity offerings in Sweden and Norway.

In Capital Markets, we continued to develop our capabilities within the various products and services. In Denmark, we made important specialist recruitments to reinforce the platform.

We achieved our ambition in Sweden by expanding business with existing clients and acquiring new ones while generally improving client satisfaction ratings. One new client is the National Debt Office, which chose Danske Bank's cash management solution, including In-house Bank, which offers the option of optimising internal FX trades, payments and account structures.

Digitalisation
In 2016, we continued the efforts to create digital, value-adding solutions that address both the day-to-day and longer-term financial needs of our clients.

Towards the end of the year, we launched Cash Flow Forecasting. This tool gives businesses an overview of current and future cash flows through detailed and easy-to-use information and options for scenario planning, including planning at subsidiaries and in currencies.

We introduced MobilePay Payout, a new MobilePay payment solution that enables businesses to send payments to end-customers. With the new solution, businesses need only the phone numbers and names of their end-customers to make payments.

The first clients began using Dynamic Pay. DynamicPay is a transparent and system-independent payment solution that connects buyers and suppliers and allows suppliers to receive early payment of invoices against a dynamic discount.

Customer satisfaction
Customer satisfaction ratings remained high throughout 2016.

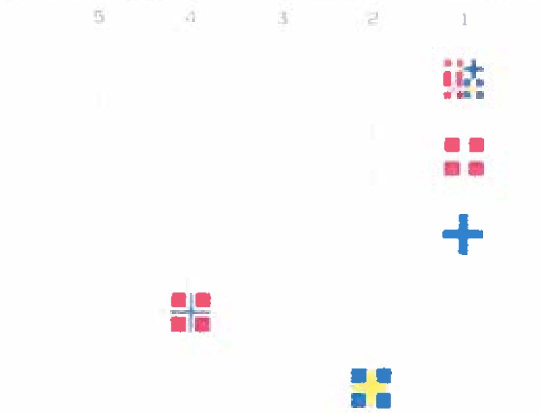
Despite tough competition, Corporates & Institutions managed to maintain its overall number one position in the rankings. The strong results were driven primarily by improvements in Denmark and Finland as well as good developments in Sweden.

We ranked number one in strategically important areas such as Corporate Banking and Interest Rate Swaps in the Nordics for the second consecutive year, Cash Management in the Nordics for the third consecutive year and Trade Finance in the Nordics for the sixth consecutive year. We were also number one in Foreign Exchange, Nordics as well as in Syndicated Loans for the first time. Institutional Banking was down to a second place.

In Norway, our position was affected by the intensified competitive pressure. We continue our efforts to improve our overall position in the Norwegian market.

Corporates & Institutions

Market position, all (rolling year)



The chart shows the current average ranking over a full set of reports for all Prospera surveys to which Corporates & Institutions subscribes (106) in comparison with the main competitors in each geographical market. A number one position in a market indicates best average ranking in that market.

Q4 2016 vs Q3 2016

Profit before tax increased 12% from the third to the fourth quarter of 2016, owing mainly to a decrease in loan impairments.

At FICC, income decreased 19% due to lower client activity in the fourth quarter.

At Capital Markets, total income increased 51%. Activities in Corporate Finance and Equities increased in the fourth quarter. This was due to seasonality and sector rotation within equities in the wake of the US election.

Operating expenses decreased 2% from the level in the preceding quarter, owing mainly to our continued focus on costs.

Wealth Management

Wealth Management delivered a profit before tax of DKK 4.8 billion, which was at the same level as in 2015. The result of the first full financial year of the combined Wealth Management business unit was influenced by volatility in the markets, especially in the first half of 2016. In the second half of the year, market improvements led to stronger earnings and increased volumes. Furthermore, we saw a positive inflow of customers during the year.

Wealth Management
(DKK millions)

	2016	2015	Index 16/15	Q4 2016	Q3 2016	Index Q4/Q3	Q2 2016	Q1 2016
Net interest income	675	620	109	176	167	105	164	168
Net fee income	6,732	6,977	96	2,147	1,533	140	1,501	1,550
Net trading income	591	316	187	148	299	49	59	85
Other income	574	564	102	224	90	248	158	104
Total income	8,572	8,477	101	2,695	2,089	129	1,882	1,907
Operating expenses	3,887	3,702	105	1,103	902	122	964	918
Profit before loan impairment charges	4,685	4,775	98	1,592	1,188	134	918	989
Loan impairment charges	-137	-29	-	-55	-8	-	-23	-51
Profit before tax	4,823	4,804	100	1,647	1,195	138	941	1,040
Loans, excl. reverse transactions before impairments	72,473	68,399	106	72,473	71,677	101	70,744	69,472
Allowance account, loans	532	604	88	532	595	89	610	563
Deposits, excl. repo deposits	62,881	52,912	119	62,881	63,948	98	62,917	58,431
Bonds issued by Realkredit Danmark	31,341	31,771	99	31,341	30,795	102	30,658	31,074
Allowance account, guarantees	2	2	118	2	8	29	3	4
Allocated capital (average)*	14,047	15,566	90	13,225	12,480	106	13,085	16,266
Net interest income as % p.a. of loans and deposits	0.50	0.51		0.52	0.49		0.49	0.53
Profit before tax as % p.a. of allocated capital (ROAC)*	34.3	30.9		49.8	38.3		28.8	25.6
Cost/income ratio (%)	45.3	43.7		40.9	43.2		51.2	48.1
Full-time-equivalent staff	1,948	1,952	100	1,948	1,980	98	1,983	1,992

Breakdown of assets under management**
(DKK millions)

	2016	2015	Index 16/15	Q4 2016	Q3 2016	Index Q4/Q3	Q2 2016	Q1 2016
Life conventional	161	161	100	161	168	96	166	162
Asset management	848	774	110	848	801	106	766	761
Assets under advice	412	435	95	412	414	99	403	428
Total assets under management	1,420	1,369	104	1,420	1,383	103	1,336	1,351

*From 2016, allocated capital is based on a regulatory approach and is calibrated to the Group's CET1 capital ratio target.
**Assets under management consists of our life conventional business (Danica Traditionel), asset management (Danica unit-linked and Danske Capital) and assets under advice (the investment decision is made by the customer) from personal, business and private banking customers.

Breakdown of net fee income
(DKK millions)

	2016	2015	Index 16/15	Q4 2016	Q3 2016	Index Q4/Q3	Q2 2016	Q1 2016
Management fees	4,825	4,955	97	1,112	1,242	90	1,234	1,237
Performance fees	501	506	99	483	4	-	3	11
Risk allowance fees	1,405	1,516	93	552	287	192	264	302
Total net fee income	6,732	6,977	96	2,147	1,533	140	1,501	1,550

2016 vs 2015

Profit before tax amounted to DKK 4.8 billion, which was at the same level as in 2015. The result was influenced by the volatile market conditions in 2016, especially in the first half of the year, which reduced assets under management and net fee income. However, the second half of 2016 saw volume improvements and stronger earnings.

Net interest income was up 9% to DKK 0.7 billion as a result of a 6% increase in lending volumes.

Net fee income was affected by the turbulence in the financial markets, which led to lower customer activity. Net fee income amounted to DKK 6.7 billion and thus dropped 4% from 2015 owing to lower management fees and risk allowance fees.

Net trading income increased to DKK 0.6 billion from DKK 0.3 billion, benefiting from income of DKK 175 million relating to insurance contracts.

As a result, total income increased 1% from the level in 2015.

Operating expenses were up 5%, influenced by the establishment of the new business unit.

Credit quality

Credit quality continues to improve in most of our markets on the basis of more favourable macroeconomic conditions.

As a result of strengthened credit quality, loan impairments continued to fall, resulting in a net reversal of DKK 137 million in 2016.

Overall, the LTV level improved in most of our markets in 2016.

Loan-to-value ratio, home loans

	31 December 2016		31 December 2015	
	LTV (%)	Net credit exposure (DKK bn)	LTV (%)	Net credit exposure (DKK bn)
Denmark	60.7	38	62.0	36
Finland	65.5	2	65.4	2
Sweden	59.4	3	64.1	3
Norway	59.7	7	61.4	6
Luxembourg	-	-	-	-
Total	60.6	50	62.2	47

Credit exposure

Credit exposure increased to DKK 82 billion in 2016, due mainly to growth in most of our markets. In Denmark, credit exposure increased owing to both increased lending and a net positive effect of fair value adjustments.

	Net credit exposure		Impairments (%)
(DKK millions)	31 December 2016	31 December 2015	31 December 2016
Denmark	56,086	49,378	-0.24
Finland	3,380	3,386	-0.26
Sweden	5,821	5,017	-0.05
Norway	10,599	9,186	-0.06
Luxembourg	6,411	5,919	-0.04
Other	-	722	-
Total	82,297	73,607	-0.20

Assets under management
Assets under management consist of our life conventional business (*Danica Traditionel*), asset management (Danica unit-linked and Danske Capital) as well as assets under advice, where the customer makes the investment decision. For 2016, assets under management totalled DKK 1,420 billion.

Assets under management increased 4%, or DKK 51 billion, from the level at the end of 2015, driven by a positive inflow from net sales and premiums. For Asset Management, net sales in 2016 amounted to DKK 9.3 billion, which came from institutional and retail clients, against DKK 23.9 billion in 2015. Net premiums for Danica Pension amounted to DKK 33.8 billion, against DKK 29.6 billion in 2015.

Investment return on customer funds
For our asset management business, 65% of all investment products generated above-benchmark results. On a 3-year horizon, 71% were above benchmark.

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

	2016	3 year
All funds	65	71
Equity funds	59	66
Fixed-income funds	79	81
Balanced funds etc.	50	60

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

Customers with *Danica Balance Mix* achieved returns on investments of 5.5% to 7.5%. The return for customers with *Danica Balance* (medium risk profile with 15 years to retirement) was 7.5% and was the second-best in Danica Pension's peer group. Compared with the market return, the return was satisfactory, and the positive trend we have seen since the summer of 2015 continued.

Introducing Wealth Management
The Wealth Management unit was established in April 2016 and encompasses customers and expertise from Danica Pension, Danske Capital and Private Banking in order to ensure that we are in a strong position to capture the expected growth in the wealth management area in the Nordic countries.

By combining three strong units in one, we can serve customers better since we can respond more quickly to changes in customer demand.

Our ambition is to be the preferred partner of both investors and pension savers. Our management and advisory services take a holistic approach, focusing on each customer's unique situation, life events and long-term goals in order to enable customers to make the right financial decisions – regardless of scale and complexity.

The core of our strategy is our aspiration of not only making wealth management better, but also using our wealth management capabilities to make our customers' lives better.

Customers want a seamless, engaging and relevant experience. They want services and products based on their needs, and expect transparency. They increasingly prefer digital solutions and, naturally, expect a good return on their investments.

We use three principles to guide us in helping customers – from developing products to providing advisory services:

- We must be **transparent, unbiased and consistent** so that our customers always get the best solution and consistent advice across various touch-points and know what they pay, what value they get and how the performance compares with their goals.
- We view our **customers' lives from a broad perspective** and take a holistic approach to each customer's situation.
- We must always look for opportunities to be **digital at heart** so that our customers get timely, relevant and easy-to-use solutions in addition to an engaging experience.

Business initiatives
Our new organisation and these principles have enabled us to open up access to new types of investments and leverage a digital mindset. They have also led to the development of new products and services:

Sustainable investments
During 2016, we expanded our offering within the growing market for sustainable investments. We launched the European Corporate Sustainable Bonds fund, which invests in bonds issued by companies

that meet enhanced responsible investment criteria in addition to the standard responsible investment screening.

Alternative investments
Investors increasingly search for alternative investments as low interest rates make deposits and money market products less attractive than before. To respond to this demand, Wealth Management launched a new property fund that allows private investors to invest directly in Danica Pension's real estate portfolio – an option previously available only to customers of Danica Pension. The product has low to medium risk but can deliver higher returns than the cash market.

Health offerings
We focused on increasing customer awareness of the new Health Package launched by Danica Pension early in the year. Unique in the Nordic countries, the package provides a second opinion via Best Doctors and gives Danica Pension's customers access to an extensive network of international experts. The package also contains a stress hotline, assistance in navigating the public health system and online health checks.

Digitalisation
Many think that investing requires substantial wealth and is complicated. With June, which is currently available in a beta version, we want to change that perception and make investing available to everyone. June is an online investment solution that empowers customers to make investments easily and at low cost once their risk profile and investment horizon have been determined online. Customers can invest from DKK 100 and can add or withdraw their funds at no cost at any time. June is an example of our efforts to make investments more widely available to customers – and not only Danske Bank customers.

Customer satisfaction
Customer satisfaction is at the core of Wealth Management's strategy, and we made progress in this area during 2016.

According to Prospera, Private Wealth Management is the number one Private Banking supplier in the Nordics for the first time. Furthermore, according to Prospera, Danske Forvaltning is also ranked number one by the customers in this business area.

Private Wealth Management has improved compared with the average competitor in all markets and is the market leader in Denmark and number two in Norway. In Sweden, Private Wealth Management is now ranked second, following five consecutive years of improvement. In Finland, there is still a gap to the market leaders on many of the criteria that are most important to clients.

Among institutions, Danske Capital improved from number four to number one in Denmark and from number four to number three in Norway. In Finland, Danske Capital moved down slightly to number four. In Sweden, customer satisfaction ratings remained unsatisfactory.

Danske Invest received the Morningstar Award for best equity fund manager in Denmark for the eighth consecutive year. Moreover, Danske Bank won the award for best "Nordic Fund Selector" from Teli Media Group for the sixth consecutive year.

According to Aalund Research, Danica Pension's customer satisfaction ranking fell to number four in Denmark and number four in Norway from number three.

Q4 2016 vs Q3 2016

In the fourth quarter of 2016, profit before tax increased to DKK 1.6 billion, up 38% from the level in the third quarter of 2016.

Total income increased 29% due to higher net fee and other income. In the fourth quarter, net fee income benefited from the booking to income of DKK 279 million from the shadow account in Danica Pension and from higher performance fees in Danske Capital.

Net sales in the fourth quarter amounted to DKK 5.6 billion, against DKK 0.9 billion in the third quarter. Net premiums at Danica Pension amounted to DKK 9.2 billion in the fourth quarter.

Other income increased to DKK 224 million in the fourth quarter due to an increase in the risk result from non-life insurance.

Operating expenses were up 22% due primarily to seasonal effects and severance pay.

Northern Ireland

Profit before tax and goodwill impairments declined to DKK 1,063 million, driven by movements in the GBP/DKK exchange rate and reduced loan impairment reversals. Loan impairment charges continued to show a net reversal, however, at a lower level than in 2015. In local currency, profit before loan and goodwill impairment charges increased 5%.

Northern Ireland
(DKK millions)

	2016	2015	Index 16/15	Q4 2016	Q3 2016	Index Q4/Q3	Q2 2016	Q1 2016
Net interest income	1,458	1,620	90	340	340	100	392	385
Net fee income	471	487	97	108	129	84	112	121
Net trading income	126	118	107	24	55	43	25	23
Other income	18	14	128	2	3	78	3	9
Total income	2,072	2,239	93	474	528	90	532	538
Operating expenses	1,243	1,369	91	334	296	113	328	285
Goodwill impairment charges	-	150	-	-	-	-	-	-
Profit before loan impairment charges	829	720	115	140	232	60	204	253
Loan impairment charges	-234	-561	-	-22	-60	-	-71	-81
Profit before tax	1,063	1,281	83	162	293	55	275	334
Profit before tax and goodwill impairment charges	1,063	1,431	74	162	293	55	275	334
Loans, excl. reverse transactions before impairments	45,575	52,225	87	45,575	45,741	100	46,073	48,125
Allowance account, loans	1,262	2,789	45	1,262	1,868	68	2,127	2,480
Deposits, excl. repo deposits	59,244	63,601	93	59,244	57,586	103	58,786	59,655
Allowance account, guarantees	11	26	43	11	23	48	23	24
Allocated capital (average)*	7,326	8,142	90	6,394	6,268	102	8,342	8,319
Net interest income as % p.a. of loans and deposits	1.41	1.43		1.31	1.34		1.53	1.46
Profit before tax and goodwill impairment charges as % p.a. of allocated capital (ROE)	14.5	17.5		10.1	18.7		13.2	16.1
Cost/income ratio before goodwill impairment charges (%)	60.0	61.1		70.5	56.1		61.7	53.0
Full-time-equivalent staff	1,289	1,287	100	1,289	1,290	100	1,273	1,285

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

2016 vs 2015
Profit before tax and goodwill impairments decreased 26% to DKK 1,063 million.

Total income stood at DKK 2,072 million, down 7% and operating expenses were 9% lower.

Loan impairments continued to show a net reversal, however, reversals were lower in 2016 than in 2015.

2016 vs 2015 in local currency
In local currency, profit before loan and goodwill impairment charges increased 5%. Income rose 3% despite a UK interest rate cut in August. This reflects higher cards-related income, growth in both lending and deposit volumes, lower funding costs and income from the sale of property. Costs increased 2%, with lower underlying costs offset by restructuring costs and higher indirect taxation costs following a change in VAT requirements in 2016.

External outlook
Our Northern Ireland business has encountered significant change in the external environment. Economic data suggests that the outcome of the EU referendum has not yet had any major effect on the Northern Irish economy, but lower than previously forecasted economic growth is expected for 2017.

Credit quality
The loan impairment reversal of DKK 234 million for 2016 (down from DKK 561 million in 2015) is indicative of a continuing recovery in property values and the improvement of customer financials.

	Net credit exposure		Impairments (%)
(DKK millions)	31 December 2016	31 December 2015	31 December 2016
Personal customers	18,022	19,443	0.09
Public institutions	15,992	17,598	-0.09
Financial customers	194	455	0.25
Commercial customers	29,348	32,535	-0.95
Total	63,555	70,030	-0.47

Business initiatives
Our business unit in Northern Ireland has operated as a separate unit since 1 January 2016. Our objective is to improve customer satisfaction while generating sound financial returns.

The unit's vision is to be recognised as the best bank in Northern Ireland for customers, employees and society in general. In a challenging environment, we continue to execute our strategy to transform both the customer experience and the unit's internal operations.

Lending activity
In 2016, we saw healthy growth in new mortgage lending to customers, which produced a record-high level of mortgage assets on the balance sheet. We achieved this growth mainly by enhancing our residential mortgage distribution capability through brokers. Brokers, which supplement the established branch and direct distribution channels, are an important channel, representing 70% of the local market. We are developing further improvements in mortgage services across all channels in 2017.

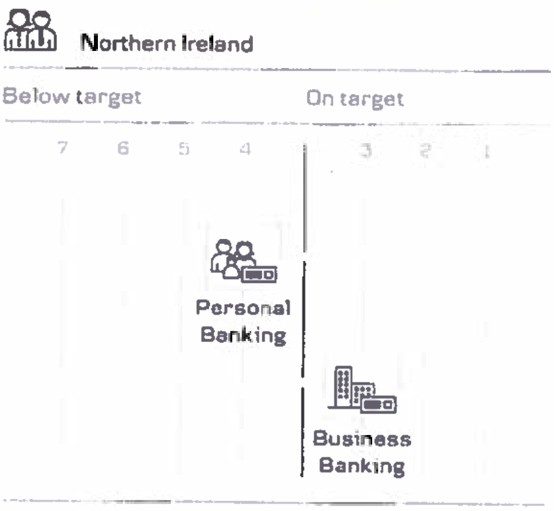
Despite the challenging environment, business lending volumes continued to grow steadily in 2016, and enabled us to maintain our leading market position. Enhancements to our lending proposition that leverage developments implemented elsewhere in the Group are planned for 2017.

Innovation and digitalisation
Digital innovation continues at strong pace, which is expected to accelerate, partly because of increasing customer expectations. In 2016, we saw further adoption of our digital channels, with more than 3 million digital logons per month and a 15% 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 in 2016 have included the introduction of banking services via Apple Watch.

Customer experience and satisfaction
We maintained leading business and personal market positions, and we continued to focus on improving our customer service. In 2016, we notably improved our current account propositions for both personal and small business customers.

Business customer satisfaction ratings saw us ranked at number one for the first ten months of the year, falling to second in November and third in December. While our satisfaction scores remained consistent, there were significant uplifts towards the end of the year from two competitors.

Personal customer satisfaction was impacted by increased competition from UK banks. We were in fifth place for much of the year, but finished the year in fourth place.



Source: PB Strategy & Insights, Customer Insights and BD Sales & Customer Engagement, Customer Insights

In the second quarter, we established a dedicated customer experience team, which has started to deliver results in this area. This work will continue at pace in 2017.

Q4 2016 vs Q3 2016

Profit before tax fell in the fourth quarter, given the effect of lower cards-related income, severance pay and reduced net impairment reversals in the fourth quarter.

Non-core

Profit before tax for 2016 was DKK 37 million, a decrease of DKK 9 million from the level in 2015. The winding-up of the Non-core portfolios is proceeding according to plan, and total lending has decreased DKK 6.2 billion since the end of 2015 and stood at DKK 21.5 billion at the end of 2016.

Non-core
(DKK millions)

	2016	2015	Index 16/15	Q4 2016	Q3 2016	Index Q4/Q3	Q2 2016	Q1 2016
Total income	235	334	70	45	46	97	74	70
Operating expenses	363	406	89	79	105	75	92	86
Profit before loan impairment charges	-128	-72	-	-35	-60	-	-17	-16
Loan impairment charges	-165	-118	-	-67	-17	-	-82	2
Profit before tax	37	46	80	32	-42	-	65	-18
Loans, excl. reverse transactions before impairments	21,504	27,714	78	21,504	22,626	95	25,167	26,727
Allowance account, loans	2,644	3,870	68	2,644	2,885	92	3,859	3,828
Deposits, excluding repo deposits	2,365	3,735	63	2,365	2,850	83	3,187	3,256
Allowance account, guarantees	33	46	72	33	31	107	34	36
Allocated capital (average)*	2,878	6,224	46	2,518	2,768	91	3,199	3,025
Net interest income as % p.a. of loans and deposits	1.13	1.06		0.90	0.87		1.21	1.04
Profit before tax as % p.a. of allocated capital (ROAC)*	1.3	0.7		5.1	-6.1		8.1	-2.4
Cost/income ratio (%)	154.5	121.6		175.6	228.3		124.3	122.9
Full-time-equivalent staff	153	277	55	153	154	99	236	267

Loan impairment charges
(DKK millions)

	2016	2015	Index 16/15	Q4 2016	Q3 2016	Index Q4/Q3	Q2 2016	Q1 2016
Non-core banking**	-164	-118	-	-67	-17	-	-82	3
Non-core conduits etc.	-1	-	-	-	-	-	-	-1
Total	-165	-118	-	-67	-17	-	-82	2

** From 2016, allocated capital is based on a regulatory approach and is calibrated to the Group's CET1 capital ratio target.*
*** Non-core banking encompasses Non-core Baltics (personal customers in Estonia) and Non-core Ireland.*

2016 vs 2015

Profit before tax was DKK 37 million, against DKK 46 million in 2015, with the decrease being caused by lower income resulting from the continued reduction of the loan portfolio. The result benefited from the sale of the residential mortgage loan portfolio relating to the mass personal customer business in Lithuania and Latvia.

Operating expenses were down 11% owing primarily to the continued reduction in the number of full-time employees.

Total lending, which amounted to DKK 21.5 billion, consisted mainly of exposure to personal mortgages and conduits. Personal mortgages in Estonia and Ireland will mature according to contractual terms.

The Non-core conduits portfolio amounted to DKK 6.3 billion, against DKK 8.0 billion in 2015. The portfolio consists mainly of liquidity facilities for conduits. The credit quality of the portfolio was stable.

	Net credit exposure		Accumulated impairment charges	
	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Non-core banking	17,103	20,570	2,437	3,673
- of which Personal customers	16,966	20,035	1,791	2,560
Non-core conduits etc.	6,343	7,992	239	243
Total	23,446	28,563	2,676	3,916

Total impairments amounted to a net reversal of DKK 165 million, against a net reversal of DKK 118 million in 2015. Reversals within the commercial property portfolio in Ireland were lower, but this was offset by a reversal resulting from the completion of the sale of the Non-core mass personal customer business in Lithuania and Latvia.

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

Q4 2016 vs Q3 2016

Profit before tax amounted to DKK 32 million, up from a negative DKK 42 million in the third quarter.

Operating expenses were reduced 25% from the level in the third quarter, as the costs associated with the sale of the mass personal business in Lithuania and Latvia were booked in the third quarter.

Loan impairment charges amounted to a net reversal of DKK 67 million, against a net reversal of DKK 17 million in the third quarter.

Other Activities

Other Activities includes Group Treasury and Group support functions as well as eliminations, including the elimination of returns on own shares. Group Treasury is responsible for the Group's liquidity management and funding.

Profit before tax benefited from gains on the sale of properties, shares in Danmarks Skibskredit A/S and the sale of VISA Europe.

Other Activites (DKK millions)	2016	2015	Index 16/15	Q4 2016	Q3 2016	Index Q4/Q3	Q2 2016	Q1 2016
Net interest income	747	284	263	393	230	171	134	-10
Net fee income	-175	-212	-	-73	-51	-	-38	-14
Net trading income	1,498	492	-	470	414	114	529	84
Other income	1,331	568	234	196	230	85	56	849
Total income	3,401	1,132	-	986	823	120	682	909
Operating expenses	419	606	69	210	-27	-	169	66
Profit before loan impairment charges	2,982	526	-	776	849	91	513	843
Loan impairment charges	9	1	-	3	5	68	-0	1
Profit before tax	2,973	525	-	773	844	92	513	842

Profit before tax (DKK millions)	2016	2015	Index 16/15	Q4 2016	Q3 2016	Index Q4/Q3	Q2 2016	Q1 2016
Group Treasury	2,005	286	-	767	734	104	490	15
Own shares	-135	-154	-	-67	-65	-	36	-38
Group support functions	1,103	393	281	73	176	42	-12	865
Total Other Activities	2,973	525	-	773	844	92	513	842

2016 vs 2015

Other Activities posted a profit before tax of DKK 2,973 million, against DKK 525 million in 2015.

Net trading income amounted to DKK 1,498 million, benefiting from the gain on the sale of VISA Europe and positive fair value adjustments of the liquidity portfolio and the private equity portfolio. The sale of our shares in Danmarks Skibskredit A/S also contributed to the increase in net trading income.

Other income amounted to DKK 1,331 million, against DKK 568 million in 2015. Other income included a gain related to the sale of domicile properties and positive value adjustments of shares in associated companies.

Q4 2016 vs Q3 2016

In the fourth quarter of 2016, profit before tax was DKK 773 million, against DKK 844 million in the third quarter.

Net interest income amounted to DKK 393 million, an increase of 71% from the level in the third quarter, due to an increase in income from internal funds transfer pricing caused by higher lending volumes and lower compensation for deposits in the fourth quarter than in the third quarter.

Net trading income amounted to DKK 470 million, against DKK 414 million in the third quarter. The increase was owing primarily to the sale of shares in Danmarks Skibskredit A/S, partly offset by a decrease in the positive fair value adjustments of the liquidity portfolio from the third quarter.

Other income amounted to DKK 196 million and related mostly to proceeds from the sale of domicile properties. In the third quarter, other income amounted to DKK 230 million and derived primarily from positive value adjustments of shares in associated companies.

Definition of alternative performance measures

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

Throughout the Management's report, performance is assessed on the basis of the financial highlights and segment reporting, which represent the financial information regularly provided to management. The differences between the financial highlights and the IFRS financial statements relate only to certain changes in the presentation. There are no adjusting items, which means that net profit is the same in the financial highlights and in the IFRS income statement. In notes 1(c) and 3 to the financial statements, the difference in the presentation is described and each line item is reconciled with the consolidated financial statements prepared under the IFRS.

Definitions of additional ratios and key figures presented on page 6 and in other sections of the Management's report:

Dividend per share (DKK)

The dividend is the dividend related to net profit for the current year and paid to shareholders the subsequent year. Hence, for 2016, it is the proposed dividend to be paid in 2017.

Return on average shareholders' equity (before and after goodwill impairment charges)

Net profit divided by quarterly average shareholders' equity. Net profit and shareholders' equity are stated as if the equity-accounted additional tier 1 capital was classified as a liability. In the nominator, net profit is reduced by interest expenses of DKK 663 million (2015: DKK 607 million), and the denominator represents equity excluding additional tier 1 capital and other non-controlling interests.

Return on average tangible equity

As above but with shareholders' equity reduced by intangible assets and net profit adjusted for amortisation of intangible assets.

Net interest income as % p.a. of loans and deposits

Net interest income in the financial highlights divided by the sum of loans and deposits. All amounts are from the financial highlights.

Cost/income ratio (before and after goodwill impairment charges)

Operating expenses excluding/including goodwill impairment charges 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 (% of credit exposure)

The key figure is calculated on the basis of loan impairment charges and credit exposure from lending activities in core segments. The nominator is the loan impairment charges from the financial highlights. The denominator is the net credit exposure from lending activities in core segments at the beginning of the year of DKK 2,322.8 billion, as disclosed in the "Breakdown of credit exposure" table in the Notes to the financial statements, reduced by credit exposure related to credit institutions and central banks of DKK 170.0 billion and loan commitments of DKK 274.0. The key ratio is calculated for each business unit.

Financial statements

Income statement – Danske Bank Group

Note	(DKK millions)	2016	2015
5	Interest income	59,618	60,883
5	Interest expense	27,289	27,550
	Net interest income	32,329	33,333
6	Fee income	15,883	15,566
6	Fee expenses	5,736	4,887
5	Net trading income	13,396	6,908
7	Other income	6,006	4,784
7	Income from holdings in associates	941	491
8	Net premiums	24,686	21,359
8	Net insurance benefits	37,669	30,468
9	Operating expenses	24,647	24,785
18	Impairment charges on goodwill and customers relations	-	4,601
	Profit before loan impairment charges	25,189	17,701
11	Loan impairment charges	-168	-61
	Profit before tax	25,357	17,762
20	Tax	5,500	4,639
	Net profit for the year	19,858	13,123
	Portion attributable to		
	shareholders of Danske Bank A/S (the Parent Company)	19,195	12,516
	additional tier 1 capital holders	663	607
	non-controlling interests	-	-
	Net profit for the year	19,858	13,123
	Earnings per share (DKK)	20.2	12.8
	Diluted earnings per share (DKK)	20.2	12.8
	Proposed dividend per share (DKK)	9.0	8.0

Statement of comprehensive income – Danske Bank Group

Note	(DKK millions)	2016	2015
	Net profit for the year	19,858	13,123
	Other comprehensive income		
	Items that will not be reclassified to profit or loss		
	Remeasurement of defined benefit plans	-972	568
20	Tax	234	-70
	Items that will not be reclassified to profit or loss	-738	498
	Items that are or may be reclassified subsequently to profit or loss		
	Translation of units outside Denmark	-1,274	681
	Hedging of units outside Denmark	1,234	-797
	Unrealised value adjustments of available-for-sale financial assets	309	-17
	Realised value adjustments of available-for-sale financial assets	-10	-68
20	Tax	-257	176
	Items that are or may be reclassified subsequently to profit or loss	2	25
	Total other comprehensive income	-738	473
	Total comprehensive income for the year	18,122	13,596
	Portion attributable to		
	shareholders of Danske Bank A/S (the Parent Company)	18,459	12,989
	additional tier 1 capital holders	663	607
	non-controlling interests	-	-
	Total comprehensive income for the year	19,122	13,596

Balance sheet – Danske Bank Group

Note	(DKK millions)	2016	2015
	Assets		
	Cash in hand and demand deposits with central banks	53,211	76 837
14	Due from credit institutions and central banks	245,479	103 859
12	Trading portfolio assets	509,679	547,019
13	Investment securities	343,337	343 304
14	Loans at amortised cost	1,141,567	1 079 257
15	Loans at fair value	766,003	741 660
16	Assets under pooled schemes and unit linked investment contracts	99,848	91 893
17	Assets under insurance contracts	285,398	265 572
18	Intangible assets	6,790	6 505
20	Tax assets	1,283	1 550
22	Others assets	31,075	35 422
	Total assets	**3,483,670**	**3,292,878**
	Liabilities		
19	Due to credit institutions and central banks	272,883	271,588
12	Trading portfolio liabilities	478,301	471 131
19	Deposits	943,865	863 474
15	Bonds issued by Realkredit Danmark	726,732	694 519
16	Deposits under pooled schemes and unit-linked investment contracts	106,418	96 958
17	Liabilities under insurance contracts	314,977	285 030
21	Other issued bonds	392,512	363 931
20	Tax liabilities	8,151	8,333
22	Other liabilities	35,385	37,093
21	Subordinated debt	37,831	39,991
	Total liabilities	**3,317,055**	**3,132,048**
	Equity		
	Share capital	9,837	10,086
	Foreign currency translation reserve	-633	-593
	Reserve for available-for-sale financial assets	187	401
	Retained earnings	134,028	132 352
	Proposed dividends	8,853	8 069
	Shareholders of Danske Bank A/S (the Parent Company)	152,272	149 513
	Additional tier 1 capital holders	14,343	11 317
	Non-controlling interests	-	-
23	**Total equity**	**166,615**	**160,830**
	Total liabilities and equity	**3,483,670**	**3,292,878**

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	Non-controlling interests	Total
	Shareholders of Danske Bank A/S (the Parent Company)								
Total equity at 1 January 2016	10 086	593	-401	132 352	8 069	149 513	11 317	-	160 830
Changed recognition of insurance liabilities	-	-	-	-205		-205	-	-	-205
Restated total equity at 1 January 2016	10 086	-593	401	132 147	8 069	149 308	11 317	-	160 625
Net profit for the year	-	-	-	19 195	-	19 195	663	-	19 858
Other comprehensive income									
Remeasurement of defined benefit plans	-	-	-	-972		-972	-	-	-972
Translation of units outside Denmark	-	-1 274	-	-	-	-1 274	-	-	-1 274
Hedging of units outside Denmark	-	1 234	-	-	-	1 234	-	-	1 234
Unrealised value adjustments	-	-	309	-	-	309	-	-	309
Realised value adjustments	-	-	-10	-	-	-10	-	-	-10
Transfer between reserves	-	-	289	-289	-	-	-	-	-
Tax	-	-	-	-23	-	-23	-	-	-23
Total other comprehensive income		-40	588	-1 284	-	-736		-	-736
Total comprehensive income for the year		-40	588	17 911	-	18 459	663	-	19 122
Transactions with owners									
Issuance of additional tier 1 capital, net of transaction costs	-	-	-	-30	-	-30	3 000	-	2 970
Paid interest on additional tier 1 capital	-	-	-	-	-	-	-649	-	-649
Dividends paid	-	-	-	311	-8 069	-7 758	-	-	-7 758
Dividends proposed	-	-	-	-8 853	8 853	-	-	-	-
Share capital reduction	-249	-	-	249	-	-	-	-	-
Acquisition of own shares and additional tier 1 capital	-	-	-	-38 121	-	-38 121	-57	-	-38 178
Sale of own shares and additional tier 1 capital	-	-	-	30 089	-	30 089	69	-	30 158
Share-based payments	-	-	-	171	-	171	-	-	171
Tax	-	-	-	154	-	154	-	-	154
Total equity at 31 December 2016	9 837	-633	187	134 028	8 853	152 272	14 343	-	166 615

On 4 February 2016, the Group initiated a share buy-back programme of DKK 9 billion. The programme was completed on 1 February 2017. At the end of 2016, the Group had acquired 43,063,213 shares for a total amount of DKK 8,147 million under the share buy-back programme based on trade date.

On 25 April 2016, the share capital was reduced by DKK 249,071,650 through cancellation of 24,907,165 shares from Danske Bank's holding of own shares acquired under the share buy-back programme for 2015.

Statement of capital - Danske Bank Group

Changes in equity

(DKK millions)	Shareholders of Danske Bank A/S (the Parent Company)								
	Share capital	Foreign currency translation reserve	Reserve for available for sale assets	Retained earnings	Proposed dividends	Total	Additional tier 1 capital	Non controlling interests	Total
Total equity at 1 January 2015	10 086	-477	-316	131 869	5 547	146 709	5 673	2	152 384
Net profit for the year	-	-	-	12 516	-	12 516	607	-	13 123
Other comprehensive income									
Remeasurement of defined benefit plans	-	-	-	568	-	568	-	-	568
Translation of units outside Denmark	-	681	-	-	-	681	-	-	681
Hedging of units outside Denmark	-	-797	-	-	-	-797	-	-	-797
Unrealised value adjustments	-	-	-17	-	-	-17	-	-	-17
Realised value adjustments	-	-	-68	-	-	-68	-	-	-68
Tax	-	-	-	106	-	106	-	-	106
Total other comprehensive income	-	-116	-85	674	-	473		-	473
Total comprehensive income for the year	-	-116	-85	13 190	-	12 989	607	-	13 596
Transactions with owners									
Issuance of additional tier 1 capital net of transaction costs	-	-	-	-56	-	-56	5 583	-	5 527
Paid interest on additional tier 1 capital	-	-	-	-	-	-	-529	-	-529
Dividends paid	-	-	-	53	-5 547	-5 494	-	-2	-5 496
Dividends proposed	-	-	-	-8 069	8 069	-	-	-	-
Acquisition of own shares and additional tier 1 capital	-	-	-	-35 087	-	-35 087	-41	-	-35 128
Sale of own shares and additional tier 1 capital	-	-	-	30 119	-	30 119	24	-	30 143
Share-based payments	-	-	-	195	-	195	-	-	195
Tax	-	-	-	138	-	138	-	-	138
Total equity at 31 December 2015	10 086	-593	-401	132 352	8 069	149 513	11 317	-	160 830

Statement of capital – Danske Bank Group

Dividend

The Board of Directors is proposing a dividend of DKK 9.00 per share (2015: DKK 8.00), or a total of DKK [8,853] million (2015: DKK 8,069 million) of which DKK 388 million relates to shares acquired under the share buy-back programme for 2016, to be paid out of the net profit for the Parent Company of DKK 19,581 million (2015: DKK 12,933 million).

Earnings per share	2016	2015
Net profit for the year attributable to the shareholders of the parent company (DKK millions)	19,195	12,516
Number of shares issued at 1 January	1,008,620,000	1,008,620,000
Share capital reduction (share buy-back programme 2015)	24,907,165	-
Average number of own shares held by the Group (including share buy-back programme 2016)	26,499,400	20,632,950
Average number of shares outstanding	957,213,435	987,987,050
Number of dilutive shares issued for share-based payments	524,146	1,304,948
Adjusted average number of shares outstanding after capital decrease, including dilutive shares	957,737,581	989,291,999
Earnings per share (DKK)	20.2	12.8
Diluted earnings per share (DKK)	20.2	12.8

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	2016	2015
Issued at 31 December	983,712,835	1,008,620,000
Holding of own shares	48,453,042	32,590,194
Shares outstanding at 31 December	935,259,793	976,029,806

Holding of own shares	Number 2016	Number 2015	Value 2016	Value 2015
Share buy-back programme	43,063,213	24,907,165	9,224	4,613
Trading portfolio	1,742,846	3,529,947	373	654
Investment on behalf of customers	3,646,983	4,153,082	781	770
Total	48,453,042	32,590,194	10,378	6,037

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

(DKK millions)	Share buy-back programme	Trading portfolio	Investment on behalf of customers	Total 2016	Total 2015
Holding as 1 January	4,613	654	770	6,037	1,545
Acquisition of own shares	8,147	29,641	333	38,121	35,087
Sale of own shares	-	29,659	430	30,089	30,119
Value adjustment	863	-263	108	708	-476
Cancellation of own shares	4,399	-	-	4,399	-
Holding at 31 December	9,224	373	781	10,378	6,037

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 common equity tier 1 capital.

On 4 February 2016, the Group initiated a share buy-back programme of DKK 9 billion. The programme was completed on 1 February 2017.

Statement of capital – Danske Bank Group

(DKK millions)	2016	2015
Total capital and total capital ratio		
Total equity	166,615	160,830
Revaluation of domicile property at fair value	306	884
Tax effect of revaluation of domicile property at fair value	-36	-172
Reserves in undertakings consolidated on a pro rata basis	-	3,002
Total equity calculated in accordance with the rules of the Danish FSA	166,886	164,544
Additional tier 1 capital instruments included in total equity	-14,133	-11,177
Accrued interest on additional tier 1 capital instruments	-169	-155
Tax on accrued interest on additional tier 1 capital instruments	37	36
Common equity tier 1 capital instruments	152,621	153,248
Adjustment to eligible capital instruments	-1,102	-154
Prudent valuation	-1,153	-
Prudential filters	-397	-507
Proposed dividends	-8,853	-8,069
Intangible assets of banking operations	-6,707	-6,426
Deferred tax on intangible assets	322	337
Deferred tax assets that rely on future profitability excluding temporary differences	-397	-343
Defined benefit pension fund assets	-828	-808
Statutory deduction for insurance subsidiaries	-626	-2,885
Other statutory deductions	-186	-35
Common equity tier 1 capital	**132,684**	**134,358**
Additional tier 1 capital instruments	23,623	22,338
Statutory deduction for insurance subsidiaries	-209	-2,164
Other statutory deductions	-	-7
Tier 1 capital	**156,108**	**154,525**
Tier 2 capital instruments	22,141	22,782
Statutory deduction for insurance subsidiaries	-209	-2,164
Other statutory deductions	-	-7
Total capital	**178,041**	**175,136**
Total risk exposure amount	**815,249**	**833,594**
Common equity tier 1 capital ratio (%)	16.3	16.1
Tier 1 capital ratio (%)	19.1	18.5
Total capital ratio (%)	21.8	21.0

Total capital and the total risk exposure amount are calculated in accordance with the rules applicable under CRR, taking transitional rules into account as stipulated by the Danish Financial Supervisory Authority. A new filter has been introduced for deduction from common equity tier 1 capital of additional value adjustments of assets and liabilities measured at fair value (prudent valuation). The European Commission has adopted a Delegated Regulation on regulatory technical standards for prudent valuation that has been effective since February 2016.

On 30 June 2016, Danske Bank Group stopped consolidating Danmarks Skibskredit A/S and LR Realkredit A/S on a pro rata basis in the statement of capital for regulatory purposes. As at 30 June 2016, the change led to a decrease in common equity tier 1 capital and total capital of DKK 3.0 billion and a decrease in the total risk exposure amount of DKK 16.2 billion from end-2015.

The risk exposure amount calculated under the Basel I rules amounted to DKK 1,487,896 million at 31 December 2016 (31 December 2015: DKK 1,441,527 million). The capital need under the transitional rules was DKK 95,225 million, equal to 11.7% of the reported risk exposure amount (31 December 2015: DKK 92,258 million).

Risk Management 2016 provides more details about the Group's total capital and total risk exposure amount. Risk Management 2016 is not covered by the statutory audit.

Cash flow statement – Danske Bank Group

(DKK millions)	2016	2015
Cash flow from operations		
Profit before tax	25,358	17,762
Tax paid	-4,961	-4,770
Adjustment for non-cash operating items	477	6,858
Total	20,874	19,850
Changes in operating capital		
Amounts due to/from credit institutions and central banks	1,543	56,229
Trading portfolio	44,510	115,996
Acquisition/sale of own shares and additional tier 1 capital	62	15
Other financial instruments	23,925	24,083
Loans at amortised cost	-62,141	13,706
Loans at fair value	-24,343	-51
Deposits	80,391	-102,722
Bonds issued by Realkredit Danmark	32,213	38,553
Assets/liabilities under insurance contracts	10,122	593
Other assets/liabilities	5,608	34,704
Cash flow from operations	132,784	40,332
Cash flow from investing activities		
Acquisition/sale of businesses	1,226	11
Acquisition of intangible assets	-756	-626
Acquisition of tangible assets	-288	-378
Sale of tangible assets	2,988	661
Cash flow from investing activities	3,170	-332
Cash flow from financing activities		
Issues of subordinated debt	-	3,725
Redemption of subordinated debt	-	-5,212
Dividends	-7,758	-5,494
Share buy back programme*	-8,083	-5,000
Issued additional tier 1 capital	2,970	5,527
Paid interest on additional tier 1 capital	-649	-529
Change in non-controlling interests	-	-2
Cash flow from financing activities	-13,520	-6,985
Cash and cash equivalents at 1 January	178,835	143,543
Foreign currency translation	-4,171	2,277
Change in cash and cash equivalents	122,414	33,015
Cash and cash equivalents, end of period	297,078	178,835
Cash and cash equivalents, end of period		
Cash in hand	9,332	10,638
Demand deposits with central banks	43,879	66,199
Amounts due from credit institutions and central banks within three months	243,867	101,998
Total	297,078	178,835

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

The list of Group holdings and undertakings in note 35 provides information about restrictions on the use of cash flows from Group undertakings.

The cash flow statement is prepared according to the indirect method. The statement is based on the pre-tax profit for the year and shows the cash flows from operating, investing and financing activities and 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.

Notes – Danske Bank Group

1. Basis of preparation

Danske Bank Group prepares its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRSs) and with 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.

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 23.

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. Except for the changes implemented during the year and explained in note 2, Danske Bank has not changed its significant accounting policies from those applied in Annual Report 2015.

(a) Significant accounting estimates

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

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

Fair value measurement of financial instruments

Measurements of financial instruments that are only to a limited extent based on observable market data, such as the measurement of unlisted shares and certain bonds for which there is no active market, are subject to significant estimates. The estimated fair value of illiquid bonds significantly depends on the credit spread estimate. A credit spread widening of 50bp would have caused the fair value of the bonds to decrease DKK 85 million (31 December 2015: DKK 65 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 2016, the adjustments totalled DKK 1.8 billion (31 December 2015: DKK 1.3 billion), including the adjustment for credit risk on derivatives with customers subject to objective evidence of impairment. The increase relates mainly to increases in CVA and FVA owing to lower interest rates and model improvements. Note 30 provides more details.

Measurement of loans

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

The losses incurred under non-performing loan agreements depend, among other factors, on the value of collateral received. If the value of collateral decreased 10%, individual impairment charges would increase by about DKK 2.4 billion (31 December 2015: DKK 2.8 billion). The collective impairment charges are sensitive to the credit rating of customers. If all business customers were downgraded one rating category, collective impairment charges would increase by about DKK 1.2 billion (31 December 2015: DKK 1.8 billion). The decrease in the impact of a downgrade is caused by improvements in credit quality, increases in collateral values and the fact that part of the exposure covered by the collective impairment charges has been individualised. The method used for calculating collective impairment charges for personal customers has been improved in order to more directly incorporate certain credit risk factors for personal customers. This is the primary reason for the decline in the collective impairment charge recognised on the basis of management's judgement from DKK 3.8 billion at the end of 2015 to DKK 3.3 billion at the end of 2016. The collective impairment charge recognised on the basis of management's judgement reflects market conditions at the balance sheet date that are not fully reflected in the Group's models. Note 14 and the section on credit risk in the risk management notes provide more details on impairment charges for loans. At 31 December 2016, loans accounted for about 55% of total assets (31 December 2015: 55%).

Notes – Danske Bank Group

1. Basis of preparation continued

(a) Significant accounting estimates

Measurement of goodwill

Goodwill is tested for impairment once a year or more frequently if indications of impairment exist. Impairment testing requires management to estimate the future cash flows. A number of factors affect the value of such cash flows, including discount rates, changes in the economic outlook, customer behaviour and competition. At 31 December 2016, goodwill amounted to DKK 5.3 billion (31 December 2015: DKK 5.4 billion). Following the impairment charges made in Q4 2015, no goodwill remains at the banking units. For Wealth Management, Danske Capital, the carrying amount of goodwill is DKK 1.8 billion (31 December 2015: DKK 1.8 billion) and relates to the activities in Finland. The excess value (the amount by which the cash-generating unit's recoverable amount exceeds the carrying amount) in the impairment test for Wealth Management, Danske Capital amounted to DKK 0.1 billion (2015: DKK 0.1 billion). Note 18 provides information on changes in key assumptions that would cause the excess value to be zero. The remaining goodwill of DKK 3.5 billion (2015: DKK 3.6 billion) relates to Corporates & Institutions and the excess value is DKK 10.8 billion. Note 18 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. As of 1 January 2016, the Group implemented the changes made by the Danish FSA to its Executive Order on Financial Reports for Insurance Companies to harmonise the measurement of insurance liabilities in the financial statements with measurement under the Solvency II framework. Notes 2(a) and 17 provide further information on the changes and 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 2016, deferred tax assets from recognised tax loss carry-forwards amounted to DKK 0.3 billion (31 December 2015: DKK 0.3 billion). The tax base of unrecognised tax loss carry-forwards, relating primarily to the Group's banking operations in Ireland, amounted to DKK 3.0 billion (31 December 2015: DKK 3.2 billion). The full deferred tax liability arising from international joint taxation was recognised and amounted to DKK 6.0 billion (31 December 2015: DKK 5.9 billion). Note 20 provides more information on deferred tax.

Notes – Danske Bank Group

1 Basis of preparation continued

(b) Significant accounting selections – 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 principles for financial instruments and obligations under insurance contracts.

Financial instruments – general

Purchases and sales of financial instruments are measured at fair value at the settlement date. Fair value adjustments of unsettled financial instruments are recognised from the trade date to the settlement date.

The following section describes the general classification and measurement of financial instruments. The classification is shown in the table below.

Financial instruments and obligations under insurance contracts, classification and measurement

	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	-	-	-	-		53	-	53
Due from credit institutions and central banks	-	-	-	-		245	-	245
Derivatives	314	-	12	-	-	-	-	326
Bonds	162	137	-	71	133	-	-	503
Shares	21	2	-	-	-	-	-	23
Loans at amortised cost	-	-	2	-	-	1 140	-	1 142
Loans at fair value		766	-	-	-	-	-	766
Assets under pooled schemes and unit-linked investment contracts	-	100	-	-	-	-	-	100
Assets under insurance contracts	-	263	-	-	-	-	-	263
Total financial assets, 2016	497	1,268	14	71	133	1,438	-	3,421
Total financial assets, 2015	529	1,252	19	47	119	1 258	-	3 224
Liabilities								
Due to credit institutions and central banks	-	-	-		-	-	273	273
Trading portfolio liabilities	476	-	2	-	-	-	-	478
Deposits	-	-	-	-	-	-	944	944
Bonds issued by Realkredit Danmark	-	727	-	-	-	-	-	727
Deposits under pooled schemes and unit-linked investment contracts	-	106	-	-	-	-	-	106
Liabilities under insurance contracts***	-	315	-	-	-	-	-	315
Other issued bonds	-	-	9	-	-	-	384	393
Subordinated debt	-	-	1	-	-	-	37	38
Loan commitments and guarantees	-	-	-	-	-	-	1	1
Total financial liabilities, 2016	476	1,148	12	-	-	-	1,639	3,275
Total financial liabilities, 2015	468	1,077	16			-	1,527	3,088

* The interest rate risk on fixed-rate financial assets and liabilities is hedged by derivatives (fair value hedging). The interest rate risk on fixed-rate bonds available for sale is also hedged by derivatives.

** 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

(b) Significant accounting selections – financial instruments and insurance contracts

Loans and financial liabilities

Loans and non-derivative financial liabilities are generally measured at amortised cost. Loans granted under Danish mortgage finance law and the issued mortgage bonds funding these loans are measured using the fair value option, however.

Loans granted under Danish mortgage finance law are funded by issuing listed mortgage bonds with matching terms. Borrowers may repay such loans by delivering the underlying bonds. Such loans and bonds are granted and issued by the Realkredit Danmark subsidiary only.

The Group buys and sells own bonds issued by Realkredit Danmark on an ongoing basis because the bonds play an important role in the Danish money market. If the loans and bonds were measured at amortised cost, the purchase and sale of own mortgage bonds would create timing differences in the recognition of gains and losses.

Consequently, the Group measures loans and issued bonds at fair value in accordance with the fair value option offered by IAS 39 to ensure that neither gain nor loss will occur on the purchase of own bonds. The fair value of bonds issued by Realkredit Danmark is normally equal to their market value. 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 adjusted for changes in the fair value of the credit risk on borrowers. Changes in the fair value of issued bonds cause corresponding changes to be made to the fair value of the loans. Consequently, changes to the fair value of issued bonds, including as a result of changes to own credit risk, do not affect net profit or loss. Changes to the fair value of loans as a result of changes to the credit risk on borrowers are reflected in Loan impairment charges in the income statement.

Securities

Securities are generally measured at fair value through profit or loss and are classified as either trading portfolio assets or securities designated at fair value, using the fair value option. Certain bond portfolios are held for the purpose of generating a return until maturity and are recognised as hold-to-maturity financial assets. In 2016, the Group started to acquire bonds for an available-for-sale portfolio in Group Treasury.

Trading portfolio assets and liabilities

The trading portfolio includes financial assets acquired for sale in the near term. The trading portfolio also contains collectively managed financial assets for which a pattern of short-term profit taking exists. Trading portfolio liabilities consist of derivatives and obligations to repurchase securities. All derivatives, including bifurcated embedded derivatives and derivatives used for hedging, are measured at fair value and recognised under the trading portfolio.

Securities designated at fair value

Other financial assets designated at fair value include securities that are managed on a fair value basis with no short term profit taking. This category consists mainly of securities purchased as part of the investment of insurance customer funds and recognised in the balance sheet under Assets under insurance contracts as well as part of the liquidity portfolio managed by Group Treasury. Other securities portfolios managed on a fair value basis are recognised in the balance sheet under Investment securities.

For both trading portfolio assets and securities designated at fair value, realised and unrealised capital gains and losses and dividends are recognised in the income statement under Net trading income.

Hold-to-maturity financial assets

This category consists of bonds not managed on a fair value basis and held for the purpose of generating a return until maturity. The bonds are measured at amortised cost. The Group has increased its use of this category since 2013.

Available-for-sale financial assets

This category consists of bonds recognised at fair value with unrealised fair value adjustments recognised under Other comprehensive income, whereas impairment charges, if any, are recognised in the income statement. In 2016, Group Treasury started to use the available-for-sale category for some bond holdings. The available-for-sale category previously included only a portfolio of bonds reclassified from held-for-trading to available-for-sale in 2008.

Hedge accounting

The Group uses derivatives to hedge the interest rate risk on most fixed-rate assets and fixed-rate liabilities measured at amortised cost and on the available-for-sale portfolio reclassified in 2008. 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-2016, hedging derivatives measured at fair value accounted for about 0.3% of total assets and about 0.1% of total liabilities (31 December 2015: 0.1% and 0.5%, respectively).

Notes – Danske Bank Group

1. Basis of preparation continued

(b) Significant accounting selections – 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, the amount that cannot be recognised can no longer be recovered in subsequent periods through the use of the shadow account. The risk allowance included in the shadow account at 31 December 2015 may be recovered over the five years following 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

(c) 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:

For operating leases under which the Group acts as a lessor, the gains or losses on the sale of lease assets at the end of the lease agreement are presented on a net basis under Other income in the financial highlights to better reflect the development in the cost base. In the consolidated income statement, gains or losses on the sale of operating lease assets, excluding properties, are recognised on a gross basis (i.e. the revenue from the sale of the assets is recognised under Other income and the carrying amount of the lease assets is recognised under Expenses).

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

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

The Non-core segment includes certain customer segments that are no longer considered part of the Group's core business. The profit or loss is therefore presented as a separate line item in the financial highlights Profit before tax, Non-core, whereas the individual income and expense items are included in the various line items in 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

No new standards were applied during 2016. The Group applied the amendments to the standards effective in the EU at 1 January 2016. These amendments relate to IFRS 11, IAS 1, IAS 16, IAS 19, IAS 27 and IAS 38 and to various standards included in the annual improvements to the IFRS 2010-2012 cycle and 2012-2014 cycle. The application of these amendments had an insignificant effect on the financial statements.

Changes to the accounting policy for insurance liabilities

On 1 January 2016, the Group implemented the changes made by the Danish FSA to the Executive Order on Financial Reports for Insurance Companies etc. The objective of the changes was to harmonise the measurement of insurance liabilities in the financial statements with measurement under the Solvency II framework. A risk margin has been added to the insurance liabilities for all insurance contracts, and the value of customers' expected frequency of surrenders and conversions into paid-up policies is now explicitly included in the measurement of the liabilities. As a result, insurance liabilities have increased DKK 263 million, tax assets increased DKK 58 million and shareholders' equity decreased DKK 205 million at 1 January 2016. Comparative figures have not been restated, as this is impracticable due to the interaction with the contribution principle. The change in accounting policy did not have any further impact on insurance liabilities or net profit for 2016.

Changes to financial highlights and segment reporting

The presentation of the financial highlights and segment reporting has been changed to reflect the establishment of Wealth Management and Northern Ireland as separate business units and a change in the presentation of income from equity finance.

Wealth Management consists of Danica Pension, Danske Capital and Private Banking. However, assets allocated to Danica Pension's shareholders' equity, tier 2 capital issued by Danica Pension and the related amounts in the income statement are included in Group Treasury (Other activities) together with special allotments. Danica Pension and Danske Capital were previously presented as separate business units, whereas Private Banking was included in Personal Banking. As a result of the establishment of Wealth Management, Danica Pension's earnings are no longer recognised as net income from insurance business in the financial highlights. The risk allowance for the conventional life insurance business and other income from the unit-linked business are now presented under Fee income. Net trading income at Wealth Management consists of the return on assets related to the health and accident business, whereas the special allotments and the return on shareholders' investment in Danica Pension are recognised as net trading income in Group Treasury. The risk and guarantee result and net income from the health and accident business are recognised under Other income together with income from the recharge of certain operating expenses to customers, whereas all costs, except external investment costs, are included under Operating expenses.

Northern Ireland comprises the Group's business in Northern Ireland. These activities were previously included in Personal Banking, Business Banking and Other Activities (Group Treasury).

In the financial highlights, income from equity finance (part of Corporates & Institutions) is recognised as net fee income. This income was previously recognised as net trading income.

Comparative figures for 2015 have been restated to reflect the change to the presentation of the financial highlights. These changes do not affect the presentation of the IFRS income statement.

Notes – Danske Bank Group

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

The table below shows the effect on the highlights for 2015 of changes to the financial highlights and segment reporting

Income statement (DKK millions)	Highlights 2015	Presentation of Danica Pension	Equity Finance	Adjusted highlights 2015
Net interest income	21,476	-74	-	21,402
Net fee income	12,122	2,786	110	15,018
Net trading income	6,933	25	-110	6,848
Other income	1,778	565	-	2,343
Net income from insurance business	1,892	-1,892	-	-
Total income	44,201	1,410	-	45,611
Operating expenses	21,827	1,410	-	23,237
Goodwill impairment charges	4,601	-	-	4,601
Profit before loan impairment charges	17,773	-	-	17,773
Loan impairment charges	57	-	-	57
Profit before tax, core	17,716		-	17,716
Profit before tax, Non-core	46	-	-	46
Profit before tax	17,762	-	-	17,762
Tax	4,639	-	-	4,639
Net profit for the period	13,123	-	-	13,123

The impact in 2015 on each business unit from the establishment of Wealth Management and Northern Ireland as separate business units is shown in the table below. The Total column reflects the total impact on the financial highlights from these changes and relates to the changed presentation of Danica Pension shown in the table above.

(DKK millions)	Personal Banking	Business Banking	Wealth Management	Northern Ireland	Other Activities	Danske Capital	Danica Pension	Total
Net interest income	-1,507	-782	620	1,620	-32	7	-	-74
Net fee income	-1,614	-245	6,977	487	-137	-2,682	-	2,786
Net trading income	-207	-59	316	118	-157	14	-	25
Other income	-1	-13	564	14	3	2	-	565
Net income from insurance business	-	-	-	-	-	-	-1,892	-1,892
Total income	-3,329	-1,099	8,477	2,239	-323	-2,663	-1,892	1,410
Operating expenses	-1,945	-507	3,702	1,369	-195	-1,014	-	1,410
Goodwill impairment charges	-150	-	-	150	-	-	-	-
Profit before loan impairment charges	-1,234	-592	4,775	720	-128	-1,649	-1,892	-
Loan impairment charges	58	534	-29	-561	-2	-	-	-
Profit before tax, core	-1,292	-1,126	4,804	1,281	-126	-1,649	-1,892	-
Profit before tax, non-core	-	-	-	-	-	-	-	-
Profit before tax	-1,292	-1,126	4,804	1,281	-126	-1,649	-1,892	-
Tax	-	-	-	-	-	-	-	-
Net profit for the period	-1,292	-1,126	4,804	1,281	-126	-1,649	-1,892	-

Notes – Danske Bank Group

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

(b) Standards and interpretations not yet in force

The IASB has issued a number of new IFRSs and amendments to IFRSs that have not yet come into force. Similarly, the IFRIC has issued a new interpretation 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 to IFRS not described below, no significant impact is expected.

IFRS 9, Financial Instruments

In July 2014, the IASB issued IFRS 9 Financial Instruments that will replace IAS 39. The standard provides principles for classification and measurement of financial instruments, provisioning for expected credit losses and the new general hedge accounting model. The general hedge accounting model will later be supplemented by a new macro hedge accounting model, which the IASB is working on.

IFRS 9 will be effective from 1 January 2018, at which date the Group will adopt the standard.

Classification and measurement

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 any embedded derivatives (unlike IAS 39, IFRS 9 no longer requires bifurcation). Assets held with the objective of collecting contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are measured at amortised cost. Assets held with the objective of both collecting contractual cash flows and selling and at the same time having contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are measured at fair value through Other comprehensive income. Fair value through Other comprehensive income results in the assets being recognised at fair value in the balance sheet and at amortised cost in the income statement. All other financial assets are measured at fair value through profit or loss. As in IAS 39, IFRS 9 includes an option to designate at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases. Further, IFRS 9 includes an option to irrevocably elect to present fair value changes on equity instruments that are not held for trading under Other comprehensive income. Such fair value changes will not subsequently be reclassified to the income statement. Dividends from such investments are recognised in the income statement if they do not represent recovery of part of the investment.

The principles applicable to financial liabilities are largely unchanged from IAS 39. Generally, financial liabilities are still measured at amortised cost 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 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, however, recognised under Other comprehensive income unless this leads to an accounting mismatch.

Provisioning for expected credit losses

Provisioning for expected credit losses applies to financial assets recognised at amortised cost or at fair value through Other comprehensive income, lease receivables and certain loan commitments and financial guarantee contracts. For financial assets recognised at fair value through Other comprehensive income, the provisions for expected credit losses recognised in the income statement are set off against Other comprehensive income, as such assets are recognised at fair value on the balance sheet. The provision 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 provision equals the expected credit losses resulting from default events that are possible within the next 12 months and the financial assets are considered to be at 'stage 1'. If the credit risk has increased significantly, the financial assets are transferred to 'stage 2' and a provision equal to the lifetime expected credit losses is recognised. If a financial asset is in default or otherwise impaired, it is transferred to 'stage 3'.

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 instrument rather than by considering the increase in expected credit losses.

The assessment of the expected credit losses must be unbiased and probability-weighted and must incorporate all available information, including information about past events, current conditions and forward looking information. Under IAS 39, only incurred credit losses are recognised.

Hedge accounting

The general hedge accounting model does not fundamentally change the types of hedging relationships or the requirements to recognise ineffectiveness through profit or loss. IFRS 9 includes an option to continue to use the IAS 39 principles for hedge accounting until the IASB has finalised its project on the new macro hedge accounting.

Impact on the Group's financial statements

The Group is currently assessing the impact of IFRS 9 on the Group's financial statements. IFRS 9 will be implemented on 1 January 2018. Comparative information will not be restated.

At Danske Bank Group, the IFRS 9 project is driven centrally by the parent company Danske Bank A/S. The project is organised around different working groups covering the different aspects of IFRS 9 (Classification and Measurement, Impairment and Hedge accounting). Joint working groups, which all operate under the same steering committee with members from Finance, Risk and Credit and from the significant legal entities in the Group, have been set up.

Notes – Danske Bank Group

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

(b) Standards and interpretations not yet in force continued

The implementation of the principles for classification and measurement of IFRS 9 is not expected to lead to significant reclassifications between fair value and amortised cost. The allowance account will increase when provisions for expected credit losses are to be recognised since provisions will be made for at least 12 months' expected credit losses and the population of financial assets for which provisions are made for life time-expected credit losses will increase. Currently, provisions are made only for incurred losses. The Group expects to continue to apply the hedge accounting under IAS 39 (until the IASB's macro hedge accounting project is finalised), but no firm decision has yet been taken.

IFRS 9 introduces several new concepts etc., especially on the provisioning for expected credit losses. While the Group is leveraging models from the IRB framework, these concepts require interpretation and internal model development to be undertaken to make the necessary adjustments to convert the IRB parameters (PD, EAD and LGD) to be consistent with the requirements of IFRS 9. For the inclusion of forward-looking information, the Group will leverage the macroeconomic forecasts provided by the FICC research unit. The Danish FSA is in the process of issuing guidelines that are expected to be finalised during 2017. These guidelines may influence the Group's final choice of definitions to be applied. During 2015, the Group started to analyse the changes that will have to be implemented to the Group's modelling framework and IT systems to handle the provisioning for expected credit losses. The design of and changes to the Group's modelling framework and IT systems started in the first quarter of 2016 and will continue in 2017. The first version of the expected credit loss provisioning model is set to be finalised in the first quarter of 2017, and a parallel run will be undertaken during the remainder of 2017 to identify issues for refinement in the model during the rest of 2017. It is not yet possible to give a reliable estimate of the quantitative impact from the implementation of IFRS 9.

IFRS 15, Revenue from Contracts with Customers
In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. IFRS 15 replaces IAS 18, Revenue, and other existing IFRSs on revenue recognition. Under IFRS 15, revenue is recognised when the performance obligations inherent in the contract with a customer are satisfied. The new standard also includes additional disclosure requirements.

IFRS 15 will be effective from 1 January 2018. Danske Bank is assessing the potential impact of the new standard on revenue recognition in the Group and the financial statements. The implementation of IFRS 15 is not expected to have any significant impact on the financial statements.

IFRS 16, Leases
In January 2016, the IASB issued IFRS 16, Leases. IFRS 16 that replaces IAS 17, Leases, will only imply 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 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, which has yet to be adopted by the EU, will be effective from 1 January 2019. It is not yet possible to give an estimate of the effect on the financial statements of the changes to the accounting treatment when the Group acts as lessee.

Notes – Danske Bank Group

3 Business model and business segmentation

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

The Group consists of a number of business units and support functions. The business units are segmented according to customers, products and services characteristics. From 2016, the Group has five business units, a Non-core unit and Other Activities, and these constitute the Group's reportable segments under IFRS 8.

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

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

Corporates & Institutions serves large Nordic corporate and institutional customers in the Nordic countries and beyond. This wholesale division of the bank provides strategic advice, financial solutions and products within Capital Markets, Fixed Income, Currencies and Commodities, and Transaction Banking. Each customer of Corporates & Institutions is served by a key relationship manager supported by Corporates & Institutions' product specialists to ensure proactive advice on the various wholesale banking services offered.

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

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

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

Other Activities encompasses Group Treasury, Group support functions and eliminations, including the elimination of returns on own shares. 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 relative share of the risks with goodwill allocated directly to the relevant business segments and capital allocated to the insurance business in accordance with regulatory requirements for insurance business.

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.

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. For further information on the differences between the presentation in the financial highlights and segment reporting and the presentation in the IFRS financial statements, see note 1(c). The reconciliation between the two different presentations is shown in the 'Reclassification' column in the tables below.

Notes – Danske Bank Group

3. Business model and business segmentation continued

Business segments 2016

(DKK millions)	Personal Banking	Business Banking	C&I	Wealth Man	Northern Ireland	Non core	Other Activities	Elimina tions	Financial highlights	Reclassifi cation	IFRS financial statements
Net interest income	7 660	8 427	3 061	675	1 458	-	715	32	22 028	10 301	32,329
Net fee income	3 306	1 629	2 221	6,732	471	-	-171	-3	14 183	-4 037	10,146
Net trading income	562	568	5,263	591	126	-	1 705	-207	8,607	4 789	13,396
Other income	613	588	16	574	18	-	1 456	-125	3,140	3,807	6,947
Net premiums	-	-	-	-	-	-	-	-	-	24 686	24 686
Net insurance benefits	-	-	-	-	-	-	-	-	-	37 669	37,669
Total income	12 141	11,212	10 561	8,572	2,072	-	3,704	-303	47,959	1,877	49,836
Operating expenses	7 654	4 791	4 648	3 887	1 243	-	587	-168	22 642	2,005	24,647
Goodwill impairment charges	-	-	-	-	-	-	-	-	-	-	-
Profit before loan impairment charges	4 486	6 421	5 913	4 685	829	-	3 117	-135	25 317	-128	25,189
Loan impairment charges	-477	-235	1 071	-137	-234	-	9	-	-3	-165	-168
Profit before tax, core	4 963	6,657	4 842	4 823	1 063	-	3 108	-135	25 320	37	25,357
Profit before tax, Non-core	-	-	-	-	-	37	-	-	37	-37	-
Profit before tax	4,963	6,657	4 842	4 823	1 063	37	3 108	-135	25,357	-	**25,357**
Loans, excluding reverse transactions	736 518	649,134	194 746	71,941	44 313	-	21 990	-29,487	1 689 155	18 860	1,708,015
Other assets	182 268	162 950	3 548 126	455,954	27 096	-	2 613 457	-5,214 374	1,775 476	179	1,775,655
Total assets in Non-core	-	-	-	-	-	19,039	-	-	19,039	-19,039	-
Total assets	918,786	812,084	3,742 872	527,895	71,408		2,654,486	5,243,861	3,483,670	-	**3,483,670**
Deposits, excluding repo deposits	267 067	230 096	233 315	62 881	59 244	-	16 622	-9,790	859 435	2,365	861,801
Other liabilities	627 784	540 277	3,471 808	451 603	6,416		2 605 329	-5 234,071	2 469 146	451	2,469,597
Allocated capital	23 934	41,711	37,749	13 411	5 748	-	29 718	-	152 272	-	152,272
Total liabilities in Non-core	-	-	-	-		2,816	-	-	2,816	-2 816	-
Total liabilities and equity	918 786	812,084	3 742,872	527,895	71 408		2,654 486	5,243,861	3,483,670	-	**3,483,670**
Profit before tax as % of allocated capital (avg.)	21 8	16 1	12 7	34 3	14 5	-	11 4	-	16 8	-	16 8
Cost/income ratio (%)	63 0	42 7	44 0	45 3	60 0	-	15 8	-	47 2	-	49 5
Full-time equivalent staff, end of period	4,623	2 662	1 796	1 948	1 289	153	6 831	-	19 303	-	19 303

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 (c).

From 2016, the capital allocation between business units is based on the Group's new, simplified and more transparent capital allocation framework. The new framework is based on a regulatory approach and is calibrated to the Group's CET 1 capital ratio target. Therefore, the capital consumption of the individual business units is closely aligned with the Group's total capital consumption. For the new Northern Ireland business unit, the capital allocated equals the legal entity's capital.

Notes – Danske Bank Group

3. Business model and business segmentation continued

Business segments 2015

(DKK millions)	Personal Banking	Business Banking	C&I	Wealth Man	Northern Ireland	Non core	Other Activities	Elimina-tions	Financial highlights	Reclassifi-cation	IFRS financial statements
Net interest income	7,909	8,309	2,660	620	1,620	-	249	35	21,402	11,931	33,333
Net fee income	3,494	1,864	2,408	6,977	487	-	-208	-4	15,018	-4,339	10,679
Net trading income	517	606	4,799	316	118	-	726	-234	6,848	60	6,908
Other income	609	581	7	564	14	-	706	-138	2,343	2,932	5,275
Net premiums	-	-	-	-	-	-	-	-	-	21,359	21,359
Net insurance benefits	-	-	-	-	-	-	-	-	-	30,468	30,468
Total income	12,529	11,360	9,873	8,477	2,239	-	1,475	-343	45,611	1,475	47,086
Operating expenses	8,444	4,704	4,412	3,702	1,369	-	795	-189	23,237	1,548	24,785
Goodwill impairment charges	3,155	1,296	-	-	150	-	-	-	4,601	-	4,601
Profit before loan impairment charges	930	5,360	5,461	4,775	720	-	680	-154	17,773	-73	17,701
Loan impairment charges	390	191	65	-29	-561		1		57	-118	-61
Profit before tax, core	540	5,169	5,396	4,804	1,281	-	679	-154	17,716	46	17,762
Profit before tax, Non-core	-	-	-	-	-	46	-	-	46	-46	-
Profit before tax	540	5,169	5,396	4,804	1,281	46	679	-154	17,762		17,762
Loans, excluding reverse transactions	714,521	615,153	170,021	67,795	49,436	-	22,797	-30,339	1,609,384	23,844	1,633,228
Other assets	161,286	154,517	3,031,282	487,540	29,495	-	1,967,442	-4,175,713	1,655,849	3,801	1,659,650
Total assets in Non-core	-	-	-	-	-	27,645	-	-	27,645	-27,645	-
Total assets	875,807	769,670	3,201,303	555,335	78,931		2,017,884	-4,206,052	3,292,878		3,292,878
Deposits, excluding repo deposits	256,394	225,964	213,532	52,912	63,601	-	14,240	-9,881	816,762	3,735	820,497
Other liabilities	601,269	511,470	2,954,104	485,731	6,888	-	1,957,792	-4,196,171	2,321,083	1,785	2,322,868
Allocated capital	18,144	32,236	33,667	16,692	8,442	-	40,332	-	149,513	-	149,513
Total liabilities in Non-core	-	-	-	-	-	5,520	-	-	5,520	-5,520	-
Total liabilities and equity	875,807	769,670	3,201,303	555,335	78,931		2,017,884	-4,206,052	3,292,878		3,292,878
Profit before tax as % of allocated capital (avg.)	2.5	15.1	14.8	30.9	15.7	-	2.8	-	12.1	-	12.1
Cost/income ratio before goodwill impairment charges (%)	67.4	41.4	44.7	43.7	61.1	-	53.9	-	50.9	-	52.6
Full-time-equivalent staff, end of period	5,120	2,761	1,832	1,952	1,287	277	5,820	-	19,049	-	19,049

The comparative figures for 2015 have been restated to reflect the establishment of Wealth Management and Northern Ireland as separate business units and the change in the presentation of income from equity finance, see further in note 2(a).

Notes – Danske Bank Group

3. Business model and business segmentation continued

Personal Banking by country, 2016
(DKK millions)

	Denmark	Finland	Sweden	Norway	Other*	Total
Net interest income	5 193	831	713	938	-15	7,660
Net fee income	2 163	837	194	115	-4	3,306
Net trading income	502	16	12	32	-	562
Other income	139	47	-	403	24	613
Total income	7,996	1 732	919	1 488	6	12,141
Operating expenses	4 473	1,175	592	1 068	346	7,654
Goodwill impairment charges	-	-	-	-	-	-
Profit before loan impairment charges	3 523	557	327	420	-340	4,486
Loan impairment charges	-526	71	-1	-20	-	-477
Profit before tax	4 050	486	328	440	-340	4,963
Loans, excluding reverse transactions	474 227	89 567	74 439	98 286	-	736,518
Deposits, excluding repo deposits	178 082	45 016	23 363	20 607	-	267,067
Net interest income as % p.a. of loans and deposits	0.80	0.62	0.73	0.79	-	0.76
Cost/income ratio (%)	55.9	67.8	64.4	71.8	-	63.0

Personal Banking by country, 2015
(DKK millions)

	Denmark	Finland	Sweden	Norway	Other*	Total
Net interest income	5 464	857	589	1,065	65	7,909
Net fee income	2 339	800	238	117	-1	3,494
Net trading income	485	37	16	-21	-	517
Other income	145	50	-	414	-	609
Total income	8 431	1,744	843	1 576	-66	12,529
Operating expenses	4 992	1 227	610	1 101	515	8,444
Goodwill impairment charges	-	3 155	-	-	-	3,155
Profit before loan impairment charges	3 440	-2,639	233	475	-581	930
Loan impairment charges	349	42	8	-10	-	390
Profit before tax	3,091	-2,681	225	485	-581	540
Loans, excluding reverse transactions	472,033	90,635	68,956	82,897	-	714,521
Deposits, excluding repo deposits	170,214	43,911	22,898	19,371	-	256,394
Net interest income as % p.a. of loans and deposits	0.85	0.64	0.64	1.04	-	0.81
Cost/income ratio before goodwill impairment charges (%)	59.2	70.4	72.4	69.9	-	67.4

*Other includes staff functions and other non country specific costs.

Notes – Danske Bank Group

3 Business model and business segmentation continued

Business Banking by country, 2016

(DKK millions)	Denmark	Finland	Sweden	Norway	Baltics	Other*	Total
Net interest income	4 354	792	1 840	1 207	257	-22	8,427
Net fee income	633	408	307	199	83	-1	1,629
Net trading income	346	35	95	65	27	-	568
Other income	512	28	9	38	1	-	588
Total income	5,845	1 263	2 251	1,508	368	-23	11,212
Operating expenses	2 409	682	892	554	233	20	4 791
Goodwill impairment charges	-	-	-	-	-	-	-
Profit before loan impairment charges	3 436	581	1 359	954	135	-43	6,421
Loan impairment charges	286	62	21	118	-26	-	-235
Profit before tax	3 722	643	1,338	836	160	-43	6,657
Loans, excluding reverse transactions	387,831	54 382	127 393	65,354	14 174	-	649,134
Deposits, excluding repo deposits	93,280	35 919	42 980	44,397	13,520	-	230,096
Net interest income as % p.a. of loans and deposits	0.90	0.86	1.08	1.10	0.93	-	0.96
Cost/income ratio (%)	41.2	54.0	39.6	36.7	63.4	-	42.7

Business Banking by country, 2015

(DKK millions)	Denmark	Finland	Sweden	Norway	Baltics	Other*	Total
Net interest income	4 708	789	1 683	962	292	-125	8,309
Net fee income	784	435	336	199	111	-1	1,864
Net trading income	336	187	111	68	48	-144	606
Other income	502	-119	13	40	1	144	581
Total income	6 330	1 292	2 143	1 269	452	-126	11,360
Operating expenses	2 201	679	866	555	268	135	4,704
Goodwill impairment charges	-	1 296	-	-	-	-	1,296
Profit before loan impairment charges	4 129	-683	1 277	714	184	-262	5,360
Loan impairment charges	-300	135	112	292	-49	1	191
Profit before tax	4 429	-818	1,165	422	233	-263	5,169
Loans, excluding reverse transactions	371 489	50,820	122 230	58,588	12 026	-	615,153
Deposits, excluding repo deposits	84,569	44,434	42,298	39,567	15,096	-	225,964
Net interest income as % p.a. of loans and deposits	1.03	0.83	1.02	0.98	1.08	-	0.99
Cost/income ratio before goodwill impairment charges (%)	34.8	52.6	40.4	43.7	59.3	-	41.4

*Other includes staff functions and other non-country specific costs

Notes – Danske Bank Group

3. Business model and business segmentation continued

(b) Total income broken down by type of product (DKK millions)

	2016	2015
Business banking	12,030	12,295
Home finance and savings	10,836	11,433
Trading	8,010	7,366
Day-to-day banking	4,145	4,314
Asset management	6,512	6,168
Leasing	3,380	2,804
Life conventional	1,175	1,440
Other	3,748	1,267
Total	49,836	47,087

Business banking comprises interest and fee income from transactions with business customers. 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 income from personal 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 contracts at Danica. Leasing encompasses income from both finance and operating leases sold by the Group's leasing operations. 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 IFRS8 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)

	2016	2015
Denmark	28,023	26,094
Finland	4,650	4,681
Sweden	7,159	6,392
Norway	5,569	5,127
Ireland	600	572
UK	2,547	2,831
Other	1,288	1,390
Total	49,836	47,087

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. For 2015, the goodwill impairment charge of DKK 4.1 billion was included in profit before tax in Denmark.

2016	Income* (DKK millions)	Full-time-equivalent staff	Profit before tax (DKK millions)	Tax on profit (DKK millions)
Denmark	55,612	9,767	15,866	-3,437
Finland	5,699	1,877	1,790	-338
Sweden	5,104	1,368	4,332	-899
Norway	7,134	1,426	1,629	-389
United Kingdom	2,828	1,389	1,304	-419
Ireland	472	59	254	94
Estonia	286	347	120	-4
Latvia	74	74	-72	8
Lithuania	159	1,931	-311	1
Luxembourg	739	93	113	-33
Russia	178	54	67	-13
Germany	166	31	128	39
Poland	94	40	57	-11
USA	403	23	43	-14
India	1	824	38	-7
Total	78,949	19,303	25,357	-5,500

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

2015	Income* (DKK millions)	Full-time-equivalent staff	Profit before tax (DKK millions)	Tax on profit (DKK millions)
Denmark	55,259	10,098	11,868	-2,508
Finland	6,226	2,021	-2,801	-199
Sweden	6,180	1,327	3,521	-731
Norway	7,522	1,379	2,138	-600
United Kingdom	2,826	1,384	1,553	-321
Ireland	528	56	930	37
Estonia	352	406	126	-226
Latvia	74	80	25	3
Lithuania	212	1,423	85	-18
Luxembourg	705	92	164	48
Russia	144	47	49	-10
Germany	198	34	33	-5
Poland	93	41	49	-11
USA	189	24	23	5
India	-	637	-	-8
Total	80,507	19,049	17,762	4,639

*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 35 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, wealth management and leasing.
Activities in Latvia include: Banking.
Activities in Lithuania include: Banking, wealth management, 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.

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 or fair value.

Accounting policy

Interest income and expenses

Interest income and expenses arising from interest-bearing financial instruments measured at amortised cost are recognised according to the effective interest rate 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 cost and redemption price, if any. Interest on loans subject to individual impairment 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 13 provides more information on hedge accounting.

Interest income and expenses arising from financial instruments measured at fair value also include origination fees on those instruments, except interest on assets and deposits under pooled schemes and unit-linked investment contracts which is recognised under Net trading income.

Net trading income

Net trading income includes realised and unrealised capital gains and losses on trading portfolio assets and other securities recognised at fair value as well as exchange rate adjustments and dividends. Further, the fair value adjustments of loans at fair value and bonds issued by Realkredit Danmark are recognised under net trading income except for the fair value adjustments of the credit risk on loans that are recognised under Loan impairment charges. Moreover, the item 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

2016 (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	399	797	-397	19	-378
Repo and reverse transactions	971	-435	-536	-	-536
Loans and deposits	21 306	1 678	19 628	155	19 783
Hold-to-maturity investments	1 829	-	1 829	-	1 829
Other issued bonds	-	4 488	-4 488	1 809	-2 679
Subordinated debt	-	1 505	-1 505	723	-782
Other financial instruments	277	3 332	-3 055	29	-3 026
Total	22 839	11 364	11 475	2 735	14 210
Financial portfolios at fair value					
Loans at fair value and bonds issued by Realkredit Danmark	18 499	12 426	6 073	-	6 073
Trading portfolio	6 880	-	6 880	1 934	8 813
Investment securities	4 007	-	4 007	-1 388	2 620
Assets and deposits under pooled schemes and unit-linked investment contracts	-	-	-	-147	-147
Assets and liabilities under insurance contracts	3 895	-	3 895	10 262	14 157
Total	33 280	12 426	20 854	10 661	31 515
Total net interest and net trading income	56 120	23 791	32 329	13 396	45 725

2015 (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	121	706	-827	-8	-835
Repo and reverse transactions	503	-392	-116	-	-116
Loans and deposits	22 183	2 592	19 591	-500	19 091
Hold-to-maturity investments	1 745	-	1 745	-	1 745
Other issued bonds	-	6 078	-6 078	3 192	-2 886
Subordinated debt	-	1 714	-1 714	526	-1 188
Other financial instruments	301	1 395	-1 094	-	-1 094
Total	23 600	12 093	11 507	3 210	14 717
Financial portfolios at fair value					
Loans at fair value and bonds issued by Realkredit Danmark	20 653	14 240	6 413	-	6 413
Trading portfolio	6 590	-	6 590	-3 246	3 344
Investment securities	5 333	-	5 333	-3 107	2 226
Assets and deposits under pooled schemes and unit-linked investment contracts	-	-	-	-146	-146
Assets and liabilities under insurance contracts	3 490	-	3 490	10 196	13 686
Total	36 066	14 240	21 826	3 697	25 523
Total net interest and net trading income	59 666	26 333	33 333	6 908	40 240

In 2016 and 2015, negative interest income and expenses relate primarily to repo transactions. For 2016, negative interest income amounted to DKK 1,845 million (of which DKK 1,513 million relates to repo transactions) and negative interest expenses to DKK 1,653 million (of which DKK 1,209 million relates to repo transactions). For 2015, negative interest income amounted to DKK 774 (of which DKK 509 million relates to repo transactions) and negative interest expenses to DKK 443 million (of which DKK 392 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 2,401 million (2015: DKK 3,124 million) and foreign exchange adjustments of DKK 1,710 million (2015: DKK 1,487 million).

Net trading income from insurance contracts includes the return on assets of DKK 15,239 million (2015: DKK 8,498 million), adjustment of additional provisions of DKK -2,100 million (2015: DKK 3,942 million), adjustment of the collective bonus potential of DKK -588 million (2015: DKK -1,627 million) and tax on pension returns of DKK -2,289 million (2015: DKK -617 million).

Interest on financial assets subject to individual impairment is recognised on the basis of the impaired value and amounted to DKK 1,053 million (2015: DKK 1,291 million).

6. Fee income and expenses

Fee income and expenses are broken down into fees generated by activities and fees generated by portfolios. Fees generated by activities comprises fees for the execution of one-off transactions. Fees generated by portfolios comprises recurring fees from the product portfolio.

Accounting policy

Income from and expenses 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 loans and deposits recognised at amortised cost, such as origination fees, are carried under Interest income and Interest expenses. However, similar fees related to Loans at fair value are recognised when the loan is established and are carried under Fee income.

(a) Fee income (DKK millions)	2016	2015
Financing (loans and guarantees)	1,801	2,363
Investment (securities trading and advisory services)	2,411	2,551
Services (insurance and foreign exchange trading)	528	65
Fees generated by activities	**4,740**	**4,979**
Financing (guarantees)	643	659
Investment (asset management and custody services)	7,012	6,280
Services (payment services and cards)	3,488	3,648
Fees generated by portfolios	**11,143**	**10,587**
Total	**15,883**	**15,566**

(b) Fee expenses (DKK millions)	2016	2015
Financing (property valuation)	210	243
Investment (securities trading and advisory services)	701	833
Services (referrals)	62	68
Fees generated by activities	**973**	**1,144**
Financing (guarantees)	21	15
Investment (asset management and custody services)	2,283	1,364
Services (payment services and cards)	2,459	2,364
Fees generated by portfolios	**4,763**	**3,743**
Total	**5,736**	**4,887**

Fees for financial instruments not recognised at fair value, such as loans and issued bonds, are recognised as financing fee income or expenses. Such income amounted to DKK 1,979 million (2015: DKK 2,520 million), whereas expenses amounted to DKK 21 million (2015: DKK 15 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 22.

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 and notes 22 and 36 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

Income from holdings in associates includes a realised gain in 2016 of DKK 0.4 billion on the sale of the holding in Danmarks Skibskredit A/S. 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)	2016	2015
Income from lease assets and investment property	3,481	2,876
Income from real-estate brokerage	574	587
Other income	1,951	1,321
Total	6,006	4,784

Other income of DKK 2.0 billion includes a gain of DKK 1.1 billion on the sale of domicile properties (2015: DKK 0.3 billion).

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 bonus (discretionary participation features). The deposit component of insurance contracts is not unbundled but recognised together with the insurance component. Hence, 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 attribution 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)	2016	2015
Regular premiums, life insurance	1,871	1,382
Single premiums, life insurance	1,203	232
Regular premiums, unit-linked products	9,596	8,962
Single premiums, unit-linked products	10,692	9,611
Premiums, health and accident insurance	1,387	1,266
Reinsurance premiums paid	-117	-108
Change in unearned premiums provisions	54	14
Total	24,686	21,359

(b) Net insurance benefits (DKK millions)	2016	2015
Benefits paid	21,000	24,691
Reinsurers' share received	-119	-114
Claims and bonuses paid	1,570	1,483
Change in outstanding claims provisions	-53	-35
Change in life insurance provisions	14,876	4,443
Change in profit margin	395	-
Total	37,669	30,468

(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 contains DKK 14,157 million relating to insurance contracts (2015: DKK 13,689 million). DKK 1,459 million (2015: DKK 2,294 million) relate to net interest income on deposits and own issued bonds and fair value adjustments that are eliminated in the consolidated financial statements.

On 1 January 2016, the Group implemented the amendments made by the Danish FSA to the Executive Order on Financial Reports for Insurance Companies etc. to harmonise the measurement of insurance liabilities with the measurement under Solvency II (see notes 2(a) and 17). The discount yield curve set out in the executive order was changed and now reflects a risk-free discount yield curve and a volatility adjustment, both published by EIOPA. The discount yield curve was previously fixed on the basis of a zero-coupon yield curve on the basis of euro swap market rates to which a spread between Danish and German government bonds and a mortgage yield curve spread was added. As required by applicable accounting standards and in line with previous changes to the discount yield curve, the change of the discount yield curve is treated as a change in accounting estimates and resulted in a reduction of insurance liabilities of DKK 0.1 billion. The reduction is included in the income statement under Net insurance benefits.

Notes – Danske Bank Group

9. Operating expenses

Operating expenses includes staff costs, administrative expenses, depreciation, amortisation and impairment charges on tangible and intangible assets. However the impairment charge on goodwill and customer relations of DKK 4,601 million recognised in the fourth quarter of 2015 is presented as a separate line item in the income statement. Note 18 provides more information about the impairment on goodwill and customer relations.

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. Until 2008, part of the performance-based remuneration was paid in equity-settled options. The share options could be exercised within three to seven years after the grant date and were conditional on the employee's not having resigned. By the end of 2015, no share options were outstanding. 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. Subsequent fair value adjustments 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)	2016	2015
Staff costs	13,769	13,938
Administrative expenses	7,909	8,177
Amortisation/depreciation of intangible and tangible assets	2,969	2,782
Impairment charges for intangible and tangible assets before goodwill impairment charges	-	-112
Total	24,647	24,785

Staff costs	2016	2015
Salaries	10,305	10,217
Share-based payments	171	195
Pension, defined contribution plans	1,215	1,218
Pension, defined benefit plans	137	198
Severance payments	282	589
Financial services employer tax and social security costs	1,659	1,520
Total	13,769	13,938

Remuneration Report 2016, which will be available no later than 9 March 2017 at danskebank.com/remuneration, provides a detailed description of remuneration paid.

Total salary costs amounted to DKK 12.1 billion (2015: DKK 12.4 billion), with variable remuneration accounting for 7.0% of this amount (2015: 6.3%). Note 33 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 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 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 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 2016, the net present value of pension obligations was DKK 18,246 million (31 December 2015: DKK 16,934 million), and the fair value of plan assets was DKK 18,791 million (31 December 2015: DKK 19,040 million). The present value of obligations under defined benefit 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 1,350 million (2015: DKK 2,336 million) and pension plan net liabilities amounted to DKK 805 million (2015: DKK 229). During 2016, part of the pension risk was transferred to Danica Pension in the form of a qualifying annuity covering pension liabilities of DKK 804 million. The annuity represents a plan asset and is eliminated in the financial statements of Danske Bank Group. The Group recognises the service cost and interest on the net defined benefit 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 1.8 billion (2015: DKK 1.5 billion). The amount would be recognised under Other comprehensive income.

Notes – Danske Bank Group

10. Audit fees

Audit fees (DKK millions)	2016	2015
Audit firms appointed by the general meeting		
Fees for statutory audit of the consolidated and parent company financial statements	17	16
Fees for other assurance engagements	6	4
Fees for tax advisory services	-	1
Fees for other services	15	14
Total	38	35

11. Loan impairment charges

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

The item also includes impairment charges and realised gains and losses on tangible assets and group undertakings taken over by the Group under non-performing loan agreements if the assets qualify as held-for-sale assets. Similarly, subsequent value adjustments of assets that the Group has taken over and does not expect to sell within 12 months are recognised under Loan impairment charges, provided that the Group has a right of recourse against the borrower.

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 14, 15 and 22 provide more information.

Loan impairment charges (DKK millions)	2016	2015
Due from credit institutions and central banks	182	-13
Loans at amortised cost	-318	-435
Loans at fair value	13	432
Loan commitments and guarantees etc.	-45	-47
Total	-168	-61

(DKK millions)	2016	2015
New and increased impairment charges	6,783	7,601
Reversals of impairment charges	6,269	7,224
Write-offs charged directly to income statement	892	835
Received on claims previously written off	1,378	980
Interest income, effective interest method	-196	-294
Total	-168	-61

Notes – Danske Bank Group

12 Trading portfolio assets and liabilities

Trading portfolio assets comprises the equities and bonds held by the Group's trading departments 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 fair value hedge accounting when the criteria in IAS 39 are fulfilled. The derivatives used as hedging instruments are presented in the balance sheet together with other derivatives.

(a) Trading portfolio assets (DKK millions)	2016	2015
Derivatives with positive fair value	326.433	331 015
Listed bonds	161.698	193.421
Unlisted bonds	182	1.776
Listed shares	20.934	19.955
Unlisted shares	432	852
Total	509.878	547.019

(b) Trading portfolio liabilities (DKK millions)	2016	2015
Derivatives with negative fair value	328.080	320.270
Obligations to repurchase securities	150.221	150.861
Total	478.301	471.131

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

Furthermore, 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 bank loans, deposits, issued bonds, etc. carry fixed rates. Generally, such fixed-rate items are recognised at amortised cost. Further, the Group classifies certain bonds as 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 available for sale is hedged by derivatives.

Derivatives	2016			2015		
(DKK millions)	Notional amount	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value
Currency contracts						
Forwards and swaps	6,565,673	105,878	124,587	6,253,003	95,703	108,353
Options	192,096	1,132	1,083	118,115	732	629
Interest rate contracts						
Forwards/swaps/FRAs	10,585,473	164,474	159,944	11,620,672	175,946	168,885
Options	2,121,485	35,164	32,344	2,085,985	33,336	29,845
Equity contracts						
Forwards	131,551	864	798	126,037	1,295	1,476
Options	171,465	4,390	4,752	177,889	3,769	3,980
Other contracts						
Commodity contracts	41,075	2,106	2,057	23,896	3,211	3,230
Credit derivatives bought	20,832	133	752	20,948	195	584
Credit derivatives sold	10,605	518	117	9,087	239	152
Total derivatives held for trading purposes		**314,659**	**326,433**		314,425	317,134
Hedging derivatives						
Currency contracts	98,460	453	56	72,589	390	63
Interest rate contracts	494,432	11,320	1,590	441,698	16,198	3,074
Total derivatives		**326,433**	**328,080**		331,013	320,270

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 interest rate risk on bonds classified as hold-to-maturity and some fixed-rate loans extended by the Group is designated as a hedge of the interest rate risk on liabilities. The remaining interest rate risk on fixed rate assets and liabilities is generally hedged by derivatives.

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 divided into basic interest and a profit 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.

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 carried 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.

At the end of 2016, the carrying amounts of effectively hedged fixed-rate financial assets and liabilities were DKK 57,131 million (31 December 2015: DKK 60,744 million) and DKK 495,970 million (31 December 2015: DKK 428,900 million), respectively. The table below shows the value adjustments of these assets and liabilities and the hedging derivatives. The value adjustments have been recognised in the income statement under Net trading income.

Effect of interest rate hedging on profit (DKK millions)	2016	2015
Effect of fixed-rate asset hedging on profit:		
Hedged amounts due from credit institutions	-11	2
Hedged loans	115	-529
Hedged bonds available for sale	8	-23
Hedging derivatives	-107	556
Total	5	6
Effect of fixed-rate liability hedging on profit:		
Hedged amounts due to credit institutions	30	-10
Hedged deposits	40	29
Hedged issued bonds	1,809	3,192
Hedged subordinated debt	723	526
Hedging derivatives	-2,604	-3,735
Total	-1	2

Hedge of foreign exchange risk of net investments in foreign entities

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 2016, the carrying amount of financing arrangements in foreign currency used to hedge net investments in units outside Denmark amounted to DKK 38,404 million (31 December 2015: DKK 40,344 million).

Notes – Danske Bank Group

13. Investment securities

Investment securities consists of financial assets which, under the fair value option, are designated at fair value through profit or loss, available-for-sale financial assets and hold-to-maturity financial assets.

Investment securities includes the liquidity portfolio managed by Group Treasury. The liquidity portfolio is recognised at fair value through the use of the fair value option or is part of the hold-to-maturity portfolio or the available-for-sale portfolio.

Accounting policy

Financial assets designated at fair value

Financial assets designated 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.

Available-for-sale financial assets

This category comprises bonds only. The bonds are measured at fair value under Other comprehensive income. Unrealised value adjustments of hedged interest rate risks that qualify for fair value hedge accounting and impairment charges are, however, recognised under Net trading income. The impairment charge equals the difference between the fair value at the time of calculation and amortised cost. If the fair value subsequently rises, and the increase is attributable to one or more events that have occurred after the impairment charge was recognised, the Group reverses the charge in the income statement. 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. When bonds are sold, the Group reclassifies unrealised value adjustments recognised under Other comprehensive income under Net trading income in the income statement.

Hold-to-maturity financial assets

Hold-to-maturity financial assets consists of bonds with quoted prices in an active market held for the purpose of generating a return until maturity. 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. Fixed-rate bonds are not hedged.

(a) Investment securities (DKK millions)	2016	2015
Financial assets at fair value through profit or loss		
Listed bonds	137,490	175,660
Unlisted bonds	-	25
Listed shares	67	105
Unlisted shares	1,673	1,542
Total financial assets designated at fair value through profit or loss	**139,230**	**177,332**
Available-for-sale financial assets		
Listed bonds	70,727	46,770
Total available-for-sale financial assets	**70,727**	**46,770**
Total at fair value	**209,957**	**224,102**
Hold-to-maturity financial assets		
Listed bonds	133,379	119,202
Unlisted bonds	-	-
Total investment securities	**343,337**	**343,304**

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 incorporated into balance sheet management to optimise the balance sheet composition.

Financial assets designated at fair value through profit or loss
These include the part of the liquidity portfolio that is actively traded although less frequently than what is required to be classified as a held-for-trading portfolio. These bonds are designated at fair value. The portfolio comprises primarily Danish mortgage bonds.

Available-for-sale financial assets
During 2016, Group Treasury acquired bonds for an available-for-sale portfolio. The interest rate risk on this portfolio has not been hedged. The portfolio comprises primarily highly rated covered, sovereign, supranational and agency bonds.

Further, the Group has an available-for-sale bond portfolio that was reclassified from the held-for-trading category in 2008 when the IASB changed the reclassification provisions of IAS 39 in response to the significant distortion of the pricing of bonds at the time. For the part of the portfolio sold in 2016, the Group realised value adjustments of DKK 10 million (2015: DKK 68 million) that were reclassified from Other comprehensive income to the income statement. The portfolio comprises primarily Danish mortgage bonds. Some 99% of the portfolio is rated AA or higher (2015: 99%), while the remaining portfolio has investment grade ratings. In 2016, the Group recognised unrealised value adjustments of the reclassified bonds in the amount of DKK -28 million in the income statement, corresponding to the part of the interest rate risk that is hedged by derivatives (2015: DKK -72 million). The Group also recognised unrealised value adjustments of DKK 259 million (2015: DKK -17 million) under Other comprehensive income that would have been recognised in the income statement if reclassification had not taken place. The Group recognised interest income of DKK 125 million (2015: DKK 368 million) on the reclassified bonds.

Hold-to-maturity financial assets
Hold-to-maturity financial assets consists of bonds with quoted prices in an active market held for the purpose of generating a return until maturity.

The bonds are primarily Danish mortgage bonds, government bonds and government-guaranteed bonds. Some 96% of the portfolio is rated AA or higher (2015: 92%), while the remaining portfolio has investment grade ratings.

Notes – Danske Bank Group

14. Due from credit institutions and central banks and Loans at amortised cost

Most of the Group's loans are recognised at amortised cost, the only exception being loans granted by Realkredit Danmark (see note 15) that are recognised at fair value.

Accounting policy

At initial recognition, loans are measured at fair value plus transaction costs less origination fees and other charges. This usually corresponds to the amount disbursed to the customer. Subsequently, they are measured at amortised cost, using the effective interest method, less any impairment charges. The difference between the value at initial recognition and the redemption value is amortised over the term to maturity and recognised under Interest income. 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 significant loans for which default or other objective evidence of impairment exists, the Group determines the impairment charge individually. 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 and is assessed by credit officers.

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.

(a) Due from credit institutions and central banks (DKK millions)	2016	2015
Reverse transactions	44,920	28,614
Other amounts due	200,598	75,251
Allowance account	39	7
Total	245,478	103,859

Due from credit institutions and central banks includes amounts due within three months and totalled DKK 243,867 million at the end of 2016 (31 December 2015: DKK 101,998 million). This amount is included under Cash and cash equivalents in the cash flow statement.

(b) Loans at amortised cost (DKK millions)	2016	2015
Reverse transactions	199,554	187,689
Other loans	963,642	917,929
Allowance account	21,630	26,361
Total	1,141,567	1,079,257

Loans included payments due under finance leases of DKK 27,033 million at the end of 2016 (31 December 2015: DKK 24,877 million).

(c) Further explanation

Objective evidence of impairment of loans exists if at least one of the following events has occurred:

1) The borrower is experiencing significant financial difficulty
2) The borrower's actions, such as default or delinquency in interest or principal payments, lead to a breach of contract
3) The Group, for reasons relating to the borrower's financial difficulty, grants the borrower a concession that the Group would not otherwise have granted
4) It becomes probable that the borrower will enter into bankruptcy or other financial restructuring

If a customer facility is past due 90 days or more, the customer is considered in default and impairment charge is recognised for the customer's total exposure.

Significant loans and amounts due are tested individually for impairment quarterly and the impairment charge is calculated individually. This is the case for around 50% of the exposure subject to objective evidence of impairment.

Notes – Danske Bank Group

14. Due from credit institutions and central banks and Loans at amortised cost continued

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 and is assessed by credit officers. The present value of fixed-rate loans is calculated at the original effective interest rate, whereas the present value of loans with a variable rate of interest is calculated at the current effective interest rate.

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. The impairment charges are therefore sensitive to changes to the estimated value of collateral received. If the value of collateral decreased 10%, individual impairment charges would increase by about DKK 2.4 billion (2015: DKK 2.8 billion).

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 that have been downgraded without changes being made to the credit margin. Charges are based on expectations of future changes in customers' rating classifications (which is called "migration") over time, represented by the emergence period. If all business customers were downgraded one rating category, the collective impairment charge would increase about DKK 1.2 billion (2015: DKK 1.8 billion). The emergence period is assumed to be two years. If the emergence period is increased to three years, the collective impairment charge would increase DKK 0.1 billion (2015: DKK 0.1 billion).

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. At end-2016, such collective impairment charges amounted to DKK 3.3 billion (2015: DKK 3.8 billion). In 2016, the method used for calculating collective impairment charges for personal customers was improved in order to more directly incorporate certain credit risk factors for personal customers and this caused the decline in the collective impairment charge recognised on the basis of management's judgement.

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.

Loans that are 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.

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.

(d) Reconciliation of total allowance account

The total allowance account below relates to the Due from credit institutions and central banks, Loans at amortised cost, Loans at fair value, and Loan commitments and guarantees balance sheet items.

(DKK millions)	2016	2015
Balance at 1 January	31,412	40,947
New and increased impairment charges	6,783	7,601
Reversals of impairment charges	6,269	7,224
Write-offs debited to the allowance account	4,870	9,716
Foreign currency translation	-326	580
Other items*	-574	-775
Balance at end of period	**26,156**	**31,412**

*Other items include changes from the presentation of some loan portfolios as held for sale in 2015 and 2016. Note 22, Other assets, provides more information.

Notes – Danske Bank Group

15. Loans at fair value and bonds issued by Realkredit Danmark

Loans at fair value consists of loans granted by Realkredit Danmark under Danish mortgage finance law. The loans are funded by issuing listed mortgage bonds with matching terms. Borrowers may repay such loans by delivering the underlying bonds to Realkredit Danmark. The Group buys and sells bonds issued by Realkredit Danmark on an ongoing basis because such securities play a role in the Danish money market. If these loans and issued mortgage bonds were measured at amortised cost, the purchase and sale of own mortgage bonds would result in timing differences in the recognition of gains and losses, leading to an accounting mismatch. This is avoided by measuring both loans granted by Realkredit Danmark and bonds issued by Realkredit Danmark at fair value using the fair value option. Significant accounting choices in note 1(b) provide additional information.

Accounting policy

Loans granted and bonds issued are initially recognised at fair value and subsequently at fair value through profit or loss.

The fair value of the bonds issued by Realkredit Danmark is normally defined as their quoted market value. 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 adjusted for changes in the fair value of the credit risk on borrowers.

Changes in fair value of credit risk

For loans granted to customers with objective evidence of impairment, such adjustment is made in accordance with principles similar to the principles for calculating individual impairment charges for loans at amortised cost. Note 14 provides more information. However, for discounting purposes, the current effective interest rate is used instead of the original effective interest rate.

A collective assessment also determines the need for adjustment to reflect changes in the fair value of the credit risk on the remaining portion of the portfolio of loans at fair value. No changes are made if it is possible to raise the administration margin on loans (credit margin) sufficiently to compensate for the higher credit risk and market risk premium on mortgage loans. If it is not possible to raise the administration margin sufficiently, or at all, a collective adjustment is made, reflecting trends in expected losses, unexpected losses (volatility) and the possibility of raising administration margins in the future. The expected future cash flows are discounted at the current market rate with the addition of a risk premium.

(a) Loans at fair value (DKK millions)	2016	2015
Nominal value	752,993	737,027
Fair value adjustment of underlying bonds	16,840	9,013
Adjustment for credit risk	3,830	4,380
Total	766,003	741,660

(b) Bonds issued by Realkredit Danmark (DKK millions)	2016	2015
Nominal value	887,737	841,264
Fair value adjustment of funding of current loans	18,953	10,140
Holding of own mortgage bonds	179,958	156,885
Total	726,732	694,519

(c) Further explanation

The measurement of loans at fair value is based on the quoted price of the underlying Realkredit Danmark bonds that borrowers use to repay the loans. Changes in the market value of the bonds will therefore result in a corresponding change in the value of loans, and profit or loss will therefore not be affected by current market value changes in respect of the interest rate and the credit risk on the issued bonds. The value of the loans is affected by changes in the credit risk on the loans. In 2016, the Group reversed DKK 423 million regarding changes in the credit risk on loans at fair value (2015: expensed DKK 172 million). At the end of 2016, the accumulated changes in the credit risk amounted to DKK 3,830 million (31 December 2015: DKK 4,380 million).

The holding of own mortgage bonds includes pre-issued bonds of DKK 79 billion (2015: DKK 68 billion) used for FlexLån® refinancing in January 2017 and bonds of DKK 34 billion (2015: DKK 31 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.

Fair value adjustment for the credit risk on issued mortgage bonds 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.

Notes – Danske Bank Group

15. Loans at fair value and bonds issued by Realkredit Danmark continued

In 2016, the Danish mortgage bond yield spread narrowed, and the fair value of issued mortgage bonds thus increased about DKK 5.6 billion. In 2015, the Danish mortgage bond yield spread widened, and the fair value of issued mortgage bonds thus decreased about DKK 3.9 billion. In comparison with the fair value measured at the time of issue of the bonds, the fair value had decreased about DKK 2 billion at the end of 2016 (31 December 2015: increase of about DKK 5 billion). Net profit and equity remain unaffected because the spread narrowing increased 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 2016 or the period since issuance has been required.

16. 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 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)	2016	2015	2016	2015	2016	2015
(a) Assets						
Bonds	19,319	18,352	2,654	-	21,973	18,352
Shares	8,347	10,612	3,958	-	12,305	10,612
Unit trust certificates	25,118	22,165	46,156	45,811	71,274	67,976
Other	528	18	338	-	866	18
Total	53,312	51,147	53,106	45,811	106,418	96,958
including						
own bonds	4,717	3,852	302	219	5,019	4,071
own shares	418	458	51	20	469	478
other intra-group balances	542	31	540	485	1,082	516
Total assets recognised in balance sheet	47,635	46,806	52,213	45,087	99,848	91,893
(b) Deposits	53,312	51,147	53,106	45,811	106,418	96,958

Notes – Danske Bank Group

17. 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 and obligations for guaranteed benefits under unit-linked insurance contracts. Assets include shares and bonds issued by the Group. The holding of those assets are deducted from equity or eliminated. Consequently, the value of Liabilities under insurance contracts exceeds Assets under insurance contracts.

Accounting policy

Assets include financial assets, investment property, tangible assets and associates. 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 of the Danish FSA's executive order on financial reports for insurance companies etc., which was changed with effect from 1 January 2016 (see section (c) below).

Life insurance provisions is divided into guaranteed benefits including risk margin, individual bonus potentials and collective 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 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

17. Assets and liabilities under insurance contracts continued

(a) Assets under insurance contracts (DKK millions)	2016	2015
Due from credit institutions	1,760	1 635
Investment securities	296.165	268.042
Holdings in associates	2,907	1 059
Investment property	22 915	23.895
Tangible assets	422	415
Reinsurers' share of provisions	149	145
Other assets	4 190	3 377
Total	328,508	298.568
including		
own bonds	28.884	21 608
own shares	312	287
other intra-group balances	13,914	11 101
Total assets	**285,398**	**265,572**

Investment securities under insurance contracts (DKK millions)	2016	2015
Listed bonds	125.636	109.448
Unlisted bonds	4.589	-
Listed shares	11.278	11,644
Unlisted shares	23.636	16 140
Unit trust certificates	115511	114.062
Other securities	15.515	16 748
Total	296.165	268.042

(b) Liabilities under insurance contracts (DKK millions)	2016	1 January 2015	Change	2015
Life insurance provisions without collective bonus potential	142 633	145.174	-1.578	146 752
Collective bonus potential	6.352	5.452	1 869	3 583
Provisions for unit-linked insurance contracts	126.490	110.278	-4.539	114 817
Profit margin	2.028	4 539	4 539	-
Other technical provisions	10,177	9 846	-28	9 874
Total provisions for insurance contracts	287.680	275 289	263	275.026
Other liabilities	39.544	22 382	-1	22.383
Intra-group balances	-12.247	-12 379		-12.379
Total	314.977	285.292	262	285.030

Provisions for insurance contracts (DKK millions)	2016	2015
Balance at 1 January	275.026	277 807
Change new rules, correction of 1st of January 2016	263	
Premiums paid	23.362	20 192
Benefits paid	-21.000	-24 691
Interest added to policyholders' savings	5.143	5.313
Fair value adjustment	1.076	-5 094
Foreign currency translation	-155	-288
Change in collective bonus potential	588	1.627
Change in profit margin	395	-
Other changes	2.982	160
Balance at 31 December	**287,680**	**275.026**

Notes – Danske Bank Group

17. Assets and liabilities under insurance contracts continued

(c) Changes to the accounting policy

On 1 January 2016, the Group implemented the changes made to the Danish FSA's executive order on financial reports for insurance companies etc. The objective of the changes is to harmonise the measurement of insurance liabilities in the financial statements with measurement under the Solvency II framework. A risk margin has been added to the insurance liabilities for all insurance contracts, and the value of customers' expected frequency of surrenders and conversions into paid-up policies is now explicitly included in the measurement of the liabilities. As a result, insurance liabilities have increased DKK 263 million. Comparative figures have not been restated, as this is impracticable due to the interaction with the contribution principle. The first table in section (b) shows the changes to liabilities under insurance contracts at 1 January 2016 in more detail. The profit margin is calculated as a separate item. The increase in insurance liabilities relates to the introduction of a risk margin for non-life insurance contracts.

(d) Further explanation

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 defined by EIOPA as part of the Solvency II rules. As required under the Danish FSA's Executive Order on Financial Reports for Insurance Companies implemented on 1 January 2016, the discount yield curve is fixed on the basis of the EIOPA yield curve and a volatility adjustment, also set by EIOPA. The discount yield curve was previously fixed on the basis of a zero-coupon yield curve on the basis of euro swap market rates to which a spread between Danish and German government bonds and a mortgage yield curve spread was added. As required by the IFRS and in line with previous changes to the discount yield curve, the change to the discount yield curve is treated as a change in accounting estimates and resulted in a reduction of insurance liabilities of DKK 0.1 billion. The reduction is included in the income statement in 2016.

As of 1 January 2016, life insurance provisions includes outstanding claims provisions for life insurance contracts, which were previously included under other technical provisions. Comparative figures for life insurance provisions for 2015 have therefore increased DKK 0.3 billion and other technical provisions have decreased by the same amount.

Collective bonus potential

Provisions for the collective bonus potential is 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.

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

18. Intangible assets

Intangible assets consist of goodwill and customer relations taken over on the acquisition of undertakings. Further, acquired and internally developed software is recognised as an asset if certain criteria are fulfilled.

The Group did not make any acquisitions of undertakings in 2015 and 2016. In 2016, no impairment charges on intangible assets have been recognised. In 2015, the Group recognised impairment charges of DKK 4.1 billion on goodwill and DKK 0.5 billion on customer relations in the banking units in Finland, see further below.

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 lives, usually five to ten years, according to the straight-line method and tested for impairment if indications of impairment exist. Intangible assets with indefinite useful lives are not amortised, but the assets are tested for impairment at least once a year according to principles similar to the principles applicable to goodwill.

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 analysis 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)	2016	2015
Goodwill	5,349	5,363
Customer relations	-	25
Software, acquired or internally developed	1,441	1,116
Total	6,790	6,505

In 2016, the Group recognised software development costs of DKK 673 million as an asset (2015: DKK 611 million) and expensed DKK 1,776 million (2015: DKK 2,056 million).

(b) Further explanation of impairment testing of goodwill and customer relations

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 have been allocated. Further, if goodwill in a cash-generating unit is fully impaired a further impairment loss is recognised as an impairment loss on customer relations, if any.

The impairment test conducted in 2016 did not reveal any impairment loss. The impairment test conducted in 2015 resulted in impairment charges of DKK 4,117 million on goodwill in the banking units in Finland and Northern Ireland and DKK 484 million on customer relations in the banking units in Finland. The reasons then were a further worsening of the macroeconomic outlook, with expectations of even lower interest levels than previously anticipated and an increase in the capital allocated to the banking units under the Group's new capital allocation framework that was implemented in 2016.

Notes – Danske Bank Group

18. Intangible assets continued

(DKK millions)	1 January 2015 Goodwill	Impairment charges	Foreign currency translation	31 December 2015 Goodwill	Foreign currency translation	31 December 2016 Goodwill
Personal Banking, Finland	2,807	2,814	7	-	-	-
Business Banking, Finland	1,151	1,153	2	-	-	-
Personal Banking, Northern Ireland	139	150	11	-	-	-
C&I, General Banking	505	-	2	507	-	507
C&I, FICC and Capital Markets	2,898	-	7	2,905	-12	2,893
Wealth Management, Danske Capital	1,909	-	4	1,813	-7	1,806
Others	144	-	-6	138	5	143
Total	**9,453**	**4,117**	**27**	**5,363**	**-14**	**5,349**

Model applied in the goodwill impairment tests for 2016 and 2015

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 are 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 for 2015 and 2016 derived using the Group's current capital allocation framework that was implemented in the first quarter of 2016. 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. In 2015, the use of this capital framework led to an increase in the capital allocated to the cash-generating units covered by the 2015 impairment test.

For each cash generating unit, the expected future cash flow is based on approved strategies and earnings estimates for the budget period representing the first five years. 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. Hence, 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, FICC and Capital Markets

The trading activities of Sampo Bank were incorporated into the business structure of Danske Bank 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 Bank 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.

Key assumptions for goodwill impairment tests in 2016

Discount rate

The discount rate used to calculate the present value of expected future cash flows is unchanged from the test in 2015 and is 9% after tax, or 12% before 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

18. 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% (2015: 1.7%) and for General Banking as well as for FICC and Capital Market, the rate is 1.5%. Around 75% of the net present value of future cash flows is expected to be generated in the terminal period (2015: 71%).

Corporates & Institutions General Banking

Earnings are primarily affected by expectations for the interest level through 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 2019 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 the budget for 2017 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.

C&I FICC and Capital Market

Earnings in FICC and Capital Market are expected to grow at a rate equal to Danske Research's forecasts for real GDP growth.

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. In the 2016 impairment test, net sales and market return are expected to be 1.3% and 2.1%, respectively (2015: 2.7% and 3.2%). The average margin on assets under management is expected to be 0.28% (2015: 0.31%). All assumptions reflect management's expectations.

Sensitivity analysis

For *General Banking*, the excess value (the amount by which the recoverable amount exceeds the carrying amount of goodwill) amounts to DKK 1,821 million. If the growth in the terminal period is reduced from 1.5% to 0.6% or the discount rate is increased from 9% to 9.7% the excess value would be zero.

For *FICC and Capital Market*, the excess value amounts to DKK 8,934 million. A few years' earnings exceed the carrying amount of goodwill allocated to the cash-generating unit.

For *Danske Capital*, the excess value amounts to DKK 149 million (2015: DKK 98 million). The excess value is particularly sensitive to the assumption of the average margin on assets under management, as a decrease from 0.28% to 0.27% 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 0.6 percentage points to 9.6% (2015: 0.4 percentage points to 9.4%), or the growth rate in the terminal period is lowered from 1.7% to 0.8% (2015: from 1.7% to 1.2%).

Key assumptions for goodwill and customer relations written of in 2015

In 2015, the impairment test for Personal Banking and Business Banking Finland and Personal Banking Northern Ireland was combined with a sensitivity analysis to assess the impact of using reasonably possible alternative assumptions for interest rates. It was management's assessment that these interest rates were reasonably possible alternative assumptions and they were therefore used in the impairment test for 2015 with the conclusion that goodwill and customer relations in these cash-generating units were fully impaired in 2015. These assumptions are disclosed in note 18 in Annual Report 2015.

Notes – Danske Bank Group

19. Due to credit institutions and central banks and Deposits

Amounts due to credit institutions and central banks and Deposits also include amounts received under repo transactions (sales of securities which the Group agrees to repurchase at a later date). Such transactions are presented as collateralised borrowings.

Accounting policy

Amounts due to credit institutions and central banks and Deposits 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)	2016	2015
Repo transactions	117,660	134,479
Other amounts due	155,223	137,109
Total	272,883	271,588

(b) Deposits (DKK millions)	2016	2015
Repo transactions	82,064	42,977
Transaction accounts	727,668	699,313
Time deposits	118,423	105,054
Pension savings etc.	15,710	16,130
Total	943,865	863,474

(c) Wholesale deposits ranking pari passu with senior creditors

Total deposits in sections (a) and (b) above, excluding repo transactions, amount to DKK 1,017,024 million (2015: 957,606 million). Of those deposits, 32% (31 December 2015: 32%) 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 27% (31 December 2015: 25%).

20. 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 the tax regulations and rates that, according to the rules in force at the balance sheet date, 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 adopted 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

20 Tax continued

(a) Tax assets and liabilities (DKK millions)

	Tax assets 2016	Tax assets 2015	Tax liabilities 2016	Tax liabilities 2015
Current tax charge	617	1,021	476	637
Deferred tax	666	529	7,675	7,696
Total tax	1,283	1,550	8,151	8,333

(b) Change in deferred tax (DKK millions)

2016	1 Jan	Foreign currency translation	Included in profit for the year	Included in shareholders' equity	31 Dec.
Intangible assets	15	-	-162	-	-147
Tangible assets	1,881	9	67	-	1,957
Securities	-2	-	11	-	9
Provisions for obligations	235	-28	151	234	124
Tax loss carry forwards	-343	40	-94		-397
Recapture of tax loss	5,943	-	11	-	5,954
Other	-561	-4	73	-	-492
Total	7,168	17	57	-234	7,008
Adjustment of prior-year tax charges included in above item			-78		
2015					
Intangible assets	192	-	-177	-	15
Tangible assets	2,195	-1	313	-	1,881
Securities	44	-2	-44	-	-2
Provisions for obligations	107	9	49	70	235
Tax loss carry forwards	465	-28	150	-	-343
Recapture of tax loss	6,428	-	-485	-	5,943
Other	-749	7	181	-	-561
Total	7,752	-15	-639	70	7,168
Adjustment of prior-year tax charges included in above item			-656		

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 3.0 billion (31 December 2015: DKK 3.2 billion).

Recapture of tax loss consists of the full deferred tax liability arising from international joint taxation.