BILAGA D

Offentliga rapporter
Danske Bank

till förundersökningsprotokoll

EB-1081-19
9000-K822-19

Grovt svindleri
Grov marknadsmanipulation

Misstänkt:

Birgitte Bonnesen

Krinsp Björn Sandman
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Ekobrottsmyndigheten - Finansmarknadskammaren
Stockholm

Myndighet
Ekobrottsmyndigheten

Enhet
Stockholm FMK

Handläggare (Protokollförare)
Björn Sandman

Bitr. handläggare
Ann-Christin Sandén

Undersökningsledare
Thomas Langrot

Polisens diarienummer
9000-K822-19

Protokollbilaga

Arkiv/Åkl. ex

Åklnr
EB-1081-19

Signerat av
Björn Sandman

Signerat datum
2021-12-16 16:07

Datum
2021-01-29

Personer i ärendet

Förtursmål	Beslag	Målsägande vill bli underrättad om tidpunkt för huvudförhandlingen
Nej	Finns	Nej
Ersättningsyrkanden		Tolk krävs

Misstänkt (Efternamn och förnamn)	Personnummer
Bonnesen, Birgitte	19560518-1824
Delgiven information om förenklad delgivning vid ett personligt möte genom att skriftlig information överlämnats	

Underrättelse om utredning enligt RB 23:18a	Underrättelse utsänd	Yttrande senast	Underrättelse slutförd
Underrättelsesätt, misstänkt Skickad per mejl och post samt överlämnad hos advokatbyrån.	2021-01-29	2021-12-03	2021-02-01
Försvarare Privat försvarare, Per E Samuelson	2021-01-29	2021-12-03	2021-02-01

Underrättelsesätt, försvarare	Resultat av underrättelse mt	Resultat av underrättelse försv
Skickad per mejl och post samt överlämnad hos advokatbyrån.	Erinran, 2021-12-03	Erinran, 2021-12-03

Notering

Innehåll protokollbilaga D

Danske Banks halvårsrapport, 2018-07-18

Report on the Non-Resident Portfolio at Danske Bank's Estonian branch, 2018-09-19

Innehållsförteckning

Myndighet
Ekobrottsmyndigheten

Danske Banks halvårsrapport 2018, beslag BG406-1

Signerat av

Signerat datum

Enhet
Stockholm FMK

Diarienr
9000-K822-19

Orginalhandlingens förvaringsplats

Datum
2021-01-26

Tid
08:56

Involverad personal
Ann-Christin Sandén

Funktion
Uppgiftslämnare

Berättelse

Danske Banks halvårsrapport daterad 2018-07-18. Se infogad fil

Danske Banks halvårsrapport är bifogad i mejl i beslag, 9000-BG406-1. Se bilaga.

Mejlet är daterat 2018-07-18 och skickat från Cecilia Hernqvist till Liselott Alström, Andréas Hobbelin, Håkan Bengtsson och Charlotte Elsnitz.

Interim report – first half 2018

Danske Bank Group

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Danske Bank first half 2018 at a glance

9.1bn
Net profit

22.3bn
Total income

New partnerships
with fintech companies

2%
Lending growth y/y

Stable
customer satisfaction

Strong CET1 ratio of
15.9%

11.9%
Return on equity

New organisation
implemented

Acquisition of
SEB Pension DK
finalised

Financial highlights – Danske Bank Group

Income statement (DKK millions)	First half 2018	First half 2017	Index 18/17	Q2 2018	Q1 2018	Index Q2/Q1	Q2 2017	Index 18/17	Full year 2017
Net interest income	11,824	11,649	102	5,878	5,946	99	5,783	102	23,806
Net fee income	7,547	7,747	97	3,786	3,762	101	3,819	99	15,664
Net trading income	2,502	4,147	60	1,066	1,435	74	1,647	65	7,087
Other income	461	843	55	152	309	49	487	31	1,591
Total income	22,334	24,385	92	10,881	11,452	95	11,736	93	48,149
Operating expenses	11,400	11,484	99	5,788	5,612	103	5,760	100	22,722
Profit before loan impairment charges	10,934	12,901	85	5,094	5,841	87	5,976	85	25,427
Loan impairment charges	-707	-466		-377	-330		-231	163	
Profit before tax, core	11,641	13,368	87	5,471	6,171	89	6,208	88	26,300
Profit before tax, Non-core	48	-45	-	16	32	50	-25	-	-12
Profit before tax	11,689	13,323	88	5,487	6,202	88	6,182	89	26,288
Tax	2,585	3,002	86	1,256	1,329	95	1,392	90	5,388
Net profit	**9,104**	**10,321**	**88**	**4,231**	**4,873**	**87**	**4,790**	**88**	**20,900**
Attributable to additional tier 1 etc.	390	391	100	197	194	102	197	100	786

Balance sheet (end of period) (DKK millions)	First half 2018	First half 2017	Index 18/17	Q2 2018	Q1 2018	Index Q2/Q1	Q2 2017	Index 18/17	Full year 2017
Due from credit institutions and central banks	219,213	286,541	77	219,213	259,510	84	286,541	77	277,631
Repo loans	277,778	225,869	123	277,778	267,075	104	225,869	123	228,538
Loans	1,748,393	1,707,291	102	1,748,393	1,736,524	101	1,707,291	102	1,723,025
Trading portfolio assets	523,449	489,463	107	523,449	466,739	112	489,463	107	449,292
Investment securities	274,104	331,817	83	274,104	281,317	97	331,817	83	324,618
Assets under insurance contracts	385,833	290,620	133	385,833	284,603	136	290,620	133	296,867
Total assets in Non-core	16,905	17,492	97	16,905	4,849	-	17,492	97	4,886
Other assets	260,745	223,625	117	260,745	237,939	110	223,625	117	234,672
Total assets	**3,706,419**	**3,572,717**	**104**	**3,706,419**	**3,538,555**	**105**	**3,572,717**	**104**	**3,539,528**
Due to credit institutions and central banks	169,985	147,448	115	169,985	157,088	108	147,448	115	155,528
Repo deposits	213,372	234,219	91	213,372	235,903	90	234,219	91	220,371
Deposits	926,794	913,639	101	926,794	939,988	99	913,639	101	911,852
Bonds issued by Realkredit Danmark	732,106	733,172	100	732,106	753,664	97	733,172	100	758,375
Other issued bonds	387,879	428,134	91	387,879	388,115	100	428,134	91	405,080
Trading portfolio liabilities	447,006	451,663	99	447,006	385,635	116	451,663	99	400,596
Liabilities under insurance contracts	422,586	309,933	136	422,586	314,585	134	309,933	136	322,726
Total liabilities in Non-core	11,230	2,499	-	11,230	3,078	-	2,499	-	3,094
Other liabilities	200,718	159,001	126	200,718	172,021	117	159,001	126	164,531
Subordinated debt	33,847	30,110	112	33,847	28,840	117	30,110	112	29,120
Additional tier 1 etc.	14,340	14,334	100	14,340	14,462	99	14,334	100	14,339
Shareholders' equity	146,557	148,564	98	146,557	145,175	101	148,564	98	153,916
Total liabilities and equity	**3,706,419**	**3,572,717**	**104**	**3,706,419**	**3,538,555**	**105**	**3,572,717**	**104**	**3,539,528**

Ratios and key figures	First half 2018	First half 2017	Index 18/17	Q2 2018	Q1 2018	Index Q2/Q1	Q2 2017	Index 18/17	Full year 2017
Dividend per share (DKK)	-	-		-	-		-	-	10.0
Earnings per share (DKK)	9.8	10.8		4.7	5.3		5.0		22.2
Return on avg. shareholders' equity (% p.a.)	11.9	13.5		11.2	12.6		12.6		13.6
Return on avg. tangible equity (% p.a.)	12.1	14.4		11.5	12.9		13.5		14.6
Net interest income as % p.a. of loans and deposits	0.88	0.87		0.88	0.89		0.87		0.89
Cost/income ratio (%)	51.0	47.1		53.2	49.0		49.1		47.2
Total capital ratio (%)	21.6	21.1		21.6	21.4		21.1		22.6
Common equity tier 1 capital ratio (%)	15.9	16.2		15.9	16.4		16.2		17.6
Share price (end of period) (DKK)	199.8	250.4		199.8	225.4		250.4		241.6
Book value per share (DKK)	168.3	162.5		168.3	164.4		162.5		172.2
Full-time-equivalent staff (end of period)	20,357	19,490	104	20,357	19,709	103	19,490	104	19,768

See note 3 to the financial statements for an explanation of differences in the presentation between IFRS and the Financial highlights, including the difference of DKK 312 million between Net profit in the IFRS income statement and in the Financial highlights. For a definition of ratios, see Definition of Alternative Performance Measures on page 29.

Executive summary

"In the first half of 2018, the positive momentum in our lending activities continued, while developments in the financial markets had an adverse effect as the global uncertainty and investor reticence contributed in particular to a weaker development in net trading income," says Thomas F. Borgen, Chief Executive Officer. "The decline was partially offset by lending growth, rising net interest income and solid credit quality, which made it possible for us to continue to reverse impairments. Our efforts to improve the customer experience continued, and we launched a number of innovations within mobile solutions, sustainable investments and home finance. Overall, we maintain our expectations of a net profit of between DKK 18 and DKK 20 billion for the full year. Due to the developments in the financial markets, we now expect net profit to be at the lower end of the range."

Danske Bank delivered a net profit of DKK 9.1 billion in the first half of 2018, against DKK 10.3 billion in the first half of 2017. The result reflects a continuation of good lending growth but also weak trading income and somewhat lower fee income due to uncertainty in the financial markets.

The return on shareholders' equity after tax was 11.9%, against 13.5% in the first half of 2017, reflecting substantially lower income in trading in 2018.

Despite a slowdown in some of the housing markets, the Nordic economies remained stable in the first half of 2018, which led to lending growth of 2%.

In the first half of 2018, our partnership agreements across Sweden, Norway and Finland continued to provide a good inflow of customers. We also entered into a number of new partnerships with local fintech companies in Denmark and across the Nordic region, which help us to continually provide good products and services to new and existing customers.

Net interest income benefited from loan growth, primarily in Sweden and Norway. In our biggest markets, Denmark and Finland, net interest income remained stable with increasing momentum seen in Business Banking.

Despite stable economic momentum, trading income was substantially lower than the level in the year-earlier period. Geopolitical uncertainty, concerns over potential trade wars and uncertainty regarding interest rates affected both Corporates & Institutions and Wealth Management negatively in terms of fee and trading income.

Expenses were slightly lower than the level in the year-earlier period, reflecting lower activity-based expenses. However, we do continue to see increased costs for compliance and regulatory requirements. We also see some costs related to the recent reorganisation.

Credit quality remained very strong, resulting in net reversals of DKK 707 million.

Developments in the Estonia case

The investigations into the issues related to the now closed down non-resident portfolio at our Estonian branch between 2007 and 2015 continue to progress according to plan. The investigations are comprehensive, covering a period of 9 years and a large quantity of data, including more than 9 million emails, 7,000 documents and millions of transactions.

While it is still too early to conclude as to the extent of suspicious transactions, it is clear that Danske Bank has failed to live up to our own standards and the expectations of society at large in terms of preventing our Estonian branch from being used for potentially illegitimate activities.

As well as being committed to transparency with respect to the findings of the investigations, including a clear account of the issues, causes and accountabilities, the Board of Directors and the Executive Board are also determined that Danske Bank should not benefit financially from such suspicious transactions in the Estonian non-resident portfolio. Consequently, it is Danske Bank's intention to make the gross income generated from such transactions in the period from 2007 to 2015 available for efforts that support the interest of the societies in which we operate, such as combating international financial crime.

As the comprehensive investigations, which are anchored in the Board of Directors, have not been finalised, it is too early to determine the amount to be made available. For reference, the total gross income from the non-resident portfolio between 2007 and 2015 has been estimated at around DKK 1.5 billion. Conclusions from the investigations will be reported by September 2018. The amount and the way in which it will be made available will be decided after we have concluded on the investigations.

On 3 May 2018, Danske Bank received eight orders and eight reprimands from the Danish FSA regarding management and governance in relation to the AML case at our Estonian branch. Danske Bank has taken several steps and initiatives to comply with the orders and will continue the work going forward.

New strategic initiatives and new organisation

On 2 May 2018, our new organisation became effective, helping us to focus on our ambition to become the Nordic Integrator in the financial sector. We continue our journey towards integrating further with our customers, integrating internally in order to ensure that customers experience us as one bank and integrating more with the societies in which we operate. Financial reporting on the new business units will commence in the third quarter of 2018.

Customer satisfaction

Customer satisfaction is a key priority for Danske Bank. In both Denmark and the rest of the Nordics, we saw stable customer satisfaction among both personal and corporate customers.

SEB Pension Danmark
On 7 June 2018, we finalised our purchase of SEB Pension Danmark, and we are now in the process of integrating the 200,000 customers and our new colleagues into the Group. The purchase will add DKK 102 billion to our total Assets under Management and will create even stronger product offerings in Danica Pension.

Capital, funding, liquidity and regulation
The Board of Directors has reassessed Danske Bank's solvency need to ensure adequate capital coverage of compliance and reputational risks following the order from the Danish FSA on 3 May 2018. This has led to an increase in the total capital requirement of 0.7 percentage points to 16.1% and in the CET1 capital requirement of 0.4 percentage points to 11.1%.

The purchase of SEB Pension Danmark has temporarily reduced the CET1 ratio by 0.5%.

Our capital position remains strong, with a total capital ratio of 21.6% and a CET1 capital ratio of 15.9%. Following the reassessment of the solvency need resulting from the orders from the Danish FSA, our target on total capital has been revised from around 19% to above 19% in the short to medium term. Our CET1 capital target of 14-15% in the short to medium term remains unchanged.

At 30 June, DKK 4.1 billion of the DKK 10 billion share buyback programme had been bought back.

At 30 June 2018, our liquidity coverage ratio stood at 142%.

In May 2018, the Danish Parliament passed regulation implementing the amendment to the Bank Recovery and Resolution Directive (BRRD). The new legislation effectively creates a new class of unsubordinated debt, Non-Preferred Senior debt, which is eligible to meet the minimum requirement for own funds and eligible liabilities (MREL). We have successfully issued the new Non-Preferred Senior debt in multiple currencies, equivalent to DKK 24.3 billion.

In June 2018, the Group issued DKK 4.8 billion in the form of a CRR-compliant convertible additional tier 1 capital issue of USD 750 million.

Outlook for 2018
The outlook has been updated.

We expect net interest income to be higher than in 2017, as we will benefit mainly from volume growth.

Net fee income is expected to remain strong, including the effect of the acquisition of SEB Pension Danmark and subject to customer activity.

Expenses are expected to be higher than in 2017, due mainly to the effect of the acquisition of SEB Pension Danmark.

Loan impairments are expected to remain at a low level.

We expect net profit to be in the range of DKK 18-20 billion.* Based on trading income in the first half of 2018, we currently expect net profit to be at the lower end of the range.

The outlook is subject to uncertainty and macroeconomic developments.

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

**The net profit outlook for 2018 is excluding any financial effects from waiving income from suspicious transactions in Estonia. The impact will be presented once conclusions from our internal investigations become available.*

Financial review

In the first half of 2018, Danske Bank Group delivered a profit before tax from core activities of DKK 11.6 billion, a decrease of 13% from the level in the first half of 2017, which benefited from strong net trading income.

Income

Total income amounted to DKK 22.3 billion, a decrease of 8% from the level in the first half of 2017. Continued growth in net interest income had a positive effect, which, however, was more than offset by decreases in net fee income and, in particular, net trading income, which were negatively affected by challenging market conditions.

Net interest income totalled DKK 11.8 billion. The increase of 2% was driven by lending and deposit volume growth and lower funding costs, which, however, were partly offset by lower margins on deposits and foreign exchange movements.

Net fee income amounted to DKK 7.5 billion, a decrease of 3% from the level in the first half of 2017. Net fee income was adversely affected by lower customer activity at Wealth Management.

Net trading income totalled DKK 2.5 billion, a decrease of 40% from the level in the first half of 2017. In particular, Corporates & Institutions (FICC and Capital Markets) and Wealth Management were adversely affected. Customer activity at FICC remained on par with the activity level in the same period last year, however, FICC was negatively affected by low volatility in some markets, resulting in lower income from customer transactions. Customer activity at Capital Markets was subdued due to uncertainty in the financial markets. Wealth Management was adversely affected by a lower investment result in the health and accident business.

Other income amounted to DKK 0.5 billion, against DKK 0.8 billion in the first half of 2017. The first half of 2017 included income from Krogseveen, the Norwegian real-estate agency chain, which was sold in the first quarter of 2018. In addition, a lower risk result in the health and accident business at Wealth Management adversely affected Other income.

Expenses

Operating expenses amounted to DKK 11.4 billion, a decrease of 1% from the level in the first half of 2017. Operating expenses benefited from lower activity-related costs and efficiency measures, which, however, were partly offset by higher compliance costs including costs related to Estonia, costs related to the implementation of the new organisation in May 2018, and our continued initiatives to meet our high ambitions within digital transformation.

Loan impairments

Loan impairment charges remained low, with net reversals in the first half of 2018 of DKK 707 million in core activities as credit quality remained solid, supported by stable macroeconomic conditions and higher collateral values in most markets.

At Personal Banking and Business Banking, reversals in the first half of 2018 related primarily to facilities in Denmark, which benefited from improved credit quality. At Corporates & Institutions, we saw net reversals driven by a few single names. In Wealth Management, there were no new significant loan impairment charges, and in Northern Ireland, the loan impairment charges related to a few cases in the first quarter.

Loan impairment charges

	First half 2018		First half 2017	
(DKK millions)	Charges	% of loans and guarantees	Charges	% of loans and guarantees
Personal Banking	-180	-0.05	3	0.00
Business Banking	-451	-0.13	-545	-0.16
C&I	-85	-0.04	248	0.12
Wealth Management	-33	-0.08	-45	-0.12
Northern Ireland	50	0.22	-130	-0.58
Other Activities	-8	-0.94	3	0.18
Total	-707	-0.07	-466	-0.05

Tax

Tax on the profit for the period amounted to DKK 2.6 billion, or 22.1% of profit before tax.

Net profit

Net profit amounted to DKK 9,104 million, a decrease of 12% from the level in the first half of 2017. Net profit in the IFRS income statement amounted to DKK 8,792 million and was thus DKK 312 million lower due to the IFRS 9 implementation effect on loans granted by Realkredit Danmark. See Definition of Alternative Performance Measures on page 29 for more information.

Q2 2018 vs Q1 2018

In the second quarter of 2018, Danske Bank posted a net profit of DKK 4.2 billion, against DKK 4.9 billion in the first quarter.

Net interest income amounted to DKK 5.9 billion, a decrease of 1% from the level in the first quarter. Net interest income was positively affected by deposit margin and lending volume growth as well as more interest days in the second quarter. However, the positive effect was more than offset by a decrease in lending margins due to developments in market rates, foreign exchange movements and the transfer of Baltic customers to the Non-core unit, which adversely affected lending volumes.

Net fee income amounted to DKK 3.8 billion, an increase of 1% from the level in the first quarter.

Net trading income amounted to DKK 1.1 billion, a decrease of 26% from the level in the first quarter. Net trading income was negatively affected by challenging market conditions, in particular in FICC, and the seasonality effect in refinancing of FlexLån® loans in the first quarter, which primarily affected Personal Banking.

Other income decreased from DKK 0.3 billion in the first quarter to DKK 0.2 billion. The second quarter was adversely affected primarily by a lower risk result in the health and accident business at Wealth Management.

Operating expenses amounted to DKK 5.8 billion, an increase of 3% from the level in the first quarter. Part of the increase was caused by a rise in staff-related costs in the second quarter due to holiday pay and severance pay, although this effect was partly offset by lower activity-related costs and by the transfer of additional Baltic activities to the Non-core unit. In addition, the acquisition of SEB Pension Danmark also contributed to the increase.

Loan impairments showed net reversals of DKK 0.4 billion, continuing the stable trend from the level in the first quarter of 2018 and reflecting consistently strong credit quality supported by higher collateral values.

Balance sheet

Lending (end of period) (DKK billions)	First half 2018	First half 2017	Index 18/17	Q2 2018	Q1 2018	Index Q2/Q1	Full year 2017	Index 18/FY17
Personal Banking	765.5	747.6	102	765.5	758.9	101	757.9	101
Business Banking	697.3	687.4	101	697.3	701.7	99	697.4	100
Corporates & Institutions	180.6	183.0	99	180.6	174.7	103	175.2	103
Wealth Management	77.0	73.7	104	77.0	75.8	102	75.0	103
Northern Ireland	48.9	46.1	106	48.9	49.0	100	46.3	106
Other Activities incl. eliminations	-2.0	-9.9	20	-2.0	-3.9	51	-9.4	21
Allowance account, lending	19.0	20.6	92	19.0	19.7	96	19.4	98
Total lending	**1,748.4**	**1,707.3**	**102**	**1,748.4**	**1,736.5**	**101**	**1,723.0**	**101**

Deposits (end of period) (DKK billions)								
Personal Banking	287.7	275.1	105	287.7	276.7	104	273.5	105
Business Banking	246.3	251.5	98	246.3	247.6	99	248.3	99
Corporates & Institutions	260.2	259.1	100	260.2	290.2	90	267.8	97
Wealth Management	71.1	66.7	107	71.1	67.7	105	65.8	108
Northern Ireland	63.0	59.0	107	63.0	60.5	104	59.0	107
Other Activities incl. eliminations	-1.6	2.2	-	-1.6	-2.8	57	-2.5	64
Total deposits	**926.8**	**913.6**	**101**	**926.8**	**940.0**	**99**	**911.9**	**102**

Covered bonds (DKK billions)	First half 2018	First half 2017	Index 18/17	Q2 2018	Q1 2018	Index Q2/Q1	Full year 2017	Index 18/FY17
Bonds issued by Realkredit Danmark	732.1	733.2	100	732.1	753.7	97	758.4	97
Own holdings of bonds	65.1	44.2	147	65.1	37.7	173	33.6	194
Total Realkredit Danmark bonds	**797.2**	**777.4**	**103**	**797.2**	**791.4**	**101**	**792.0**	**101**
Other covered bonds issued	171.5	187.5	91	171.5	173.1	99	168.1	102
Own holdings of bonds	42.0	23.1	182	42.0	41.9	100	33.5	125
Total other covered bonds	**213.5**	**210.6**	**101**	**213.5**	**215.1**	**99**	**201.7**	**106**
Total deposits and issued mortgage bonds etc.	**1,937.4**	**1,901.6**	**102**	**1,937.4**	**1,946.4**	**100**	**1,905.5**	**102**
Lending as % of deposits and issued mortgage bonds etc.	90.2	89.8		90.2	89.2		90.4	

Lending

At the end of June 2018, total lending was up 1% from the level at the end of 2017. Lending increased in almost all markets and across almost all geographies.

In Denmark, new gross lending, excluding repo loans, amounted to DKK 53.1 billion. Lending to personal customers accounted for DKK 23.6 billion of this amount.

Our market share of total lending in Denmark, excluding repo loans, was maintained at 26.6%. In Sweden, our market share of lending rose slightly by 0.1 percentage points. Our market share in Finland was maintained.

Market shares of lending (%)	31 May 2018	31 December 2017
Denmark incl. RD (excl. repo)	26.6	26.6
Finland	9.6	9.6
Sweden (excl. repo)	5.7	5.6
Norway*	N/A	6.1

Source: Market shares are based on data from the central banks.
**As of January 2018, the monthly market share figures issued by Statistics Norway are deferred until the end of 2018 due to major IT system changes. Consequently, Danske Bank has not received updated data, and the market shares for Norway are thus based on data at 31 December 2017.*

Lending equalled 90.2% of the total amount of deposits, mortgage bonds and other covered bonds, against 90.4% at the end of 2017.

Deposits

At the end of June 2018, total deposits were up 2% from the level at the end of 2017. Our market shares in Denmark and Sweden increased, with corporate deposits being the main driver for the increase in Denmark. Our market share in Finland fell from the seasonally high level of public institution deposits at the end of 2017. The Group maintained its strong funding position.

Market shares of deposits (%)	31 May 2018	31 December 2017
Denmark (excl. repo)	28.5	27.9
Finland	12.0	13.5
Sweden (excl. repo)	4.1	4.0
Norway*	N/A	6.6

Source: Market shares are based on data from the central banks.
**As of January 2018, the monthly market share figures issued by Statistics Norway are deferred until the end of 2018 due to major IT system changes. Consequently, Danske Bank has not received updated data, and the market shares for Norway are thus based on data at 31 December 2017.*

Credit exposure

Credit exposure from lending activities in core segments totalled DKK 2,471 billion, against DKK 2,688 billion at the end of 2017. The decrease in credit exposure from lending activities was owing primarily to the IFRS 9 reclassification and exclusion of DKK 223 billion of repos and other loans in the trading units of Corporates & Institutions from 1 January 2018 from the credit exposure from lending activities. The decrease was partly offset by including committed loan offers of DKK 76 billion in the credit exposure. Excluding the impact from IFRS 9 and the committed loan offers, the credit exposure decreased DKK 72 billion. The decrease related primarily to exposures to central banks, as the transfer of Baltic customers to the Non-core unit was more than offset by an increase across all markets.

Risk Management 2017, section 4, which is available at danskebank.com/ir, provides details on Danske Bank's credit risks.

Credit quality

Credit quality remains solid in light of stable macroeconomic conditions. At the end of June 2018, net NPL was DKK 1.0 billion higher and gross NPL was DKK 1.6 billion lower than at the end of 2017. The effect of new non-performing loans at Corporates & Institutions was more than offset by continued work-outs in the legacy portfolio. The increase in net NPL from the end of 2017 was caused by the IFRS 9 implementation, which resulted in an unchanged total gross NPL level, an increase of net NPL by DKK 2.3 billion and a decrease in the NPL coverage ratio. The introduction of the new impairment methodology under IFRS 9 included an improved impairment model setup and thus led to a somewhat lower allowance account amount for non-performing loans than under IAS 39. Adjusting for these changes, both net and gross NPL decreased from the level at the end of 2017.

The risk management notes on pp. 60-75 provide more information about non-performing loans.

Non-performing loans (NPL) in core segments (DKK millions)	30 June 2018	31 Dec. 2017
Gross NPL	31,688	33,255
NPL allowance account	13,441	15,965
Net NPL	**18,247**	**17,290**
Collateral (after haircut)	**15,066**	**14,703**
NPL coverage ratio (%)	80.9	86.1
NPL coverage ratio of which is in default (%)	95.2	96.8
NPL as a percentage of total gross exposure (%)	1.3	1.2

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

Accumulated impairments amounted to DKK 21.0 billion, including an IFRS 9 implementation effect of DKK 2.6 billion, or 1.1% of lending and guarantees. The corresponding figure at 31 December 2017 was DKK 20.1 billion.

Allowance account by business units (DKK millions)	30 June 2018 Accum. impairm. charges	30 June 2018 % of loans and guarantees	31 Dec. 2017 Accum. impairm. charges	31 Dec. 2017 % of loans and guarantees
Personal Banking	5,425	0.70	5,200	0.69
Business Banking	11,730	1.62	11,452	1.68
C&I	2,457	0.65	2,189	0.51
Wealth Management	436	0.56	460	0.60
Northern Ireland	905	1.91	764	1.67
Other	3	0.01	3	0.01
Total	**20,956**	**1.05**	**20,069**	**1.01**

** Relating to lending activities in core segments.*

Realised losses amounted to DKK 1.2 billion. Of these losses, DKK 0.3 billion was attributable to facilities not already subject to impairment.

Trading and investment activities

Credit exposure from trading and investment activities amounted to DKK 1,078 billion at 30 June 2018, against DKK 774 billion at 31 December 2017. The increase, which related primarily to repos and other loans in the trading units of Corporates & Institutions, was the result of the implementation of IFRS 9. This credit exposure is now included in credit exposure from trading and investment activities and therefore no longer forms part of credit exposure from lending activities.

The Group has made netting agreements with many of its counterparties concerning positive and negative market values of derivatives. The net exposure was DKK 81.4 billion, against DKK 74.7 billion at the end of 2017.

The value of the bond portfolio was DKK 494 billion. Of the total bond portfolio, 70% was recognised at fair value and 30% at amortised cost.

Bond portfolio (%)	30 June 2018	31 December 2017
Government bonds and bonds guaranteed by central or local governments	39	34
Bonds issued by quasi-government institutions	1	1
Danish mortgage bonds	44	49
Swedish covered bonds	13	12
Other covered bonds	2	3
Corporate bonds	1	1
Total holdings	**100**	**100**
Bonds at amortised cost included in total holdings	30	30

The financial highlights on page 4 provide information about our balance sheet.

The net position on repo transactions increased DKK 56.2 billion from an asset of DKK 8.2 billion at the end of 2017 to an asset of DKK 64.4 billion at the end of June 2018. The increase was due to higher customer activity.

Trading portfolio assets and trading portfolio liabilities increased from net assets of DKK 48.7 billion at the end of 2017 to net assets of DKK 76.4 billion at the end of June 2018 as a result of fluctuations in the market value of the derivatives portfolio and an increase in the market value of the bond portfolio.

Other balance sheet items

Total assets in Non-core amounted to DKK 16.9 billion at the end of June 2018, against DKK 4.9 billion at the end of 2017. The increase relates to the transfer of Baltic customers to the Non-core unit as per 1 April 2018 as a result of the repositioning of the Group's business activities in the Baltic countries.

Other assets is the sum of several small line items. Other assets increased DKK 26.1 billion from the end of 2017.

Capital ratios

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

In order to position the Group for our ambitions and to absorb potentially adverse effects under stress as well as the inherent regulatory uncertainty, we have set prudent capital targets. For the CET1 capital ratio, the target is set in the range of 14-15% in the short to medium term and for the total capital ratio, the target is set to above 19% in the short to medium term. The total capital ratio target has been revised following the Group's reassessment of the solvency need.

We will reassess the capital targets when future regulatory initiatives have been further clarified, especially in relation to the implementation into EU law of the Basel Committee's revised standards for REA calculations published in December 2017.

At the end of June 2018, the total capital ratio was 21.6%, and the CET1 capital ratio was 15.9%, against 22.6% and 17.6%, respectively, at the end of 2017. The decline in the capital ratios was expected and was driven primarily by the DKK 10 billion share buy-back programme initiated on 2 February 2018 and Danica Pension's acquisition of SEB Pension Danmark, which was finalised during the second quarter of 2018. The total capital ratio was supported by the issuance of USD 750 million of additional tier 1 capital.

During the first half of 2018, the REA increased slightly by DKK 0.5 billion to DKK 754 billion at the end of June 2018. The minor movement was attributable primarily to a slightly increased REA for market risk.

At the end of June 2018, the Group's leverage ratio was 4.3% under transitional rules and 4.2% under fully phased-in rules.

Capital requirements

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

At the end of June 2018, the Group's solvency need was 11.2%, an increase of 0.7 percentage points from the level at the end of 2017. The increase was due mainly to a reassessment of capital to cover compliance and reputational risks, which increased the solvency need by DKK 5 billion. The reassessment was done following the Danish FSA's orders on 3 May 2018. The solvency need consists of the 8% minimum capital requirement under Pillar I and an individual capital add-on under Pillar II.

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

In March 2018, the Danish Government introduced a countercyclical buffer requirement in Denmark of 0.5%, effective as of 31 March 2019, which will increase the Group's combined buffer requirement by 0.2 percentage points. Consequently, the buffer requirement will be 6.4% when fully phased-in, bringing the fully phased-in CET1 capital requirement to 12.6% and the fully phased-in total capital requirement to 17.6%.

Capital ratios and requirements

(% of the total REA)	Q2 2018	Fully phased-in*
Capital ratios		
CET 1 capital ratio	15.9	15.7
Total capital ratio	21.6	21.1
Capital requirements (incl. buffers)**		
CET 1 capital requirement	11.1	12.6
- portion from countercyclical buffer	*0.6*	*0.8*
- portion from capital conservation buffer	*1.9*	*2.5*
- portion from SIFI buffer	*2.4*	*3.0*
Total capital requirement	**16.1**	**17.6**
Excess capital		
CET 1 capital	4.8	3.1
Total capital	5.5	3.6

** Based on fully phased-in rules and requirements incl. fully phased-in impact of IFRS 9.*

*** The total capital requirement consists of the solvency need and the combined buffer requirement. The fully phased-in countercyclical capital buffer is based on the buffer rates announced at the end of the first half of 2018.*

The calculation of the solvency need and the combined capital buffer requirement is described in more detail in Risk Management 2017, section 3, which is available at danskebank.com/ir.

Capital distribution policy

Danske Bank's long-term ambition is to provide shareholders with a competitive return through share price appreciation and ordinary dividend payments of 40-60% of net profits.

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

At 30 June 2018, we had bought back 18.2 million shares for a total purchase amount of DKK 4.1 billion (figures at trade date) of our planned DKK 10.0 billion share buy-back programme.

Ratings

On 13 July 2018, S&P Global (S&P) affirmed Danske Bank's debt ratings and revised the outlook for Danica Pension's financial strength rating to positive, while retaining the positive outlook for Danske Bank's issuer credit rating,

The rating action reflects a revision of the outlook for the Danish banking system to positive from stable, while at the same time it included a one-notch uplift due to the expectation that Danske Bank will continue to build up a meaningful and sustainable buffer of non-preferred senior debt. Moreover, S&P applied a negative adjustment to Danske Bank's issuer and senior unsecured debt ratings due to the uncertainty regarding the outcome of ongoing investigations into Danske Bank's Estonian branch.

On 5 April 2018, S&P affirmed Danske Bank's A issuer and senior unsecured debt ratings, while revising the outlook to positive from stable. The outlook revision was the result of S&P's expectation that Danske Bank will build up a meaningful buffer of non-preferred senior debt.

On 4 May 2018, Moody's revised the outlook on Danske Bank's long-term senior unsecured rating to stable from negative due to the expected steady financial performance of Danske Bank and the size of Danske Bank's planned non-preferred senior debt issuance until 2021.

Fitch's senior unsecured debt ratings on Danske Bank remain A/F1 with a stable outlook.

In May 2018, Fitch, S&P and Moody's assigned A, A- and Baa1 ratings, respectively, to the inaugural and subsequent non-preferred senior debt issued by Danske Bank.

On 26 June 2018, Moody's assigned its Aa2 Counterparty Risk Ratings (CRR) to Danske Bank. CRR obligations include unsecured derivative and repo exposures.

On 29 June 2018, S&P assigned its A+ Resolution Counterparty Ratings (RCR) to Danske Bank. RCR liabilities may be protected from default with an effective bail-in resolution process (e.g. derivatives and repos).

Danske Bank's ratings

	Moody's	S&P Global	Fitch Ratings
Counterparty rating	Aa2/P-1	A+/A-1	A(dcr)
Senior debt	A1/Stable/P-1	A/Positive/A-1	A/Stable/F1
Non-preferred senior debt	Baa1	A-	A
Tier 2	Baa2	BBB+	BBB
AT1	-	BBB-	BB+

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

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

Funding and liquidity

During the first half of 2018, we issued senior debt of DKK 2.0 billion, non-preferred senior debt of DKK 24.3 billion, covered bonds of DKK 22.6 billion and additional tier 1 debt of DKK 4.8 billion, bringing total new long-term wholesale funding to DKK 53.7 billion by the end of June 2018.

We maintain our funding plan for 2018 of DKK 60-80 billion, and we remain dedicated to our strategy of securing a large part of funding directly in our Nordic lending currencies.

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

Danske Bank's liquidity position remained robust. Stress tests show that we have a sufficient liquidity buffer well beyond 12 months. At the end of June 2018, our liquidity coverage ratio stood at 142%, with an LCR buffer of DKK 548 billion.

The Basel Committee on Banking Supervision (BCBS) adopted the net stable funding ratio (NSFR) as a standard for internationally active banks in 2014. Implementation in the EU is under way. Adherence to NSFR is a part of our funding planning, and we are already comfortably above the requirement.

At 30 June 2018, the total nominal value of outstanding long-term funding, excluding equity-accounted additional tier 1 capital and debt issued by Realkredit Danmark, was DKK 341 billion, against DKK 327 billion at the end of 2017.

Danske Bank excluding Realkredit Danmark (DKK billions)	30 June 2018	31 December 2017
Covered bonds	171.5	168.1
Senior unsecured debt	135.2	129.9
Subordinated debt	33.8	29.1
Total	340.5	327.1

The Supervisory Diamond

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

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

Realkredit Danmark also complies with all threshold values.

New regulation

Beginning on 1 January 2018, the Group implemented IFRS 9, the new accounting standard for financial instruments.

The implementation of IFRS 9 resulted in an increase in the allowance account of DKK 2.6 billion at 1 January 2018 as a result of the introduction of the new expected credit loss impairment model. The total effect of DKK 2.0 billion, including the other changes due to the implementation of IFRS 9 (net of tax) has reduced shareholders' equity at 1 January 2018. Note 2 provides more information. The impact of IFRS 9 on regulatory capital is subject to a five-year phase-in period.

In March 2018, the Danish FSA published their decision to set the minimum requirement for own funds and eligible liabilities (MREL). As expected, the MREL for the Group was set to be equivalent to two times the capital requirement including capital buffer requirements.

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

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

In total, the MREL set for Danske Bank Group corresponds to 33% of the REA at 1 January 2018 adjusted for Realkredit Danmark. The requirement is based on the fully phased-in requirements at end-2016 and will become effective from 1 July 2019. Based on end-June 2018 figures, the requirement would be 34.6% of REA adjusted for Realkredit Danmark. Danske Bank Group is well on track to comply with this requirement. At the end of June, the level of MREL eligible liabilities and own funds stood at 35.8% of REA adjusted for Realkredit Danmark.

The Danish FSA updates the MREL requirement annually. We expect the next update in the beginning of 2019.

We expect the Swedish FSA to change the method it currently uses to apply the risk weight floor for Swedish mortgages through Pillar II by replacing the method with a Pillar I requirement that is within the European framework for macroprudential tools. We expect the change to enter into force on 31 December 2018. The impact for the Group will be limited, as we already apply the current risk weight floor in Pillar II.

A more detailed description of the new regulation is provided in Risk Management 2017, section 3, which is available at danskebank.com/ir.

Changes to the Executive Board

Effective from 21 April 2018, Lars Mørch resigned as member of the Executive Board.

Effective from 2 May 2018, Tonny Thierry Andersen resigned as member of the Executive Board.

Effective from 2 May 2018, the Executive Board of the Group consist of: Thomas F. Borgen, Chief Executive Officer, Carsten Rasch Egeriis, Head of Group Risk Management, Frederik Gjessing Vinten, Head of Group Development, Glenn Söderholm, Head of Banking Nordic, Henriette Fenger Ellekrog, Head of Group HR, Jacob Aarup-Andersen, Head of Wealth Management, Jakob Groot, Head of Corporates & Institutions, Jesper Nielsen, Head of Banking DK, and James Ditmore, Head of Group Services & Group IT (COO).

Personal Banking

In the first half of 2018, Personal Banking delivered an increase in profit before tax of 6% relative to the level for the first half of 2017. The result was driven by a continued increase in business volumes in Sweden and Norway, lower operating expenses and net impairment reversals, but was also adversely affected by lower deposit margins.

Personal Banking (DKK millions)	First half 2018	First half 2017	Index 18/17	Q2 2018	Q1 2018	Index Q2/Q1	Q2 2017	Index 18/17	Full year 2017
Net interest income	3,886	3,926	99	1,926	1,960	98	1,963	98	7,911
Net fee income	1,716	1,731	99	858	859	100	891	96	3,419
Net trading income	302	310	97	106	195	54	110	96	614
Other income	201	384	52	72	129	56	205	35	736
Total income	6,104	6,351	96	2,962	3,142	94	3,169	93	12,681
Operating expenses	3,580	3,796	94	1,822	1,757	104	1,900	96	7,533
Profit before loan impairment charges	2,525	2,555	99	1,140	1,385	82	1,269	90	5,148
Loan impairment charges	-180	3	-	-80	-100	-	-53	-	-62
Profit before tax	**2,704**	**2,552**	**106**	**1,219**	**1,485**	**82**	**1,322**	**92**	**5,211**
Loans, excluding reverse transactions before impairments	765,528	747,647	102	765,528	758,915	101	747,647	102	757,937
Allowance account, loans	4,748	5,067	94	4,748	4,926	96	5,067	94	4,876
Deposits, excluding repo deposits	287,720	275,137	105	287,720	276,728	104	275,137	105	273,478
Bonds issued by Realkredit Danmark	416,840	405,127	103	416,840	411,102	101	405,127	103	409,363
Allowance account, guarantees	677	376	180	677	672	101	376	180	324
Allocated capital (average)	25,565	23,529	109	25,724	25,403	101	23,224	111	24,450
Net interest income as % p.a. of loans and deposits	0.74	0.77		0.73	0.76		0.77		0.77
Profit before tax as % p.a. of allocated capital (ROAC)	21.2	21.7		19.0	23.4		22.8		21.3
Cost/income ratio (%)	58.7	59.8		61.5	55.9		60.0		59.4
Full-time-equivalent staff	4,294	4,640	93	4,294	4,161	103	4,640	93	4,517

Fact Book Q2 2018 provides financial highlights at country level for Personal Banking. Fact Book Q2 2018 is available at danskebank.com/ir.

First half 2018 vs first half 2017

Profit before tax amounted to DKK 2.7 billion, an increase of 6% from the level recorded in the first half of 2017. The increase reflects good lending growth in Sweden and Norway, lower operating expenses and net loan impairment reversals.

Net interest income was on par with the level in the first half of 2017, as growing lending volumes and good business momentum were offset by pressure on deposit margins from persistently low interest rates as well as adverse exchange rate effects.

We continued to grow our personal banking business in Sweden and Norway on the back of the inflow of new customers from our partnership agreements with SACO, TCO and Akademikerne. In Norway, our new Boligkreditt 45% product, which is a highly flexible and cost-competitive loan for home owners with low LTVs, was well received. In Finland, we continued to roll out initiatives under our partnership agreement with Akava.

In Denmark, good demand for our unique FlexLife® mortgage loan and the launch of Danske Bolig Fri, which is a bank loan aimed at home owners looking for high flexibility and low costs, contributed positively to our business.

Our offering to homeowners and potential homeowners in Denmark also includes our Sunday universe. With Sunday, users can easily match their dreams and finances to find their next home, and they can seamlessly share the data they enter in Sunday with us to get our advice on their budget, financing options as well as fast loan approval.

Overall, lending increased 2%.

Fee income was flat relative to the level recorded in the first half of 2017.

In the first quarter, we sold off Krogsveen, our Norwegian real-estate agency chain. The sale reduced both other income and costs in the first half of 2018.

Operating expenses fell 6%, despite increasing costs for a number of regulatory projects. In addition to the effect from the sale of Krogsveen, cost efficiencies contributed to the decrease.

Credit quality

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

Loan impairment charges amounted to a net reversal of DKK 180 million for the first half of 2018, reflecting strong and stable portfolio credit quality and increased collateral values.

The credit quality at Realkredit Danmark remained strong and stable throughout the first half of 2018.
Overall, the loan-to-value (LTV) level fell slightly throughout the period.

Loan-to-value ratio, home loans	30 June 2018		31 Dec. 2017	
	Average LTV (%)	Credit exposure (DKK bn)	Average LTV (%)	Credit exposure (DKK bn)
Denmark	63.2	468	64.2	465
Finland	61.8	85	61.2	85
Sweden	63.2	80	60.6	80
Norway	61.5	98	62.8	93
Total	**62.8**	**731**	**63.3**	**723**

Credit exposure

Credit exposure rose to DKK 826 billion in the first half of 2018. The increase reflects growth in Sweden and Norway stemming from our strategic partnerships as well as loan offers exposure that was not previously included in total credit exposure.

(DKK millions)	Net credit exposure 30 June 2018	Net credit exposure 31 Dec. 2017	Impairments (ann.) (%) 30 June 2018
Denmark	501,273	496,776	-0.07%
Finland	92,293	91,566	0.01%
Sweden	105,410	88,048	0.01%
Norway	127,197	112,678	-0.02%
Other	-	-	-0.07%
Total	**826,173**	**789,068**	**-0.05%**

Customer satisfaction

We continued our cross-Nordic efforts to be an integral part of our customers' lives, create the best customer experience and ensure high customer satisfaction. We do so by offering solutions and services that make daily banking and financial decisions easy.

Our ambition is to rank in the top two on customer satisfaction in our Nordic peer group. At the end of the first half of 2018, we ranked number two in Finland, Norway and Sweden and number four in Denmark. The ranking in Denmark reflects intense competition in the banking sector. This only encourages us to continue our efforts to develop innovative solutions and offer the best proactive advice.

Among other initiatives in the first half of the year, we entered into two new partnerships - one with Danish fin-tech Spiir and one with Swedish fin-tech Minna Technologies to further improve customers' control and overview of their finances. With the technology offered by these platforms, customers will have an easy overview of their accounts across banks and be able to easily track expenses, pay bills and manage budgets and subscriptions.The cross-bank account overview is already available to our customers in Sweden and Finland.

Source: PB Strategy & Insights, Customer Insights

Q2 2018 vs Q1 2018

Profit before tax decreased 18% to DKK 1.2 billion.

The decrease reflects higher operating expenses in the second quarter, while income from mortgage refinancing activity was higher in the first quarter, mainly because of seasonality.

Total lending increased 1% from the level recorded in the first quarter of 2018 despite adverse exchange rate effects.

Net trading income fell 46%. The decrease reflects the higher level of mortgage refinancing activity in the first quarter.

Operating expenses were up 4%, driven by increasing costs for regulatory projects.

The second quarter of 2018 saw a net loan impairment reversal of DKK 80 million, against a net reversal of DKK 100 million in the first quarter of 2018. The continued reversal of loan impairment charges reflects strong and improved credit quality and increased collateral values.

Business Banking

Profit before tax increased 3% from the level in first half of 2017, due primarily to an increase in net interest income. The increase was the result of good business momentum in all our Nordic markets, which led to increasing lending volumes. Operating expenses rose 4%, due primarily to higher IT investments and costs related to compliance and new strategic initiatives. At DKK 451 million, net reversals of loan impairments remained high, although at a slightly lower level than in the same period last year.

Business Banking (DKK millions)	First half 2018	First half 2017	Index 18/17	Q2 2018	Q1 2018	Index Q2/Q1	Q2 2017	Index 18/17	Full year 2017
Net interest income	4,686	4,380	107	2,350	2,336	101	2,209	106	8,973
Net fee income	940	948	99	447	494	90	473	95	1,888
Net trading income	310	310	100	133	176	76	136	98	638
Other income	288	274	105	142	146	97	134	106	551
Total income	6,224	5,913	105	3,072	3,152	97	2,952	104	12,051
Operating expenses	2,444	2,342	104	1,231	1,213	101	1,196	103	4,736
Profit before loan impairment charges	3,780	3,572	106	1,841	1,939	95	1,755	105	7,316
Loan impairment charges	-451	-545	-	-179	-272	-	-260	-	-823
Profit before tax	**4,231**	**4,117**	**103**	**2,020**	**2,211**	**91**	**2,015**	**100**	**8,139**
Loans, excluding reverse transactions before impairments	697,334	687,433	101	697,334	701,676	99	687,433	101	697,387
Allowance account, loans	10,696	11,728	91	10,696	11,197	96	11,728	91	11,014
Deposits, excluding repo deposits	246,269	251,513	98	246,269	247,631	99	251,513	98	248,292
Bonds issued by Realkredit Danmark	325,005	318,051	102	325,005	331,338	98	318,051	102	335,944
Allowance account, guarantees	1,032	421	245	1,032	989	104	421	245	437
Allocated capital (average)	43,651	45,844	95	43,426	43,878	99	45,860	95	45,432
Net interest income as % p.a. of loans and deposits	1.00	0.94		1.01	1.00		0.95		0.96
Profit before tax as % p.a. of allocated capital (ROAC)	19.4	18.0		18.6	20.2		17.6		17.5
Cost/income ratio (%)	39.3	39.6		40.1	38.5		40.5		39.3
Full-time-equivalent staff	2,485	2,748	90	2,485	2,773	90	2,748	90	2,760

Fact Book Q2 2018 provides financial highlights at country level for Business Banking. Fact Book Q2 2018 is available at danskebank.com/ir.

As of 1 April 2018, customers in the Baltic countries who do not have business interests in the Nordics were transferred to our Non-core unit. Comparative figures have not been restated.

First half 2018 vs first half 2017

Business Banking continued its good and stable development. We continued to see the results of our focus on strengthening our offerings to business customers, positive business momentum and good activity across the Nordic markets.

The good momentum and activity resulted in an increase in profit before tax of 3% to DKK 4.2 billion. The increase was driven mainly by improvements in income, with a rise in total income of 5% from the level in the same period last year.

The transfer of the portfolio in the Baltic countries to the Non-core unit had a slightly negative effect on the figures for the first half of 2018. The transfer meant that growth in total lending was 1% rather than 3%.

Net interest income grew 7%, owing to rising lending, with bank lending accounting for most of the increase. A continued good business momentum in all the Nordic markets and improved lending margins were the main drivers of the positive trend.

Both net fee income and net trading income were on a par with the level in the first half of 2017. Adjusted for the Baltic portfolio transfer, both income lines rose from the level in the same period last year, reflecting the continued good momentum.

Operating expenses rose 4%, driven mainly by IT investments made to improve the customer experience and meet regulatory requirements as well as new strategic initiatives.

Credit quality

Impairment charges were still at a very low level, amounting to net reversals of DKK 451 million in the first half of 2018, reflecting the current macroeconomic stability and the fact that economic growth in the Nordic markets is expected to continue.

Net reversals were primarily attributable to facilities in Denmark, driven by favourable market conditions.

Impairment reversals were slightly lower than in the same period last year.

Credit exposure

Credit exposure decreased from DKK 1,017 billion in the fourth quarter of 2017 to DKK 965 billion in the second quarter of 2018. This includes the transfer of the Baltic portfolio, which had an exposure of DKK 14.6 billion.

	Net credit exposure		Impairments (ann.) (%)
(DKK millions)	30 June 2018	31 Dec. 2017	30 June 2018
Denmark	472,372	475,436	-0.19%
Finland	87,989	79,412	-0.12%
Sweden	168,431	162,600	0.02%
Norway	86,175	80,796	0.04%
Baltics	2,402	19,893	-0.58%
Other	147,386	198,675	-
Total	**964,754**	**1,016,812**	**-0.13%**

Customer satisfaction

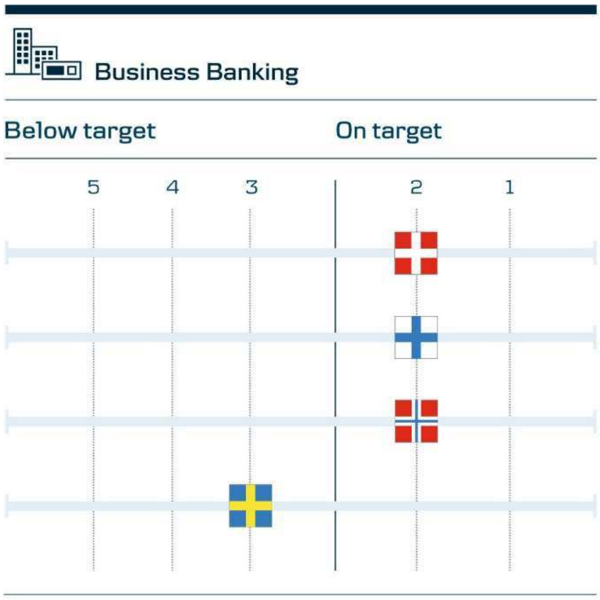
We continued to focus on our goal of delivering the best customer experience by building easy customer journeys and customer-centric solutions.

For customer satisfaction, our ambition is to be in the top two on satisfaction among customers in our prioritised segments in all our Nordic markets. At the end of the first half of 2018, we were on target in Denmark, Finland and Norway. In Sweden, we were number three, as we saw stable customer satisfaction, whereas our peers saw rising satisfaction.

To drive customer satisfaction and raise the bar for the value we want to provide to our customers, we launched several new initiatives. These include +impact, a new digital hub intended to help Nordic entrepreneurs grow their societal impact. The initiative reflects our ambition of helping purpose-driven start-ups maximise their impact.

Among other initiatives, we launched our “Future Financing” tool for small businesses in Sweden, Finland and Norway, and we continued to see good momentum for the tool in Denmark. The aim of Future Financing is to consistently improve the quality and customer experience, and to reduce both the processing time and the time to money from weeks to hours.

We are developing and testing our new financial dashboard among small business owners. The platform is aimed at providing an improved financial overview and making it easier for businesses to handle their finances. It has been well received by our customers.



Source: BD Sales & Customer Engagement, Customer Insights

Q2 2018 vs Q1 2018

The quarterly development was influenced by the transfer of a portfolio in the Baltic countries to the Non-core unit, adversely affecting both income and costs by 2.5% and 4%, respectively.

Profit before tax decreased 9% due to seasonally lower income, higher operating expenses and lower impairment reversals than in the first quarter of 2018.

Total income fell 3%. Adjusted for the Baltic portfolio transfer, it was stable.

Net interest income was stable, whereas net fee income and net trading income decreased, due primarily to seasonality in mortgage refinancing.

Operating expenses increased 1%, primarily as a result of restructuring costs.

Loan impairments remained at a low level, amounting to net reversals of DKK 179 million in the second quarter of 2018, against DKK 272 million in the first quarter.

Corporates & Institutions

In the first half of 2018, Corporates & Institutions generated a profit before tax of DKK 2.6 billion. This was a decline of 28% from the level in the same period last year, when trading income was high due to favourable market conditions and high customer activity fuelled by geopolitical events. Low volatility in rates markets during the first half of 2018 contributed to more challenging market conditions and a decline in trading income. Operating expenses decreased 3% from the level in the same period last year due to lower performance-based compensation and a continuous focus on cost efficiency.

Corporates & Institutions (DKK millions)	First half 2018	First half 2017	Index 18/17	Q2 2018	Q1 2018	Index Q2/Q1	Q2 2017	Index 18/17	Full year 2017
Net interest income	1,824	1,692	108	931	893	104	843	110	3,438
Net fee income	1,417	1,467	97	726	690	105	686	106	2,929
Net trading income	1,496	3,002	50	497	999	50	1,161	43	4,842
Other income	9	1	-	6	3	200	1	-	1
Total income	4,746	6,162	77	2,160	2,585	84	2,691	80	11,210
Operating expenses	2,263	2,339	97	1,109	1,154	96	1,155	96	4,664
Profit before loan impairment charges	2,483	3,822	65	1,051	1,431	73	1,536	68	6,546
Loan impairment charges	-85	248	-	-88	3	-	167	-	353
Profit before tax	**2,568**	**3,574**	**72**	**1,139**	**1,429**	**80**	**1,368**	**83**	**6,193**
Loans, excluding reverse trans. before impairments	180,635	183,000	99	180,635	174,724	103	183,000	99	175,161
Allowance account, loans	1,994	2,037	98	1,994	1,917	104	2,037	98	2,044
Allowance account, credit institutions	15	12	125	15	14	107	12	125	10
Deposits, excluding repo deposits	260,202	259,120	100	260,202	290,171	90	259,120	100	267,797
Bonds issued by Realkredit Danmark	18,300	19,455	94	18,300	15,202	120	19,455	94	14,373
Allowance account, guarantees	448	453	99	448	515	87	453	99	134
Allocated capital (average)	32,338	37,186	87	32,440	32,234	101	36,271	89	34,949
Net interest income as % p.a. of loans and deposits	0.83	0.77		0.85	0.77		0.77		0.78
Profit before tax as % p.a. of allocated capital (ROAC)	15.9	19.2		14.0	17.7		15.1		17.7
Cost/income ratio (%)	47.7	38.0		51.3	44.6		42.9		41.6
Full-time-equivalent staff	1.706	1,647	104	1.706	1,708	100	1,647	104	1,673

Total income (DKK millions)									
FICC	1,638	2,982	55	570	1,068	53	1,129	50	4,879
Capital Markets	827	1,045	79	434	393	110	505	86	1,956
General Banking	2,280	2,135	107	1,156	1,124	103	1,057	109	4,375
Total income	4,746	6,162	77	2,160	2,585	84	2,691	80	11,210

First half 2018 vs first half 2017

Corporates & Institutions generated a total income of DKK 4.7 billion in the first half of 2018 - a decrease of 23% from the level in the same period last year, which was characterised by more benign market conditions. The decrease in total income was caused mainly by lower trading income.

Low volatility in rates markets contributed to more challenging market conditions and lower trading income in mainly FICC, as income from facilitating customer transactions declined. This was despite customer activity in rates markets remaining close to the same levels as in the first half of 2017.

Expectations in the beginning of the year of rising interest rates and widening credit spreads in the secondary credit market reduced customer activity and resulted in lower trading income in Debt Capital Markets.

Net interest income increased 8% due to refinancing activities in Sweden and increased lending volumes in Denmark and Norway.

Loans excluding reverse transactions before impairments decreased 1%, due mainly to changes in collateral management agreements.

Net fee income decreased 3%, owing to a decline in fee-driven capital markets activities and in Equities.

Operating expenses were down 3% from the level in the same period last year. This was due primarily to lower performance-based compensation and a continuous focus on cost efficiency.

Fixed Income, Currencies & Commodities
Total income in FICC amounted to DKK 1.6 billion, a decrease of 45% from the level in the same period in 2017 when trading income was high due to favourable market conditions. Customer activity remained on par with the activity level in the same period last year, but low volatility in rates markets contributed to a significant decline in income from facilitating customer transactions.

Capital Markets and General Banking
Capital Markets income amounted to DKK 0.8 billion, a decrease of 21% from the level in the same period last year. Debt Capital Markets trading saw a more subdued level of customer activity compared with the level in the same period last year. Primary markets activity in Debt Capital Markets, however, increased from the year-earlier level.

Equities saw a first half-year slightly below the same period last year. The decline was partly mitigated by higher customer activity in equity derivatives, as demand for hedging increased due to more challenging equity markets.

Income from General Banking increased 7%, due mainly to refinancing activities in Sweden and increased lending volumes in Denmark and Norway.

Credit quality
Total loan impairments at Corporates & Institutions amounted to a net reversal of DKK 85 million in the first half of 2018, as the situation for offshore companies active on the Norwegian continental shelf continued to be stable. At the end of the first half of 2018, total credit exposure from lending activities amounted to DKK 497 billion, a decrease of around 30% from the level at the end of 2017. The decrease is explained mainly by a reclassification of reverse transactions (repos), from loans at amortised cost to loans at fair value, as part of the implementation of IFRS 9, thus excluding them from the definition of credit exposure.

	Net credit exposure		Impairments (ann.) (%)
(DKK millions)	30 June 2018	31 Dec. 2017	30 June 2018
Sovereign	92,504	171,942	-0.01%
Financial institutions	77,314	179,410	-0.03%
Corporate	327,244	359,073	-0.05%
Other	202	291	-
Total	497,265	710,717	-0.04%

The sovereign and financial institutions portfolios consist primarily of exposures to stable, highly rated Nordic counterparties. The corporate portfolio is diverse and consists mainly of large companies based in the Nordic countries and large international customers with activities in the Nordic region.

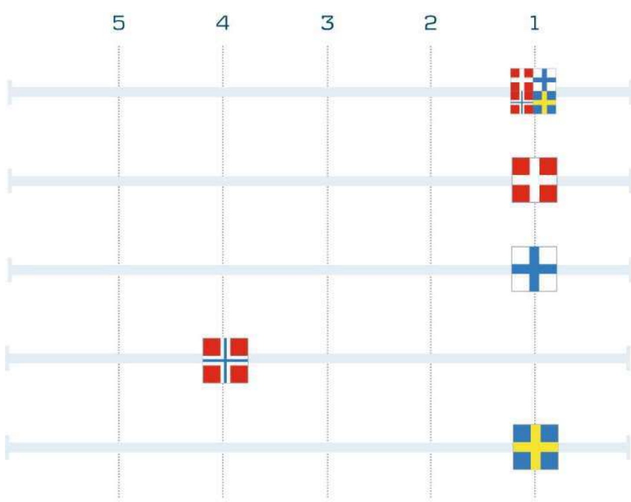
Customer satisfaction
Customer satisfaction remains high. Over the years, we have steadily improved customer satisfaction among our largest customers, and in the two most recent annual summarised Prospera reports, we were ranked number one across the Nordics.

In the first half of 2018, we maintained our longstanding number one ranking as the best Nordic financial provider of Cash Management and Trade Finance in the transaction banking space. Within fixed income, we similarly maintained a number one ranking in Interest Rate Swaps and rose from fourth to third place in the high yield investors category. We also maintained our strong runner up position in Debt Capital Markets issuance.

Within our geographical markets, we maintained our positions or made improvements. We kept our leading market position in Denmark, maintained strong positions in Finland and Sweden, and in Norway, we saw a positive trend, most recently achieving, among others, number one rankings in Cash Management, Trade Finance, FX and Interest Rate Swaps.

Corporates & Institutions

Market position, all (rolling year)



The chart shows current average ranking over a full set of reports for all Prospera surveys to which Corporates & Institutions subscribes in comparison with the main competitors in each geographical market. A number 1 ranking in a market indicates best average ranking in that market.

Q2 2018 vs Q1 2018

Profit before tax decreased 20% from the level in the first quarter of 2018, mainly driven by lower trading income.

In FICC, income decreased 47% due to challenging market conditions.

In Capital Markets, income increased 10%, owing mainly to higher activity in Corporate Finance and slightly improved activity for bond issues in Debt Capital Markets.

Operating expenses were down 4%, owing mainly to seasonality, lower performance-based compensation and cost efficiency gains.

Wealth Management

Profit before tax amounted to DKK 1.6 billion, a decrease of 24% from the level in the first half of 2017. The financial performance was adversely affected by uncertainty in the financial markets, causing a significantly lower investment result in the health and accident business and lower fee income. Operating expenses increased from the level in the first half of 2017, due partly to regulatory costs and costs regarding the acquisition of SEB Pension Danmark.

Wealth Management (DKK millions)	First half 2018	First half 2017	Index 18/17	Q2 2018	Q1 2018	Index Q2/Q1	Q2 2017	Index 18/17	Full year 2017
Net interest income	366	356	103	187	179	104	174	107	709
Net fee income	3,423	3,510	98	1,722	1,701	101	1,761	98	7,281
Net trading income	16	204	8	34	-19	-	101	34	403
Other income	-47	97	-	-63	16	-	69	-	174
Total income	3,758	4,168	90	1,880	1,877	100	2,106	89	8,567
Operating expenses	2,144	2,035	105	1,130	1,015	111	1,019	111	4,082
Profit before loan impairment charges	1,613	2,132	76	751	863	87	1,087	69	4,485
Loan impairment charges	-33	-45	-	-17	-16	-	-20	-	-93
Profit before tax	**1,646**	**2,177**	**76**	**768**	**878**	**87**	**1,107**	**69**	**4,579**
Loans, excluding reverse trans. before impairments	77,008	73,652	105	77,008	75,798	102	73,652	105	75,028
Allowance account, loans	405	438	92	405	438	92	438	92	434
Deposits, excluding repo deposits	71,145	66,707	107	71,145	67,696	105	66,707	107	65,849
Bonds issued by Realkredit Danmark	37,018	34,750	107	37,018	33,716	110	34,750	107	32,278
Allowance account, guarantees	31	42	74	31	33	94	42	74	26
Allocated capital (average)	13,520	13,969	97	13,515	13,524	100	14,403	94	13,894
Net interest income as % p.a. of loans and deposits	0.50	0.51		0.51	0.50		0.50		0.50
Profit before tax as % p.a. of allocated capital (ROAC)	24.3	31.2		22.7	26.0		30.7		33.0
Cost/income ratio (%)	57.1	48.8		60.1	54.1		48.4		47.6
Full-time-equivalent staff	2,203	1,906	116	2,203	1,898	116	1,906	116	1,851
Breakdown of Assets under Management* (DKK billions)									
Life conventional	203	155	131	203	151	134	155	131	155
Asset management	951	878	108	951	890	107	878	108	911
Assets under advice	493	460	107	493	472	104	460	107	464
Total assets under management	**1,648**	**1,493**	**110**	**1,648**	**1,513**	**109**	**1,493**	**110**	**1,530**
Breakdown of net fee income (DKK millions)									
Management fees	2,842	2,941	97	1,421	1,421	100	1,475	96	5,737
Performance fees	29	39	74	6	23	26	24	25	415
Risk allowance fees	552	530	104	296	256	116	262	113	1,130
Total net fee income	**3,423**	**3,510**	**98**	**1,722**	**1,701**	**101**	**1,761**	**98**	**7,281**

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

**Assets under Management from the acquired SEB Pension Danmark consist of DKK 53 billion from Life conventional and DKK 49 billion from Asset management (unit-linked products)*

First half 2018 vs first half 2017

Profit before tax amounted to DKK 1.6 billion, a decrease of 24% from the level in the first half of 2017. The financial performance was significantly influenced by uncertainty in the financial markets, leading to a lower investment result in the health and accident business, which is included in net trading income. Danica Pension's acquisition of SEB Pension Danmark, which was announced on 14 December 2017, is now finalised. The financial results of SEB Pension Danmark are included in the financial results as of 7 June 2018.

Net interest income was up 3% to DKK 0.4 billion, driven by an increase in volumes.

Net fee income amounted to DKK 3.4 billion and was 2% below the level in the first half of 2017, including the effect from SEB Pension Danmark. This was due mainly to the fact that more product launches supported net fee income in 2017. However, net fee income benefited from an increase in Assets under Management from the level in the first half of 2017.

Net trading income amounted to DKK 16 million and fell significantly from the level in the first half of 2017, when trading income was DKK 204 million. The reason for the decline was a low investment return in the health and accident business.

Other income amounted to a negative DKK 47 million, against DKK 97 million in the first half of 2017, due to a lower risk result in the health and accident business.

Operating expenses were up 5% from the level in the first half of 2017, due mainly to increased regulatory costs and the ordinary operating expenses of the acquired SEB Pension Danmark being recognised as of 7 June 2018.

Credit quality

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

Loan impairment charges amounted to net reversals of DKK 33 million in the first half of 2018.

Overall, the loan-to-value (LTV) level was stable throughout the first half of 2018.

Loan-to-value ratio, home loans	30 June 2018		31 December 2017	
	Average LTV (%)	Net credit exposure (DKK bn)	Average LTV (%)	Net credit exposure (DKK bn)
Denmark	60.1	41	60.0	40
Finland	65.2	2	65.5	2
Sweden	59.7	4	58.9	4
Norway	59.8	8	59.3	7
Total	60.1	55	60.0	53

Credit exposure

Credit exposure increased to DKK 89 billion in the first half of 2018. The increase was driven by growth in all markets with the exception of Finland as well as loan offers exposure that was not previously included in total credit exposure.

	Net credit exposure		Impairments (ann.) (%)
(DKK millions)	30 June 2018	31 December 2017	30 June 2018
Denmark	58,508	56,818	-0.02%
Finland	3,234	3,415	-0.06%
Sweden	6,577	6,292	0.07%
Norway	11,783	10,628	0.09%
Luxembourg	8,456	8,028	-0.93%
Total	88,558	85,180	-0.08%

Assets under Management

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

Assets under Management increased DKK 102 billion due to the acquisition of SEB Pension Danmark. At the end of June 2018, Assets under Management totalled DKK 1,648 billion.

Premiums for Danica Pension amounted to DKK 22.9 billion, against DKK 20.4 billion in the first half of 2017. The increase was driven primarily by positive developments in Denmark and Sweden, including DKK 0.9 billion in premiums recognised from the acquired SEB Pension Danmark.

For Asset Management, net sales in the first half of 2018 amounted to a negative DKK 3.5 billion, against DKK 11.1 billion in the same period of 2017. The decline was caused by outflow from a few large customers.

Investment return on customer funds

In the first half of 2018, the financial markets were characterised by geopolitical uncertainty and concerns regarding interest rates. Looking at our funds in total, 50% of investment products generated above–benchmark returns.
On a 3-year horizon, 66% of all investment products generated above-benchmark results.

% of investment products (GIPS composites) with above-benchmark returns (pre-costs)*	2018	3-year
All funds	50	66
Equity funds	36	57
Fixed-income funds	78	81
Balanced funds etc.	21	56

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

Customers with *Danica Balance Mix* achieved returns on investments of -2.4% to 0.3%. The return for customers with a *Danica Balance* medium risk profile with 20 years to retirement was -1.8%.

Customers with the *Markedspension* product (*Danica Pensionsforsikring)* achieved returns on investments of -0.7% to 0.1%. The return for customers with the *Markedspension* product and a medium risk profile with 20 years to retirement was -0.6%.

Customer satisfaction

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

Private Wealth Management

For two years in a row, Prospera has ranked Private Wealth Management the number one Private Banking supplier in the Nordics. Danske Forvaltning has also been ranked number one by the customers in this area.

Private Wealth Management is one of the market leaders in Denmark, Norway and Sweden and was ranked number two in all three countries.

The next survey will be released in the third quarter of 2018.

Asset Management
According to Prospera's latest survey from June 2018, Asset Management is now ranked number one in the Nordic region. Asset Management in Denmark dropped in ranking and is now ranked number two. However, in Sweden and Norway, customer satisfaction is increasing, and our ranking in Norway rose from number four to number two, and in Sweden from number twelve to number eight. In Finland, we were ranked number five.

Danica Pension
According to Aalund Research's survey on customer satisfaction, which runs every six months, Danica Pension is still number four in Denmark.

Q2 2018 vs Q1 2018

In the second quarter of 2018, profit before tax decreased 13% to DKK 0.8 billion. This was due primarily to the health and accident business posting a low risk result and a lower investment result, which affected trading and other income.

Net fee income rose 1%, including the effect of the SEB Pension Danmark acquisition.

Total income was on the same level as in the first quarter.

Operating expenses were 11% higher in the second quarter, due primarily to the acquisition of SEB Pension Danmark.

Northern Ireland

The underlying business performance was good, despite ongoing macroeconomic uncertainty, including continued growth in lending and deposits. Total income increased 1% to DKK 984 million, and expenses declined 4% to DKK 589 million. However, profit before tax declined to DKK 344 million, as we did not benefit from loan impairment reversals in the first half of 2018, which we did in the first half of 2017.

Northern Ireland (DKK millions)	First half 2018	First half 2017	Index 18/17	Q2 2018	Q1 2018	Index Q2/Q1	Q2 2017	Index 18/17	Full year 2017
Net interest income	736	692	106	372	364	102	350	106	1,374
Net fee income	201	228	88	106	95	112	113	94	429
Net trading income	41	44	93	25	15	167	20	125	111
Other income	6	6	100	4	3	133	3	133	48
Total income	984	970	101	507	477	106	486	104	1,961
Operating expenses	589	613	96	300	290	103	304	99	957
Profit before loan impairment charges	394	357	110	207	187	111	181	114	1,004
Loan impairment charges	50	-130	-	-12	62	-	-69	-	-247
Profit before tax	**344**	**487**	**71**	**219**	**125**	**175**	**250**	**88**	**1,251**
Loans, excluding reverse transactions before impairments	48,854	46,078	106	48,854	48,985	100	46,078	106	46,272
Allowance account, loans	862	980	88	862	858	100	980	88	757
Deposits, excluding repo deposits	63,029	58,965	107	63,029	60,529	104	58,965	107	58,971
Allowance account, guarantees	43	9	-	43	101	43	9	-	7
Allocated capital (average)*	6,686	6,044	111	6,673	6,700	100	6,107	109	6,215
Net interest income as % p.a. of loans and deposits	1.33	1.33		1.34	1.34		1.35		1.32
Profit before tax as % p.a. of allocated capital (ROE)	10.3	16.1		13.1	7.5		16.4		20.1
Cost/income ratio (%)	59.9	63.2		59.2	60.8		62.6		48.8
Full-time-equivalent staff	1,289	1,323	97	1,289	1,257	103	1,323	97	1,260

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

First half 2018 vs first half 2017

The underlying performance was good, with profit before loan impairment charges 10% higher than in the first half of 2017 and increasing to DKK 394 million.

Profit before tax decreased 29% to DKK 344 million on the basis of loan impairment charges in the year to date, against net reversals in the year-earlier period.

Total income amounted to DKK 984 million and was 1% higher year on year. The benefit from lending growth, higher customer activity and higher UK interest rates was offset by lower fee income following the sale of our Wealth business in 2017.

While uncertainty remains around Brexit, customer activity levels remained healthy. Our business continued to perform well supported by ongoing improvement to our mortgage customer proposition, including new products and process improvements, and further strengthening of business relationships. Business and personal lending as well as deposit volumes increased.

At DKK 589 million, operating expenses were 4% lower than in the same period last year. Restructuring initiatives completed in 2017 enabled increased investment in new technology and customer solutions, while also supporting a reduction in operating costs.

First half 2018 vs first half 2017 in local currency

In local currency, profit before loan impairments grew 9%, reflecting income growth of 2% and a 2% reduction in operating expenses.

Lending and deposits grew 9% and 11%, respectively, in local currency, with growth across both business and personal customers.

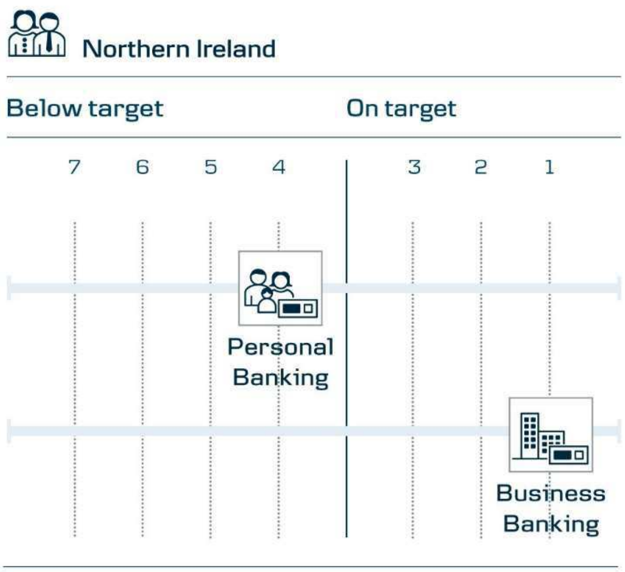
Credit quality

Loan impairment charges showed an expense, owing to negative developments on a few cases in the first quarter, which were partially offset by a net reversal in the second quarter. The majority of the credit exposure continued to show an improvement in credit quality.

(DKK millions)	Net credit exposure 30 June 2018	31 Dec. 2017	Impairments (ann.) (%) 30 June 2018
Personal customers	22,152	19,312	-0.18%
Public institutions	17,087	13,163	-0.07%
Financial customers	128	189	-1.23%
Commercial customers	31,306	30,356	0.56%
Total	**70,673**	**63,019**	**0.22%**

Customer satisfaction

During the first half of 2018, we continued to focus on improving our customer service, and we maintained our position as the overall market leader in the business segment in Northern Ireland. However, in the personal customer segment, despite some progress in recent months, we are currently ranked number four.



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

Q2 2018 vs Q1 2018

Profit before loan impairment charges showed a similar pattern to the performance in the first quarter of 2018, reflecting the underlying positive business momentum. Profit before tax was further boosted by a net loan impairment reversal in the second quarter.

Non-core

Profit before tax for the first half of 2018 was DKK 48 million. Total lending stood at DKK 17.5 billion at the end of June 2018, against DKK 5.4 billion at the end of 2017. The increase relates to the transfer of Baltic customers to the Non-core unit as per 1 April 2018, which was made as a result of the repositioning of the Group's business activities in the Baltic countries. The winding-up of the Non-core portfolios is proceeding according to plan.

Non-core (DKK millions)	First half 2018	First half 2017	Index 18/17	Q2 2018	Q1 2018	Index Q2/Q1	Q2 2017	Index 18/17	Full year 2017
Total income	98	86	114	91	7	-	42	217	169
Operating expenses	176	138	128	122	54	226	76	161	890
Profit before loan impairment charges	-78	-52	150	-31	-47	66	-34	91	-722
Loan impairment charges	-126	-7	-	-48	-79	-	-9	-	-710
Profit before tax	**48**	**-45**	**-**	**16**	**32**	**50**	**-25**	**-**	**-12**
Loans, excluding reverse transactions before impairments	17,495	19,517	90	17,495	5,270	-	19,517	90	5,380
Allowance account, loans	749	2,192	34	749	570	131	2,192	34	653
Deposits, excluding repo deposits	10,258	1,978	-	10,258	1,940	-	1,978	-	1,925
Allowance account, guarantees	25	31	81	25	11	227	31	81	27
Allocated capital (average)	1,665	2,745	61	2,012	1,315	153	2,714	74	2,604
Net interest income as % p.a. of loans and deposits	0.62	0.96		1.11	0.54		0.95		2.63
Profit before tax as % p.a. of allocated capital (ROAC)	5.8	-3.3		3.2	9.7		-3.7		-0.5
Cost/income ratio (%)	179.6	160.5		134.1	771.4		181.0		526.6
Full-time-equivalent staff	386	131	295	386	123	-	131	295	122

Loan impairment charges (DKK millions)									
Non-core banking*	-120	-7	-	-54	-67	-	-9	-	-796
Non-core conduits etc.	-6	-	-	6	-12	-	-	-	86
Total	**-126**	**-7**	**-**	**-48**	**-79**	**-**	**-9**	**-**	**-710**

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

First half 2018 vs first half 2017

Profit before tax amounted to DKK 48 million, against a loss of DKK 45 million in the first half of 2017. Profit before tax increased primarily as a result of increased net loan impairment reversals.

Operating expenses increased from DKK 138 million to DKK 176 million, due primarily to the transfer of the Baltic activities to the Non-core unit in the second quarter of 2018.

Net credit exposure at the end of June 2018 totalled DKK 22.4 billion, against DKK 8.2 billion at the end of 2017. The increase in Non-core banking related to the Baltic customers transferred to the Non-core unit in the second quarter of 2018. The net credit exposure transferred amounted to DKK 14.6 billion.

Total lending amounted to DKK 17.5 billion and consisted mainly of exposure to commercial and personal customers as well as conduits. The loan book will mature according to contractual terms.

The Non-core conduits portfolio amounted to DKK 4.2 billion, against DKK 4.6 billion at the end of 2017. The portfolio consists mainly of liquidity facilities for conduits. The credit quality of the portfolio was stable.

(DKK millions)	Net credit exposure 30 June 2018	31 Dec. 2017	Expected Credit Loss 30 June 2018	31 Dec. 2017
Non-core banking*	18,217	3,610	403	201
-of which Personal customers	5,185	3,610	124	-
-of which Commercial customers	10,706	-	258	-
-of which Public institutions	2,325		22	31
Non-core conduits etc.	4,168	4,583	370	479
Total	**22,385**	**8,193**	**773**	**680**

Total impairments amounted to a net reversal of DKK 126 million, against a net reversal of DKK 7 million in the first half of 2017, primarily reflecting continued reversals and workouts, mainly in Non-core Ireland and, to some extent, Non-core Baltics.

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

Q2 2018 vs Q1 2018

Profit before tax amounted to DKK 16 million, against DKK 32 million in the first quarter of 2018.

Operating expenses amounted to DKK 122 million, an increase from DKK 54 million in the first quarter of 2018, due primarily to the transfer of the Baltic activities to the Non-core unit in the second quarter of 2018.

Loan impairment charges amounted to net reversals of DKK 48 million, against net reversals of DKK 79 million in the first quarter of 2018. Most of the reversals in the first quarter of 2018 were of charges against Non-core banking facilities, primarily the Irish portfolio.

Other Activities

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

Other Activities (DKK millions)	First half 2018	First half 2017	Index 18/17	Q2 2018	Q1 2018	Index Q2/Q1	Q2 2017	Index 18/17	Full year 2017
Net interest income	327	603	54	112	214	52	244	46	1,402
Net fee income	-150	-137	109	-73	-76	96	-105	70	-282
Net trading income	338	275	123	270	68	-	118	229	479
Other income	3	81	4	-9	12	-	75	-	80
Total income	518	822	63	300	218	138	334	90	1,678
Operating expenses	379	359	106	196	183	107	185	106	750
Profit before loan impairment charges	139	463	30	104	35	297	149	70	928
Loan impairment charges	-8	3	-	-2	-7	-	3	-	1
Profit before tax	**147**	**460**	**32**	**106**	**42**	**252**	**146**	**73**	**927**

Profit before tax (DKK millions)									
Group Treasury	182	702	26	96	87	110	274	35	1,283
Own shares	131	-155	-	104	28	-	-43	-	-127
Additional tier 1 capital	390	391	100	197	194	102	197	100	786
Group support functions	-556	-478	116	-291	-266	109	-283	103	-1,016
Total Other Activities	**147**	**460**	**32**	**106**	**42**	**252**	**146**	**73**	**927**

First half 2018 vs first half 2017

Other Activities posted a profit before tax of DKK 147 million, against DKK 460 million in the first half of 2017, mainly as a result of lower net interest income.

Net interest income amounted to DKK 327 million, against DKK 603 million in the first half of 2017. The decrease in the first half of 2018 was driven primarily by Internal Bank, where the lower funding costs continued to reduce the allocation of liquidity costs.

Net trading income amounted to DKK 338 million, against DKK 275 million in the first half of 2017. The first half of 2018 was positively affected by the elimination of own shares, which was partly off-set by allocations to the business units of accrued income on lending floors previously retained at Group Treasury, and by lower income on bond portfolios held in Group Treasury.

Q2 2018 vs Q1 2018

Profit before tax was DKK 106 million, against DKK 42 million in the first quarter.

Net interest income amounted to DKK 112 million, against DKK 214 million in the first quarter. The decrease was driven primarily by Internal Bank, where allocated liquidity costs decreased.

Net trading income amounted to DKK 270 million, against DKK 68 million in the first quarter, with the elimination of own shares partly driving the improved result.

New organisation

As stated in company announcement No. 23/2018 dated 6 April 2018, Danske Bank changed its organisation effective from 2 May 2018. The changes concern mainly the banking units, which are now structured to be more country focused. Personal Banking and Business Banking, which previously operated as separate business units, have been merged into country organisations within two new units: Banking Denmark and Banking Nordic (Norway, Sweden and Finland). Corporates & Institutions, Wealth Management and Northern Ireland are largely unchanged. The purpose of the organisational change is to keep up our progress by moving closer to our customers and strengthening our business development activities. High-level preliminary pro forma figures for the new organisation for the first half of 2018 are provided below. From the third quarter of 2018, we will report solely on the new organisation.

New organisation - First half 2018

(DKK millions)	Banking Denmark	Banking Nordic	C&I	Wealth Man.	Northern Ireland	Non-core	Other Activities incl. Eliminations	Total
Net interest income	4,458	3,953	1,983	366	736	-	329	11,824
Net fee income	1,750	815	1,478	3,423	201	-	-119	7,547
Net trading income	450	145	1,528	16	41	-	323	2,502
Other income	114	378	9	-47	6	-	1	461
Total income	6,771	5,289	4,998	3,758	984	-	533	22,334
Operating expenses	3,283	2,479	2,405	2,146	589	-	498	11,400
Profit before loan impairment charges	3,488	2,810	2,593	1,612	394	-	35	10,934
Loan impairment charges	-594	2	-132	-33	50	-	-1	-707
Profit before tax, core	4,082	2,807	2,725	1,644	344	-	36	11,641
Profit before tax, Non-core	-	-	-	-	-	48	-	48
Profit before tax	**4,082**	**2,807**	**2,725**	**1,644**	**344**	**48**	**36**	**11,689**

Old organisation - First half 2018

(DKK millions)	Personal Banking	Business Banking	C&I	Wealth Man.	Northern Ireland	Non-core	Other Activities incl. Eliminations	Financial highlights
Net interest income	3,886	4,686	1,824	366	736	-	326	11,824
Net fee income	1,716	940	1,417	3,423	201	-	-150	7,547
Net trading income	302	310	1,496	16	41	-	338	2,502
Other income	201	288	9	-47	6	-	3	461
Total income	6,104	6,224	4,746	3,758	984	-	518	22,334
Operating expenses	3,580	2,444	2,263	2,144	589	-	379	11,400
Profit before loan impairment charges	2,525	3,780	2,483	1,613	394	-	139	10,934
Loan impairment charges	-180	-451	-85	-33	50	-	-8	-707
Profit before tax, core	2,704	4,231	2,568	1,646	344	-	147	11,641
Profit before tax, Non-core	-	-	-	-	-	48	-	48
Profit before tax	**2,704**	**4,231**	**2,568**	**1,646**	**344**	**48**	**147**	**11,689**

New organisation - First half 2018

(DKK millions)	Banking Denmark	Banking Nordic	C&I	Wealth Man.	Northern Ireland
Loans, excluding reverse transactions	864,392	572,497	189,161	76,602	47,993
Deposits, excluding repo deposits	287,496	238,054	268,651	71,145	63,029
Allocated capital (average)	34,635	32,309	34,815	13,570	6,686
Cost/income ratio (%)	48.5%	46.9%	48.1%	57.1%	59.9%
ROAC before imp.	20.1%	17.4%	14.9%	23.8%	11.8%
ROAC before tax	23.6%	17.4%	15.7%	24.2%	10.3%

Definition of alternative performance measures

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

Throughout the Management's report, performance is assessed on the basis of the financial highlights and segment reporting, which represent the financial information regularly provided to management. The differences between the financial highlights and the IFRS financial statements relate to certain changes in the presentation. In general, there are no adjusting items, which means that net profit is the same in the financial highlights and in the IFRS income statement. However, in 2018 an adjusting item related to the implementation of IFRS 9 is included. Loans granted by Realkredit Danmark (RD) are measured at fair value (both under IAS 39 and under IFRS 9). After the implementation of IFRS 9, the fair value of the credit risk continues to be based on the same approach as that used for impairment on loans at amortised cost (page 135 in Annual Report 2017 provides more information). The impact from the expected credit loss impairment model in IFRS 9 on these loans at 1 January 2018 is recognised as a change in an accounting estimate in the IFRS income statement. To recognise the changes in RD due to IFRS 9 similarly to all the others IFRS 9 changes in the Group and to better reflect the actual performance in 2018, the impact is recognised as a reduction in shareholders' equity together with the other changes from the implementation of IFRS 9. Therefore, net profit in the financial highlights is DKK 312 million higher than net profit in the IFRS income statement. Note 3 to the financial statements describes the differences between the financial highlights and the IFRS financial statements, and each line item in the financial highlights is reconciled with the consolidated financial statements prepared under IFRS.

Definitions of additional ratios presented on page 4 and in other sections of the Management's report:

Ratios and key figures	Definition
Dividend per share (DKK)	The dividend is the dividend related to net profit for the current year and paid to shareholders the subsequent year. Accordingly, for 2017, it is the dividend paid in 2018.
Dividend per share (DKK)	As IFRS, but with net profit, as disclosed in the financial highlights.
Return on average shareholders' equity (% p.a.)	Net profit as disclosed in the financial highlights 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 304.2 million net of tax (2017: DKK 305 million).
Return on average tangible equity (% p.a.)	As above, but with shareholders' equity reduced by intangible assets and net profit adjusted for amortisation of intangible assets.
Net interest income as % p.a. of loans and deposits	Net interest income in the financial highlights divided by the sum of loans and deposits. All amounts are from the financial highlights.
Cost/income ratio (%)	Operating expenses divided by total income. All amounts are from the financial highlights.
Book value per share	Shareholders' equity (that is, excluding equity-accounted additional tier 1 capital) divided by the number of shares outstanding at the end of the period.
Loan impairment charges as % of loans and guarantees	This ratio is calculated on the basis of loan impairment charges and loans and guarantees in core segments. The nominator is the loan impairment charges of DKK -707 million from the financial highlights and annualised. The denominator is the sum of Loans at amortised cost of DKK 935.8 billion, Repo loans of DKK 172.2 billion, Loans at fair value of DKK 787.2 billion and guarantees of DKK 84.5 billion at the beginning of the year, as disclosed in the column "Lending activities – core" in the "Breakdown of credit exposure" table in the notes to the financial statements. The ratio is calculated for each business unit.
Allowance account as % of loans and guarantees	This ratio is calculated on the basis of the allowance account and loans and guarantees in core segments. The denominator is calculated as in the ratio above plus the allowance account of DKK 20.1 billion.

Financial statements

Notes

Income statement – Danske Bank Group

Note	(DKK millions)	First half 2018	First half 2017	Q2 2018	Q2 2017	Full year 2017
4	Interest income	29,270	28,368	13,980	14,271	58,495
	Interest expense	14,491	14,151	6,775	7,098	28,631
	Net interest income	14,779	14,217	7,205	7,172	29,863
4	Fee income	8,734	8,864	4,521	4,368	17,572
	Fee expenses	3,421	3,337	1,889	1,897	6,749
	Net trading income	2,259	10,971	5,159	3,173	19,332
4	Other income	2,155	2,619	1,089	1,323	5,181
4	Income from holdings in associates	182	265	42	143	566
	Net premiums	12,906	13,425	5,945	6,002	25,935
	Net insurance benefits	14,003	21,505	10,527	7,985	41,119
	Operating expenses	12,734	12,669	6,481	6,356	25,877
	Profit before loan impairment charges	10,856	12,849	5,063	5,942	24,705
5	Loan impairment charges	-433	-474	-424	-240	-1,582
	Profit before tax	11,289	13,323	5,487	6,182	26,288
	Tax	2,497	3,002	1,256	1,392	5,388
	Net profit for the period	**8,792**	**10,321**	**4,231**	**4,790**	**20,900**
	Portion attributable to					
	shareholders of Danske Bank A/S (the Parent Company)	8,402	9,930	4,034	4,593	20,114
	additional tier 1 capital holders	390	391	197	197	786
	Net profit for the period	**8,792**	**10,321**	**4,231**	**4,790**	**20,900**
	Earnings per share (DKK)	9.6	10.8	4.7	5.0	22.2
	Diluted earnings per share (DKK)	9.4	10.8	4.5	5.0	22.1
	Proposed dividend per share (DKK)	-	-	-	-	10.0

Statement of comprehensive income – Danske Bank Group

(DKK millions)	First half 2018	First half 2017	Q2 2018	Q2 2017	Full year 2017
Net profit for the period	8,792	10,321	4,231	4,791	20,900
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Remeasurement of defined benefit plans	-41	-168	145	86	14
Tax	2	24	-149	9	-92
Items that will not be reclassified to profit or loss	-39	-144	-4	95	-78
Items that are or may be reclassified subsequently to profit or loss					
Translation of units outside Denmark	-361	-290	-355	-379	-473
Hedging of units outside Denmark	277	273	296	366	425
Unrealised value adjustments of bonds at fair value (OCI)	21	83	17	3	17
Realised value adjustments of bonds at fair value (OCI)	-14	-14	-6	-6	-74
Tax	-111	-82	-96	-73	-82
Items that are or may be reclassified subsequently to profit or loss	-188	-30	-144	-89	-187
Total other comprehensive income	-227	-174	-148	6	-265
Total comprehensive income for the period	8,565	10,147	4,083	4,797	20,635
Portion attributable to					
shareholders of Danske Bank A/S (the Parent Company)	8,175	9,756	3,887	4,600	19,849
additional tier 1 capital holders	390	391	196	197	786
Total comprehensive income for the period	8,565	10,147	4,083	4,797	20,635

Balance sheet – Danske Bank Group

Note	(DKK millions)	30 June 2018	31 December 2017	30 June 2017
	Assets			
	Cash in hand and demand deposits with central banks	68,023	82,818	77,364
	Due from credit institutions and central banks	265,433	333,975	327,839
	Trading portfolio assets	523,460	449,292	489,463
	Investment securities	274,104	324,618	331,817
	Loans at amortised cost	971,964	1,112,752	1,136,847
6	Loans at fair value	1,024,751	787,223	772,356
	Assets under pooled schemes and unit-linked investment contracts	144,773	112,065	106,045
	Assets under insurance contracts	385,833	296,867	290,620
	Intangible assets	11,125	7,177	6,963
	Tax assets	3,479	1,419	2,383
9	Other assets	33,472	31,324	31,019
	Total assets	**3,706,419**	**3,539,528**	**3,572,717**
	Liabilities			
	Due to credit institutions and central banks	264,598	242,887	256,566
	Trading portfolio liabilities	447,012	400,596	451,663
7	Deposits	1,056,547	1,046,858	1,040,938
8	Issued bonds at fair value	798,589	758,375	733,172
8	Issued bonds at amortised cost	321,395	405,080	428,134
	Deposits under pooled schemes and unit-linked investment contracts	153,702	119,901	114,537
	Liabilities under insurance contracts	422,586	322,726	309,933
	Tax liabilities	9,022	8,634	8,159
9	Other liabilities	38,223	37,097	36,606
8	Subordinated debt	33,847	29,120	30,110
	Total liabilities	**3,545,522**	**3,371,272**	**3,409,819**
	Equity			
	Share capital	8,960	9,368	9,368
	Foreign currency translation reserve	-766	-681	-650
	Reserve for bonds at fair value through OCI	132	130	256
	Retained earnings	138,232	135,731	139,590
	Proposed dividends	-	9,368	-
	Shareholders of Danske Bank A/S (the Parent Company)	146,557	153,916	148,564
	Additional tier 1 capital holders	14,340	14,339	14,334
	Total equity	**160,897**	**168,256**	**162,898**
	Total liabilities and equity	**3,706,419**	**3,539,528**	**3,572,717**

Statement of capital – Danske Bank Group

Changes in equity

	Shareholders of Danske Bank A/S (the Parent Company)							
(DKK millions)	Share capital	Foreign currency translation reserve	Reserve for bonds at fair value (OCI)	Retained earnings	Proposed dividends	Total	Additional tier 1 capital	Total
Total equity at 31 December 2017	9,368	-681	130	135,731	9,368	153,916	14,339	168,256
Effect from changed accounting policy (IFRS 9)	-	-	-	-1,655	-	-1,655	-	-1,655
Restated total equity at 1 January 2018	9,368	-681	130	134,077	9,368	152,262	14,339	166,601
Net profit for the period	-	-	-	8,402	-	8,402	390	8,792
Other comprehensive income								
Remeasurement of defined benefit pension plans	-	-	-	-41	-	-41	-	-41
Tax effect from remeasurement of defined benefit pension plans				2		2		2
Translation of units outside Denmark	-	-361	-	-	-	-361	-	-361
Hedging of units outside Denmark	-	277	-	-	-	277	-	277
Unrealised value adjustments	-	-	21	-	-	21	-	21
Realised value adjustments	-	-	-14	-	-	-14	-	-14
Tax	-	-	-	-111	-	-111	-	-111
Total other comprehensive income	-	-84	7	-151	-	-227	-	-227
Total comprehensive income for the period	-	-84	7	8,251	-	8,175	390	8,565
Transactions with owners								
Paid interest on additional tier 1 capital	-	-	-	-	-	-	-392	-392
Dividends paid	-	-	-	517	-9,368	-8,851	-	-8,852
Reduction of share capital	-409	-	-	409	-	-	-	-
Acquisition of own shares and additional tier 1 capital	-	-	-	-25,852	-	-25,852	3	-25,849
Sale of own shares and additional tier 1 capital	-	-	-	20,667	-	20,667	-	20,667
Tax	-	-2	-5	164	-	157	-	157
Total equity at 30 June 2018	8,960	-766	132	138,232	-	146,557	14,340	160,897

On 5 February 2018, the Group initiated a share buy-back programme of DKK 10 billion, which may run until 1 February 2019. At the end of June 2018, the Group had acquired 18,194,000 shares for a total amount of DKK 4,096 million under the 2018 share buy-back programme based on trade date.

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

Statement of capital – Danske Bank Group

Changes in equity

(DKK millions)	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	Total
Total equity at 1 January 2017	9,837	-633	187	134,028	8,853	152,272	14,343	166,615
Net profit for the period	-	-	-	9,930	-	9,930	391	10,321
Other comprehensive income								
Remeasurement of defined benefit pension plans	-	-	-	-168	-	-168	-	-168
Translation of units outside Denmark	-	-290	-	-	-	-290	-	-290
Hedging of units outside Denmark	-	273	-	-	-	273	-	273
Unrealised value adjustments	-	-	83	-	-	83	-	83
Realised value adjustments	-	-	-14	-	-	-14	-	-14
Tax	-	-	-	-58	-	-58	-	-58
Total other comprehensive income	-	-17	69	-226	-	-174	-	-174
Total comprehensive income for the period	-	-17	69	9,704	-	9,756	391	10,147
Transactions with owners								
Paid interest on additional tier 1 capital	-	-	-	-	-	-	-393	-393
Dividends paid	-	-	-	521	-8,853	-8,332	-	-8,332
Share capital reduction	-469	-	-	469	-	-	-	-
Acquisition of own shares and additional tier 1 capital	-	-	-	-29,633	-	-29,633	-113	-29,746
Sale of own shares and additional tier 1 capital	-	-	-	24,427	-	24,427	106	24,533
Tax	-	-	-	74	-	74	-	74
Total equity at 30 June 2017	9,368	-650	256	139,590	-	148,564	14,334	162,898

Statement of capital – Danske Bank Group

(DKK millions)	30 June 2018	31 December 2017
Share capital (DKK)	8,959,536,210	9,368,277,220
Number of shares	895,953,621	936,827,722
Number of shares outstanding	870,966,253	894,050,822
Average number of shares outstanding for the period	860,746,978	915,423,922
Average number of shares outstanding, including dilutive shares, for the period	861,319,157	915,981,212

(DKK millions)

Total capital and total capital ratio	30 June 2018	31 December 2017
Total equity	160,897	168,256
Revaluation of domicile property at fair value	267	267
Tax effect of revaluation of domicile property at fair value	-39	-32
Total equity calculated in accordance with the rules of the Danish FSA	161,125	168,491
Additional tier 1 capital instruments included in total equity	-14,355	-14,158
Accrued interest on additional tier 1 capital instruments	-168	-169
Tax on accrued interest on additional tier 1 capital instruments	37	37
Common equity tier 1 capital instruments	146,640	154,202
Adjustment to eligible capital instruments	-6,026	-1,060
IFRS 9 reversal due to transitional rules	1,599	-
Prudent valuation	-974	-759
Prudential filters	-270	-211
Expected/proposed dividends	-5,275	-9,368
Intangible assets of banking operations	-7,186	-7,100
Deferred tax on intangible assets	377	377
Deferred tax assets that rely on future profitability excluding temporary differences	-308	-335
Defined benefit pension fund assets	-1,696	-1,343
Statutory deduction for insurance subsidiaries	-6,391	-1,349
Other statutory deductions	-271	-308
Common equity tier 1 capital	120,221	132,744
Additional tier 1 capital instruments	23,524	18,574
Statutory deduction for insurance subsidiaries	-	-169
Tier 1 capital	143,745	151,150
Tier 2 capital instruments	18,988	19,343
Statutory deduction for insurance subsidiaries	-	-169
Total capital	162,733	170,324
Total risk exposure amount	753,986	753,409
Common equity tier 1 capital ratio (%)	15.9	17.6
Tier 1 capital ratio (%)	19.1	20.1
Total capital ratio (%)	21.6	22.6

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.

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

The Internal Capital Adequacy Assessment report provides more details about Danske Bank's solvency need. The report is available at danskebank.com/investorrelations/reports. The Internal Capital Adequacy Assessment report is not covered by the independent auditors' review.

Cash flow statement – Danske Bank Group

(DKK millions)	First half 2018	First half 2017	Full year 2017
Cash flow from operations			
Profit before tax	11,289	13,323	26,288
Tax paid	-4,059	-3,869	-5,482
Adjustment for non-cash operating items	-1,133	-3,317	-1,093
Total	6,097	6,137	19,713
Changes in operating capital			
Amounts due to/from credit institutions and central banks	23,344	-15,732	-31,337
Trading portfolio	-27,752	-6,422	-17,318
Acquisition/sale of own shares and additional tier 1 capital	-672	-264	-241
Other financial instruments	32,860	16,022	26,854
Loans at amortised cost and fair value	-96,307	-1,160	9,177
Deposits	9,690	97,073	102,993
Issued bonds at amortised cost and fair value	-43,470	6,440	31,643
Assets/liabilities under insurance contracts	13,895	-10,266	-3,720
Other assets/liabilities	15,310	38,741	10,628
Cash flow from operations	**-67,005**	**130,569**	**148,392**
Cash flow from investing activities			
Acquisition/sale of businesses	-5,000	314	291
Acquisition of intangible assets	-430	-432	-1,022
Acquisition of tangible assets	-218	-285	-623
Sale of tangible assets	4	69	74
Cash flow from investing activities	**-5,644**	**-334**	**-1,280**
Cash flow from financing activities			
Issues of subordinated debt	4,748	5,139	5,087
Redemption of subordinated debt	-	-12,071	-12,577
Dividends	-8,851	-8,332	-8,332
Share buy back programme*	-4,836	-4,949	-9,958
Paid interest on additional tier 1 capital	-392	-393	-786
Cash flow from financing activities	**-9,331**	**-20,606**	**-26,566**
Cash and cash equivalents at 1 January	413,593	297,078	297,078
Foreign currency translation	277	-2,776	-4,031
Change in cash and cash equivalents	-81,982	109,629	120,546
Cash and cash equivalents, end of period	**331,888**	**403,930**	**413,593**
Cash and cash equivalents, end of period			
Cash in hand	8,146	8,624	9,051
Demand deposits with central banks	59,877	68,741	73,766
Amounts due from credit institutions and central banks within three months	263,865	326,565	330,776
Total	**331,888**	**403,930**	**413,593**

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

Notes – Danske Bank Group

1. Significant accounting policies and estimates

(a) General

The report has been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU, and additional Danish disclosure requirements for listed financial companies. The report is condensed and should be read in conjunction with the Group's Annual Report 2017.

At 1 January 2018, the Group implemented IFRS 9, Financial Instruments, and IFRS 15, Revenue from Contracts with Customers. Annual Report 2017 provides a full description of the significant accounting policies, including the description in note 39 of changes to the significant accounting policies due to IFRS 9 and IFRS 15.

The impact from changes in accounting policies on the opening balance sheet at 1 January 2018 is disclosed in note 2.

For changes in the segment reporting, see note 3.

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

(b) Significant accounting estimates

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

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

Measurement of expected credit losses on loans, financial guarantees and loan commitments and debt instruments measured at amortised cost

At 1 January 2018, the Group implemented the three-stage expected credit loss impairment model in IFRS 9. The impairment charge for expected credit losses depends on whether the credit risk has increased significantly since initial recognition. If the credit risk has not increased significantly, the impairment charge equals the expected credit losses resulting from default events that are possible within the next 12 months (stage 1). If the credit risk has increased significantly, the loan is more than 30 days past due, or the loan is in default or otherwise impaired, the impairment charge equals the lifetime expected credit losses (stage 2 and 3).

The expected credit loss is calculated for all individual facilities as a function of PD, EAD and LGD and incorporates forward-looking information. The forward-looking elements reflect the expectations of the Group's senior management and involves the creation of scenarios (base case, upside and downside), including an assessment of the probability for each scenario. Based on these assessments, the allowance account at 30 June 2018 amounted to DKK 21.7 billion. Forward-looking information is a key judgement. The allowance account would increase DKK 0.5 billion, if the downside scenario was assigned a probability of 100%. If instead the upside scenario was assigned a probability of 100 %, the allowance account would decrease DKK 0.5 billion.

Note 39 in Annual Report 2017 and the risk management notes provide more details on expected credit losses. At 30 June 2018, loans accounted for about 54% of total assets (31 December 2017: 54%).

Fair value measurement of financial instruments

Measurements of financial instruments that are only to a limited extent based on observable market data, such as the measurement of unlisted shares and certain bonds for which there is no active market, are subject to significant estimates. The estimated fair value of illiquid bonds significantly depends on the credit spread estimate. A credit spread widening of 50bp would have caused the fair value of the bonds to decrease DKK 216 million (31 December 2017: DKK 80 million). The Group makes fair value adjustments to cover changes in counterparty risk (CVA and DVA) and to cover expected funding costs (FVA) on derivatives, bid-offer spreads on the net open position of the portfolio of assets and liabilities with offsetting market risk recognised at mid-market prices, and model risk on level 3 derivatives. At 30 June 2018, the adjustments totalled DKK 1.0 billion (31 December 2017: DKK 0.9 billion), including the adjustment for credit risk on derivatives that are credit impaired. Note 30 in Annual Report 2017 provides more details.

Measurement of goodwill and customer rights

Goodwill is tested for impairment once a year or more frequently if indications of impairment exist. Impairment testing requires management to estimate the future cash flows. A number of factors affect the value of such cash flows, including discount rates, changes in the economic outlook, customer behaviour and competition. At 30 June 2018, goodwill amounted to DKK 9.2 billion (31 December 2017: DKK 5.3 billion). In June 2018, the Group acquired SEB Pension Danmark. The acquisition lead to an increase in goodwill in Wealth Management of DKK 2.5 billion and in customer relations of DKK 1.3 billion. For further information, see note 13. The total carrying amount of goodwill in Wealth Management is DKK 4.4 billion (31 December 2017: DKK 1.8 billion) of which DKK 1.8 billion relates to Danske Capital's activities in Finland. The excess value (the amount by which the cash-generating unit's recoverable amount exceeds the carrying amount) in the latest annual impairment test for Wealth Management (Danske Capital) which was performed in the fourth quarter of 2017, amounted to DKK 0.3 billion. The goodwill related to SEB Pension Danmark will be tested before the end of 2018. The remaining goodwill relates to Corporates & Institutions, for which the excess value in the latest test is significant. It has been assessed that no indication of impairment exists at 30 June 2018. Note 18 in Annual Report 2017 provides more information about impairment testing and sensitivity to changes in assumptions.

Notes – Danske Bank Group

(b) Significant accounting estimates continued

Measurement of liabilities under insurance contracts

Measurement of liabilities under insurance contracts is based on actuarial computations that rely on assumptions about a number of variables, including mortality and disability rates, and on the discount rate. Assumptions about future mortality rates are based on the Danish FSA's benchmark, while other assumptions are based on data from the Group's own portfolio of insurance contracts. In 2018, the Danish FSA has changed the assumptions about future mortality rates to be calculated based on the last 20 years (previously the last 30 years). The adjustment has reduced net profit before tax by DKK 54 million. Note 17 and the risk management notes in Annual Report 2017 provide more information about the accounting for insurance liabilities and sensitivity to changes in assumptions.

Recognition of deferred tax assets and liabilities

Recognition of deferred tax requires management to assess the probability and amount of future profit. Deferred tax assets arising from unused tax losses are recognised to the extent that such losses can be offset against tax on expected future profit over the next five years. At 30 June 2018 deferred tax assets from recognised tax loss carry-forwards amounted to DKK 0.3 billion (31 December 2017: DKK 0.3 billion). The tax base of unrecognised tax loss carry-forwards, relating primarily to the Group's banking operations in Ireland, amounted to DKK 2.9 billion (31 December 2017: DKK 2.9 billion). The full deferred tax liability arising from international joint taxation was recognised and amounted to DKK 5.8 billion (31 December 2017: DKK 5.8 billion). Note 20 in Annual Report 2017 provides more information about deferred tax.

Notes – Danske Bank Group

2. Changes in accounting policies implemented at 1 January 2018

At 1 January 2018, the Group implemented IFRS 9, Financial Instruments, and IFRS 15, Revenue from Contract with Customers. Annual Report 2017 provides a full description of the significant accounting policies, including the description in note 39 of changes to the significant accounting policies due to IFRS 9 and IFRS 15. The implementation of IFRS 15 had no impact on shareholders' equity, assets or liabilities.

The key impact of the implementation of IFRS 9 is:

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

The impact from changes in accounting policies on the opening IFRS balance sheet at 1 January 2018 is shown in the table below. The reclassifications of financial instruments between measurement categories in IFRS 9 and the impact from the expected credit loss impairment model are shown separately. The latter excludes the impact on loans granted by Realkredit Danmark. All other changes, i.e. remeasurement from amortised cost to fair value, the tax impact and minor adjustments in Danica Pension, are presented together.

Notes – Danske Bank Group

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

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

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

Notes – Danske Bank Group

3. Business model and business segmentation

(a) Business model and business segmentation

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

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

As of 2 May 2018, the Group consists of the business segments Banking DK, Banking Nordic, Corporates & Institutions, Wealth Management, Northern Ireland, the Non-core unit and Other Activities. The new business segments will be reflected in the Group's internal and external financial reporting from the third quarter of 2018.

Personal Banking serves personal customers. The unit offers advice that is based on the individual customer's needs as well as a broad range of solutions for day-to-day banking, home financing, retirement planning and other aspects of personal finance.

Business Banking serves small and medium-sized businesses. The unit provides advice and targeted solutions to business customers based on the individual business' situation and size, and provides specialised advice where needed, for instance during international expansion, acquisitions or a change of ownership. The unit offers innovative digital solutions to make the customer's daily operations easier.

Corporates & Institutions serves the most complex financing and transaction needs of large corporate and institutional customers. This wholesale division carries out banking activities in General Banking and provides funding, risk management, investment services, corporate finance advisory services and comprehensive transaction banking solutions in Capital Markets, Fixed Income, Currencies and Commodities (FICC), and Transaction Banking. Each customer of Corporates & Institutions is served by a key relationship manager supported by product specialists to ensure proactive advice on the various wholesale banking services offered.

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

Northern Ireland serves personal and business customers through a network of branches in Northern Ireland and 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 primarily of loans to personal banking customers in the Baltics and liquidity facilities for Special Purpose Vehicles (SPVs) and conduit structures.

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

Presentation in the financial highlights and in the segment reporting

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

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

Notes – Danske Bank Group

3. Business model and business segmentation

Changes to financial highlights and segment reporting in 2018

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

- We have decided to integrate International banking into the business units in order to further ensure a seamless and value-creating experience for our international customers. In this process, we have transferred our business activities in Germany, Poland and Russia from Corporates & Institutions to Business Banking effective from 1 January 2018.
- Income on derivatives with customers is split between the business segment to which the customer belongs and FICC (part of Corporates & Institutions) as payment for performing the trade. Historically, this income has been presented as Net trading income in FICC, and as Net interest income, Net fee income or Net trading income, depending on the type of derivative, in all other business segments. Effective from 1 January 2018, the presentation of customer income on derivatives in FICC has been aligned with the presentation in the other business segments as this better reflects the type of income and the fact that the income is customer-driven.

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

	Highlights First half	Transfer of Russia, Poland and Germany to Business Banking		Profit share of derivatives in FICC (C&I)	Adjusted highlights First half
(DKK millions)	2017	Business Banking	C&I		2017
Net interest income	11,431	69	-69	218	11,649
Net fee income	7,593	42	-42	154	7,747
Net trading income	4,519	49	-49	-372	4,147
Other income	843	0	0		843
Total income	24,385	160	-160	0	24,385
Operating expenses	11,484	65	-65		11,484
Profit before loan impairment charges	12,901	95	-95	0	12,901
Loan impairment charges	-466	0			-466
Profit before tax, core	13,367	95	-95	0	13,367
Profit before tax, non-core	-45	0			-45
Profit before tax	**13,323**	**95**	**-95**	**0**	**13,323**

As of 1 April 2018, Baltic customers who do not have business interests in the Nordics were transferred to the Non-core unit. The transfer affects primarily the Business Banking unit. Comparative information has not been restated.

Notes – Danske Bank Group

3. Business model and business segmentation continued

Business segments First half 2018

(DKK millions)	Personal Banking	Business Banking	C&I	Wealth Man.	Northern Ireland	Non-core	Other Activities	Eliminations	Financial highlights	Reclassification	IFRS financial statements
Net interest income	3,886	4,686	1,824	366	736	-	274	52	11,824	2,954	14,779
Net fee income	1,716	940	1,417	3,423	201	-	-147	-3	7,547	-2,235	5,312
Net trading income	302	310	1,496	16	41	-	166	172	2,502	-242	2,259
Other income	201	288	9	-47	6	-	82	-79	461	1,876	2,337
Net premiums	-	-	-	-	-	-	-	-	-	12,906	12,906
Net insurance benefits	-	-	-	-	-	-	-	-	-	14,003	14,003
Total income	6,104	6,224	4,746	3,758	984	-	374	144	22,334	1,257	23,590
Operating expenses	3,580	2,444	2,263	2,144	589	-	460	-81	11,400	1,335	12,734
Profit before loan impairment charges	2,525	3,780	2,483	1,613	394	-	-85	224	10,934	-78	10,856
Loan impairment charges	-180	-451	-85	-33	50	-	-8	-	-707	274	-433
Profit before tax, core	2,704	4,231	2,568	1,646	344	-	-77	224	11,641	-352	11,289
Profit before tax, Non-core	-	-	-	-	-	48	-	-	48	-48	-
Profit before tax	**2,704**	**4,231**	**2,568**	**1,646**	**344**	**48**	**-77**	**224**	**11,689**	**-400**	**11,289**
Tax	-	-	-	-	-	-	2,585	-	2,585	-88	2,497
Net profit for the period	**2,704**	**4,231**	**2,568**	**1,646**	**344**	**48**	**-2,662**	**224**	**9,104**	**-312**	**8,792**
Loans, excluding reverse transactions	760,780	686,637	178,641	76,602	47,993	-	32,421	-34,682	1,748,393	247,585	1,995,978
Other assets	207,163	275,892	2,935,669	614,517	31,409	-	3,188,155	-5,311,683	1,941,122	-230,680	1,710,441
Total assets in Non-core	-	-	-	-	-	16,905	-	-	16,905	-16,905	-
Total assets	**967,942**	**962,530**	**3,114,310**	**691,119**	**79,401**	**16,905**	**3,220,576**	**-5,346,365**	**3,706,419**	**-**	**3,706,419**
Deposits, excluding repo deposits	287,720	246,269	260,202	71,145	63,029	-	10,072	-11,643	926,794	10,258	937,052
Other liabilities	654,529	673,313	2,821,758	606,209	9,782	-	3,190,969	-5,334,721	2,621,839	971	2,622,810
Allocated capital	25,694	42,947	32,350	13,766	6,590	-	25,210	-	146,557	-	146,557
Total liabilities in Non-core	-	-	-	-	-	11,230	-	-	11,230	-11,230	-
Total liabilities and equity	**967,942**	**962,530**	**3,114,310**	**691,119**	**79,401**	**11,230**	**3,226,251**	**-5,346,365**	**3,706,419**	**-**	**3,706,419**
Profit before tax as % of allocated capital (avg.)	21.2	19.4	15.9	24.4	10.3	-	-0.5	-	15.6	-	15.0
Cost/income ratio (%)	58.7	39.3	47.7	57.1	59.9	-	123.0	-	51.0	-	54.0
Full-time-equivalent staff, end of period	4,294	2,485	1,706	2,203	1,289	386	7,994	-	20,357	-	20,357

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

The difference between the financial highlights and the IFRS financial statements regarding profit before tax and tax corresponds to the IFRS 9 implementation effect on loans granted by Realkredit Danmark.

Notes – Danske Bank Group

3. Business model and business segmentation continued

Business segments First half 2017

(DKK millions)	Personal Banking	Business Banking	C&I	Wealth Man.	Northern Ireland	Non-core	Other Activities	Eliminations	Financial highlights	Reclassification	IFRS financial statements
Net interest income	3,926	4,380	1,692	356	692	-	584	19	11,649	2,568	14,217
Net fee income	1,731	948	1,467	3,510	228	-	-136	-2	7,747	-2,220	5,527
Net trading income	310	310	3,002	204	44	-	468	-192	4,147	6,824	10,971
Other income	384	274	1	97	6	-	133	-52	843	2,041	2,884
Net premiums	-	-	-	-	-	-	-	-	-	13,425	13,425
Net insurance benefits	-	-	-	-	-	-	-	-	-	21,505	21,505
Total income	6,351	5,913	6,162	4,168	970	-	1,049	-227	24,385	1,133	25,518
Operating expenses	3,796	2,342	2,339	2,035	613	-	431	-73	11,484	1,185	12,669
Profit before loan impairment charges	2,555	3,571	3,823	2,132	357	-	618	-155	12,901	-52	12,849
Loan impairment charges	3	-545	247	-45	-130	-	3	-	-466	-7	-474
Profit before tax, core	2,552	4,116	3,576	2,177	487	-	615	-155	13,368	-45	13,323
Profit before tax, Non-core	-	-	-	-	-	-45	-	-	-45	45	-
Profit before tax	**2,552**	**4,116**	**3,576**	**2,177**	**487**	**-45**	**615**	**-155**	**13,323**	**-**	**13,323**
Loans, excluding reverse transactions	742,579	675,704	180,964	73,214	45,099	-	30,235	-40,505	1,707,291	17,326	1,724,616
Other assets	191,092	350,644	2,914,390	468,399	26,030	-	2,636,865	-4,739,486	1,847,934	166	1,848,101
Total assets in Non-core	-	-	-	-	-	17,492	-	-	17,492	-17,492	-
Total assets	**933,671**	**1,026,348**	**3,095,354**	**541,613**	**71,129**	**17,492**	**2,667,100**	**-4,779,990**	**3,572,717**	**-**	**3,572,717**
Deposits, excluding repo deposits	275,137	251,513	259,120	66,707	58,965	-	13,133	-10,936	913,639	1,978	915,617
Other liabilities	635,338	730,281	2,800,691	460,202	6,165	-	2,644,392	-4,769,054	2,508,015	521	2,508,536
Allocated capital	23,197	45,396	34,700	14,705	5,998	-	24,569	-	148,564	-	148,564
Total liabilities in Non-core	-	-	-	-	-	2,499	-	-	2,499	-2,499	-
Total liabilities and equity	**933,671**	**1,027,190**	**3,094,512**	**541,613**	**71,129**	**2,499**	**2,682,094**	**-4,779,990**	**3,572,717**	**-**	**3,572,717**
Profit before tax as % of allocated capital (avg.)	21.7	17.9	19.3	31.2	16.1	-	5.2	-	17.7	-	17.7
Cost/income ratio (%)	59.8	39.6	38.0	48.8	63.2	-	41.1	-	47.1	-	49.6
Full-time-equivalent staff, end of period	4,640	2,748	1,647	1,906	1,323	131	7,095	-	19,490	-	19,490

Comparative figures have been restated, as described above.

In 2018 there is a difference between the financial highlights and the IFRS financial statement regarding profit before tax and tax, corresponding to the IFRS 9 implementation effect on loans granted by Realkredit Danmark. The line items 'Tax' and 'Net profit for the period' are therefore included for 2018, but as there are no differences in 2017, they are not included in 2017.

Notes – Danske Bank Group

3. Business model and business segmentation continued

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

The 'Reclassification' column in the tables above shows the reconciliation between the presentation in the financial highlights and segment reporting and the presentation in the IFRS financial statements. The policies for the reclassifications between the financial highlights and the IFRS financial statements are as follow:

Sale of operating lease assets where the Group act as a lessor;

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

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

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

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

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

Danica Pension

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

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

Non-core

In the IFRS income statement, income and expense items from the Non-core segment are included in the various income and expense lines, as the segment does not fulfil the requirements in IFRS 5 on discontinued operations.

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

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

The Group has implemented IFRS 9 at 1 January 2018. Loans granted by Realkredit Danmark (RD) are measured at fair value (both under IAS 39 and under IFRS 9). After the implementation of IFRS 9, the fair value of the credit risk continues to be based on the same approach as that used for impairment on loans at amortised cost (further information is provided on page 135 in Annual Report 2017). The impact from the expected credit loss impairment model in IFRS 9 on these loans at 1 January 2018 is recognised as a change in an accounting estimate in the IFRS income statement in the first quarter of 2018. To recognise the changes in Realkredit Danmark due to IFRS 9 similarly to all other IFRS 9 changes in the Group and to better reflect the actual performance in 2018, the impact is recognised as a reduction in shareholders' equity in the financial highlights together with the other changes from the implementation of IFRS 9. For 2018, reclassification will therefore include this adjusting item, and therefore profit before tax, tax and net profit for the period will not be the same in the financial highlights and the IFRS income statement.

Each of the reclassifications explained above are presented in the table below.

Notes – Danske Bank Group

3. Business model and business segmentation continued

Reclassifications First half 2018

(DKK millions)	IFRS financial statements	Sale of operating lease assets	FICC, Capital Markets and Group Treasury	Danica Pension	Non-core	IFRS 9 impact	Reclassification	Financial highlights
Net interest income	14,779	-	-443	-2,427	-84	-	-2,954	11,824
Net fee income	5,312	-	112	2,133	-10	-	2,235	7,547
Net trading income	2,259	-	352	-107	-3	-	242	2,502
Other income	2,337	-1,418	-21	-436	-1	-	-1,876	461
Net premiums	12,906	-	-	-12,906	-	-	-12,906	-
Net insurance benefits	14,003	-	-	-14,003	-	-	-14,003	-
Total income	23,590	-1,418	-	259	-98	-	-1,257	22,334
Operating expenses	12,734	-1,418	-	259	-176	-	-1,335	11,400
Profit before loan impairment charges	10,856	-	-	-	78	-	78	10,934
Loan impairment charges	-433	-	-	-	126	-400	-274	-707
Profit before tax, core	11,289	-	-	-	-48	400	352	11,641
Profit before tax, Non-core	-	-	-	-	48	-	48	48
Profit before tax	11,289	-	-	-	-	400	400	11,689
Tax	2,497	-	-	-	-	88	88	2,585
Net profit for the period	8,792	-	-	-	-	312	312	9,104

Reclassification First half 2017

(DKK millions)	IFRS financial statements	Sale of operating lease assets	FICC, Capital Markets and Group Treasury	Danica Pension	Non-core	Reclassification	Financial highlights
Net interest income	14,217	-	-642	-1,832	-93	-2,567	11,649
Net fee income	5,527	-	157	2,056	7	2,220	7,747
Net trading income	10,971	-	541	-7,365	-	-6,824	4,147
Other income	2,884	-1,256	-56	-729	-	-2,041	843
Net premiums	13,425	-	-	-13,425	-	-13,425	-
Net insurance benefits	21,505	-	-	-21,505	-	-21,505	-
Total income	25,518	-1,256	-	210	-86	-1,132	24,386
Operating expenses	12,669	-1,256	-	210	-138	-1,184	11,484
Profit before loan impairment charges	12,849	-	-	-	52	52	12,902
Loan impairment charges	-474	-	-	-	7	7	-466
Profit before tax, core	13,323	-	-	-	45	45	13,368
Profit before tax, Non-core	-	-	-	-	-45	-45	-45
Profit before tax	**13,323**	-	-	-	-	-	**13,323**

In 2018 there is a difference between the financial highlights and the IFRS financial statement regarding profit before tax and tax, corresponding to the IFRS 9 implementation effect on loans granted by Realkredit Danmark. The line items 'Tax' and 'Net profit for the period' are therefore included for 2018, but as there are no differences in 2017, they are not included in 2017.

Notes – Danske Bank Group

4. Income

Interest income

Interest income calculated using the effective interest method amounted to DKK 12.3 billion in the first half of 2018.

Fee income

Note 39 in Annual Report 2017 provides additional information on the Group's accounting policy under IFRS 15, Revenue from Contracts with Customers.

Fee income is presented and managed internally by management on a net basis, i.e. net of fee expenses, as presented in note 3, Business model and business segmentation, which provides quantitative information on fee income. Net fee income is managed on the basis of the underlying activity, i.e.

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

A description of earnings from each activity is described below:

Banking units

Fee income in the banking units relates to Personal Banking, Business Banking, General Banking in Corporates & Institutions, Private Banking in Wealth Management and Northern Ireland, and primarily relates to the provision of general banking services to customers, i.e.:

- Fee income from investment activities, for example for executing customer security purchase orders, is recognised at the time of the transaction. Where the service is provided over time, for example fee income for managed accounts, fee income is recognised over time.
- Fee income from providing services, e.g. money transfers, account fees and cash management activities, is generally recognised when the service is provided. For transactions such as money transfers and card transaction, fee income is recognised at the time of the transaction. Fee income charged for services provided over time, for example subscription fees, account packages and cash deposit services, is recognised over time as the service is provided to the customer.
- Fee income from lending and guarantee activities, such as services provided relating to mortgage loans recognised at fair value, and the provision of trade finance guarantees, is recognised when the service has been provided to the customer at a point in time. Fee income in connection with the establishment of loans recognised at amortised costs is recognised over the expected maturity of the loan and classified as interest income.
- For income derived from the provision of agency services, consideration is presented on a net basis.

Corporates & Institutions

Net fee income in Corporates & Institutions relates to income derived from General Banking (see above) and from FICC and Capital Markets. Fee income derived from FICC is reclassified to net trading income in the segment reporting, however, FICC's share of margins on customer derivatives is presented as part of fee income (note 3 provides further information). Except for margins on customer derivatives, fee income consists mainly of fees received for services provided at a point in time.

Fee income in Capital Markets primarily consist of:

- Fee income from investment activity, for example executing share trades on behalf of customers and securities lending, is recognised when the service is provided at a point in time.
- Fee income from lending and guarantee activity is primarily derived from coordinating and arranging syndicated loan transactions, and issuing bonds on behalf of customers. Such income is recognised at a point in time, once the agreed performance obligation has been fulfilled.
- Fee income from capital markets activity is primarily derived from arranging transactions on behalf of customers. Such income is recognised when the individual performance obligation has been fulfilled.

Wealth Management

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

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

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

Other income

Other income amounted to DKK 2,155 million at 30 June 2018 (30 June 2017: DKK 2,619 million). Other income primarily consists of income from lease assets, investment property and real estate brokerage.

Notes – Danske Bank Group

5. Loan impairment charges and reconciliation of total allowance account

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

Loan impairment charges

(DKK millions)	30 June 2018	30 June 2017
IFRS 9 impact on loans granted by Realkredit Danmark 1 January 2018	400	
ECL on new assets	1,942	
ECL on assets derecognised	-2,462	
Impact of net remeasurement of ECL (incl. changes in models)	-158	
New and increased impairment charges		3,333
Reversals of impairment charges		-3,487
Write-offs charges directly to income statement	308	168
Received on claims previously written off	-316	-370
Interest income, effective interest method	-148	-118
Total	-433	-474

Reconciliation of total allowance account

(DKK millions)	Stage 1	Stage 2	Stage 3	Total
Collective and individual impairment charges under IAS 39, 31 December 2017				20,749
Transition effect (ECL at 1 January 2018), including impact on loans granted by Realkredit Danmark	1,499	5,578	16,242	2,570
Transferred to Stage 1 during the period	665	-614	-51	-
Transferred to Stage 2 during the period	-28	331	-303	-
Transferred to Stage 3 during the period	-23	-188	211	-
ECL on new assets	266	619	1,058	1,942
ECL on assets derecognised	-227	-708	-1,526	-2,462
Impact of net remeasurement of ECL (incl. changes in models)	-607	401	49	-158
Write-offs debited to the allowance account	-3	-7	-981	-991
Foreign exchange adjustments	-8	8	35	35
Other changes	-2	-3	48	43
Balance at 30 June 2018	1,533	5,415	14,781	21,729

The table above excludes the allowance account of DKK 4 million on bonds at amortised cost or fair value through profit or loss (all in stage 1).

For further information on the decomposition of the allowance account on facilities in stages 1-3 in IFRS 9, see the notes on credit risk.

Reconciliation of total allowance account

(DKK millions)	31 December 2017
Balance at 1 January 2017	26,156
New and increased impairment charges	4,745
Reversals of impairment charges	5,654
Write offs debited to the allowance account	3,589
Foreign currency translation	-390
Other items	-519
Balance at 31 December 2017	20,749

Notes – Danske Bank Group

6. Loans at fair value

Loans at fair value consists of loans granted by the subsidiary Realkredit Danmark and from 1 January 2018 loans in FICC and Capital Markets (part of Corporates & Institutions). The latter is a consequence of the implementation of IFRS 9. The loans in FICC and Capital Markets consist primarily of reverse transactions and short-term loans. At 30 June 2018, these loans amounted to DKK 232,145 million.

7. Deposits

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

(DKK millions)	30 June 2018	31 December 2017
Deposits from other credit institutions	264,598	242,887
hereof repo transactions	93,876	87,291
Other deposits	1,056,547	1,046,858
hereof repo transactions	119,495	133,081
Total deposits excluding repo transactions	**1,107,774**	**1,069,373**

Of total deposits excluding repo transactions at 30 June 2018, 34% (31 December 2017: 34%) represents wholesale deposits ranking pari passu with senior creditors. These wholesale deposits exclude deposits from other credit institutions with an original maturity of less than 7 days. If deposits from other credit institutions are excluded, the percentage is at 30 June 2018 28% (31 December 2017: 27%).

8. Issued bonds, subordinated debt and additional tier 1 capital

Issued bonds

In general, issued bonds are measured at amortised cost. However, bonds issued by Realkredit Danmark and from 1 January 2018 and due to the implementation of IFRS 9, commercial papers and certificates of deposits issued by FICC and Capital Markets (part of Corporates & Institutions) are measured at fair value through profit or loss.

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

Issued bonds at fair value

(DKK millions)	30 June 2018	31 December 2017
Bonds issued by Realkredit Danmark	732,106	758,375
Commercial papers and certificates of deposits	66,483	-
Total	**798,589**	**758,375**

Issued bonds at amortised cost

(DKK millions)	30 June 2018	31 December 2017
Commercial papers and certificate of deposits	8,508	101,326
Other unsecured bonds	131,482	123,457
Covered bonds	181,405	180,297
Total	**321,395**	**405,080**

Other unsecured bonds includes non-preferred senior bonds issued during the second quarter of 2018, with a nominal value of DKK 24,367 million and a carrying amount of DKK 24,329 million. The law implementing the non-preferred senior bonds (to meet MREL requirements) into Danish law was passed by the Danish parliament on 29 May 2018 and came into force on 1 July 2018 from which date the bonds will rank senior to subordinated debt and junior to other debt.

Nominal value

(DKK millions)	1 January 2018	Issued	Redeemed	Foreign currency translation	30 June 2018
Commercial papers and certificate of deposits	101,319	109,700	137,120	1,095	74,994
Other unsecured bonds	127,630	26,313	17,031	-1,075	135,836
Covered bonds	222,748	22,692	25,488	-530	219,421
Other issued bonds	**451,696**	**158,704**	**179,639**	**-510**	**430,252**

Notes – Danske Bank Group

8. Issued bonds and subordinated debt continued

Nominal value	1 January 2017	Issued	Redeemed	Foreign translation	30 June 2018
Commercial papers and certificate of deposits	75,036	287,057	252,945	-7,829	101,319
Other unsecured bonds	142,270	29,320	37,345	-6,615	127,630
Covered bonds	234,683	31,946	41,994	-1,887	222,748
Other issued bonds	**451,989**	**348,323**	**332,284**	**-16,332**	**451,696**

The nominal values disclosed are before the elimination of own holdings of issued bonds. In the management report's section on Funding and liquidity, issued junior covered bonds in Realkredit Danmark A/S of DKK 6.0 billion (31 December 2017: DKK 6.6 billion) are excluded. Further, retained and repurchased bonds held by Group Treasury amounting to DKK 42.6 billion (31 December 2017: 47.8 billion) have been excluded.

Subordinated debt and additional tier 1 capital.

During the first half of 2018, the Group did not redeem any subordinated debt accounted for as liabilities, but issued DKK 4,797 million of subordinated debt accounted for as liabilities.

At 30 June 2018, the total nominal value of issued additional tier 1 capital amounted to DKK 23,772 million (31 December 2017: DKK 18,823 million) of which DKK 14,179 million (31 December 2017: 14,168 million) is accounted for as equity. Danske Bank A/S may, at its sole discretion, omit interest payments to bondholders. Any interest payments are paid out of distributable items, which primarily consist of retained earnings in Danske Bank A/S and Danske Bank Group (see section 3.4.3 of Risk Management 2017 for further information). At 30 June 2018, distributable items for Danske Bank A/S amounted to DKK 113.9 billion (31 December 2017: DKK 117.5 billion). The additional tier 1 capital will be temporarily written down or converted into a variable number of ordinary shares, depending on the terms of each issued bond, if the common equity tier 1 capital ratio falls below 7% for Danske Bank A/S or Danske Bank Group. The ratios at the end of June 2018 are disclosed in the Statement of capital for the Group and in Ratios and key figures for Danske Bank A/S. For information on the Group's excess capital, see the Capital requirements section in the management's report.

9. Other assets and other liabilities

Other assets amounted to DKK 33,472 million (31 December 2017: DKK 31,324 million), including holdings in associates of DKK 450 million (31 December 2017: DKK 455 million), investment property of DKK 3,314 million (31 December 2017: DKK 4,461 million), tangible assets of DKK 7,378 million (31 December 2017: DKK 7,047 million) and assets held for sale of DKK 382 million (31 December 2017: DKK 426 million). Other liabilities amounted to DKK 38,223 million (31 December 2017: DKK 37,097 million), including accrued interest and commissions due of DKK 5,837 million (31 December 2017: DKK 8,520 million) and other staff commitments of DKK 2,761 million (31 December 2017: DKK 3,077 million).

Notes – Danske Bank Group

10. Contingent liabilities

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

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

Guarantees (DKK millions)	30 June 2018	31 December 2017
Financial guarantees	7,143	8,534
Mortgage finance guarantees	579	1,050
Other guarantees	73,992	74,902
Total	**81,715**	**84,487**

Other contingent liabilities (DKK millions)	30 June 2018	31 December 2017
Loan commitments shorter than 1 year	206,890	142,147
Loan commitments longer than 1 year	162,928	161,824
Other unutilised loan commitments	483	351
Total	**370,301**	**304,322**

Following the extensive data analysis etc. performed during the implementation of IFRS 9, a further DKK 75.6 billion has been included as loan commitments in the table above. The commitments consist of loan offers that previously were included as uncommitted lines. The comparative information has not been restated.

In addition to credit exposure from lending activities, uncommitted loan offers made and uncommitted lines of credit granted by the Group amounted to DKK 215 billion (31 December 2017: DKK 269 billion). These items are included in the calculation of the total risk exposure amount in accordance with the Capital Requirements Regulation.

Owing to its business volume, Danske Bank is continually a party to various lawsuits and disputes and has an ongoing dialogue with public authorities, such as the Danish FSA. In addition, the supervisory authorities conduct inspections of Danske Bank's compliance with anti-money laundering legislation. In view of its size, Danske Bank does not expect the outcomes of pending lawsuits and disputes, its dialogue with public authorities or the inspections of compliance with anti-money laundering legislation to have any material effect on its financial position.

In connection with the acquisition of Sampo Bank in 2007, Danske Bank and Sampo Life (now Mandatum Life) signed an agency agreement that guaranteed Mandatum Life the exclusive right to sell life and pension insurance products through Danske Bank's branch network in Finland. The agency agreement expired at the end of 2016. As part of the agreement, Mandatum Life had a right to sell all or part of the insurance portfolio sold under the agreement to Danske Bank Group. In October 2016, Mandatum Life exercised this right and the parties agreed on a fair value of the insurance portfolio of DKK 2.5 billion. However, in April 2018, Mandatum Life and Danske Bank agreed to continue the cooperation and that the transfer of the insurance portfolio will not take place. The agreed transaction closed in June 2018.

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

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

Notes – Danske Bank Group

10. Contingent liabilities continued

The Group is a member of deposit guarantee schemes and other compensation schemes in Norway, the UK and Luxembourg. As in Denmark, the contributions to the schemes in the other countries are annual contributions combined with extraordinary contributions if the means of the schemes are not sufficient to cover the required payments.

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

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

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

11. Assets provided or received as collateral

At 30 June 2018, Danske Bank A/S had deposited securities worth DKK 13.3 billion as collateral with Danish and international clearing centres and other institutions (31 December 2017: DKK 11.4 billion).

At 30 June 2018, Danske Bank A/S had provided cash and securities worth DKK 68.5 billion as collateral for derivatives transactions (31 December 2017: DKK 71.7 billion).

At 30 June 2018, the Group had registered assets (including bonds and shares issued by the Group) under insurance contracts worth DKK 548.2 billion (31 December 2017: DKK 449.0 billion) as collateral for policyholders' savings of DKK 470.9 billion (31 December 2017: DKK 363.8 billion).

At 30 June 2018, the Group had registered loans at fair value and securities worth a total of DKK 793.4 billion (31 December 2017: DKK 788.1 billion) as collateral for bonds issued by Realkredit Danmark, including mortgage-covered bonds, worth a total of DKK 798.6 billion (31 December 2017: DKK 758.4 billion). Similarly, the Group had registered loans and other assets worth DKK 249.5 billion (31 December 2017: DKK 268.7 billion) as collateral for covered bonds issued under Danish and Finnish law.

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

	30 June 2018			31 December 2017		
(DKK millions)	Repo	Other	Total	Repo	Other	Total
Due from credit institutions	-	36,010	36,010	-	24,832	24,832
Trading portfolio securities	186,812	52,828	239,639	206,227	69,614	275,841
Loans at fair value	-	792,605	792,605	-	787,223	787,223
Loans at amortised cost	-	254,391	254,391	-	269,162	269,162
Assets under insurance contracts	-	401,798	401,798	-	323,289	323,289
Other assets	-	81	81	-	90	90
Total	186,812	1,537,713	1,724,524	206,227	1,474,210	1,680,437
Own issued bonds	25,549	96,074	121,623	12,675	81,102	93,777
Total, including own issued bonds	212,361	1,633,787	1,846,148	218,902	1,555,312	1,774,214

Securities provided as collateral under agreements that entitle the counterparty to sell the securities or provide them as collateral for other loans amounted to DKK 186.8 billion at 30 June 2018 (31 December 2017: DKK 206.2 billion).

At 30 June 2018, the Group had received securities worth DKK 297.6 billion (31 December 2017: DKK 252.5 billion) as collateral for reverse repo transactions, securities lending, derivatives transactions and other transactions entered into on the standard terms for such transactions. As the party receiving the collateral, the Group is entitled in most cases to sell the securities or provide the securities as collateral for other loans in exchange for returning similar securities to the counterparty at the expiry of the transactions. At 30 June 2018, the Group had sold securities or provided securities as collateral worth DKK 170.0 billion (31 December 2017: DKK 155.9 billion).

The Group also receives many other types of assets as collateral in connection with its ordinary lending activities. The Group has not received the ownership of these assets. The risk management notes in Annual report 2017 provide more details on assets received as collateral in connection with ordinary lending activities.

Notes – Danske Bank Group

12. Fair value information for financial instruments

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

	30 June 2018		31 December 2017	
(DKK millions)	Fair value	Amortised cost	Fair value	Amortised cost
Financial assets				
Cash in hand and demand deposits with central banks	-	68,023	-	82,818
Due from credit institutions and central banks	47,741	217,692	-	333,975
Trading portfolio assets	523,460	-	449,292	-
Investment securities	124,903	149,201	177,921	146,697
Loans at amortised cost	-	971,964	-	1,112,752
Loans at fair value	1,024,751	-	787,223	-
Assets under pooled schemes and unit-linked investment contracts	144,773	-	112,065	-
Assets under insurance contracts	360,062	-	273,425	-
Total	**2,225,690**	**1,406,880**	**1,799,925**	**1,676,242**
Financial liabilities				
Due to credit institutions and central banks	194,295	70,303	-	242,887
Trading portfolio liabilities	447,012	-	400,596	-
Deposits	138,920	917,627	-	1,046,858
Issued bonds at fair value	798,589	-	758,375	-
Issued bonds at amortised cost	-	321,395	4,549	400,531
Deposits under pooled schemes and unit-linked investment contracts	153,702	-	119,901	-
Subordinated debt	-	33,847	-	29,120
Other liabilities (loan commitments and guarantees)	-	1,914	-	647
Total	**1,732,518**	**1,345,087**	**1,283,421**	**1,720,042**

Investment securities at fair value includes bonds measured at fair value through other comprehensive income, see the table on bonds in the Risk management notes. All other financial assets in the column 'Fair value' are mandatorily measured at fair value through profit or loss under IFRS 9. Except for the held for trading portfolio, all other financial liabilities are measured at fair value through profit or loss using the fair value option.

Negative interest income during the first half of 2018 amounted to DKK 1,431million (30 June 2017: DKK 1,324 million). Negative interest expenses amounted to DKK 1,619 million (30 June 2017: DKK 1,213 million). In the income statement, negative interest income is recognised as interest expenses and negative interest expenses are recognised as interest income.

Financial instruments at fair value

Note 30 in Annual Report 2017 provides more information about fair value calculation methods for financial instruments.

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

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

Financial instruments at amortised cost

Note 30 in Annual Report 2017 provides information on the difference between the carrying amount and the fair value of financial instruments recognised at amortised cost. As was the case at 31 December 2017, the estimated fair value of the loans is slightly lower than the carrying amount.

Notes – Danske Bank Group

12. Fair value information for financial instruments continued

(DKK millions)	Quoted prices	Observable input	Non-observable input	Total
30 June 2018				
Financial assets				
Due from credit institutions and central banks	-	47,741	-	47,741
Derivatives				
Interest rate contracts	4,101	157,264	3,705	165,070
Currency contracts etc.	1,782	126,469	650	128,901
Trading portfolio bonds	193,905	27,583	-	221,488
Trading portfolio shares	7,781	-	219	8,000
Investment securities, bonds	98,840	24,832	-	123,672
Investment securities, shares	69	-	1,162	1,231
Loans at fair value	-	1,024,751	-	1,024,751
Assets under pooled schemes and unit-linked investment contracts	144,773	-	-	144,773
Assets under insurance contracts, bonds				
Danish mortgage bonds	67,843	9,414	-	77,257
Other bonds	123,283	10,589	4,676	138,548
Assets under insurance contracts, shares	82,432	3,174	23,584	109,190
Assets under insurance contracts, derivatives	18,862	14,757	1,448	35,067
Total	**743,671**	**1,446,574**	**35,444**	**2,225,690**
Financial liabilities				
Due to credit institutions and central banks	-	194,295	-	194,295
Derivatives				
Interest rate contracts	4,324	138,561	4,062	146,947
Currency contracts etc.	1,439	128,102	495	130,036
Obligations to repurchase securities	167,674	2,230	126	170,030
Deposits	-	138,920	-	138,920
Issued bonds at fair value	723,838	74,751	-	798,589
Deposits under pooled schemes and unit-linked investment contracts	-	153,702	-	153,702
Total	**897,275**	**830,561**	**4,683**	**1,732,518**

Notes – Danske Bank Group

12. Fair value information for financial instruments continued

(DKK millions)	Quoted prices	Observable input	Non-observable input	Total
31 December 2017				
Financial assets				
Derivatives				
Interest rate contracts	5,431	157,871	4,203	167,505
Currency contracts etc.	800	87,330	1,255	89,385
Trading portfolio bonds	159,333	14,248	-	173,581
Trading portfolio shares	18,624	-	197	18,821
Investment securities, bonds	156,298	20,164	-	176,462
Investment securities, shares	63	-	1,396	1,459
Loans at fair value	-	787,223	-	787,223
Assets under pooled schemes and unit-linked investment contracts	112,065	-	-	112,065
Assets under insurance contracts, bonds				
Danish mortgage bonds	37,251	6,264	-	43,515
Other bonds	114,191	1,989	4,016	120,196
Assets under insurance contracts, shares	81,496	-	17,842	99,338
Assets under insurance contracts, derivatives	428	9,944	4	10,376
Total	**685,980**	**1,085,033**	**28,913**	**1,799,925**
Financial liabilities				
Derivatives				
Interest rate contracts	5,606	142,724	4,798	153,128
Currency contracts etc.	732	89,773	1,054	91,559
Obligations to repurchase securities	153,975	1,858	76	155,909
Bonds issued by Realkredit Danmark	758,375	-	-	758,375
Deposits under pooled schemes and unit-linked investment contracts	-	119,901	-	119,901
Other issued bonds	-	4,549	-	4,549
Total	**918,688**	**358,805**	**5,928**	**1,283,420**

Notes – Danske Bank Group

12. Fair value information for financial instruments continued

At 30 June 2018, financial instruments valued on the basis of non-observable input comprised unlisted shares of DKK 24,839 million (31 December 2017: DKK 19,359 million), illiquid bonds of DKK 4,676 million (31 December 2017: DKK 4,016 million) and derivatives with a net market value of DKK 1,246 million (31 December 2017: DKK -390 million).

Unlisted shares of DKK 23,584 million (31 December 2017: DKK 17,842 million) are allocated to insurance contract policyholders, and the policyholders assume most of the risk on the shares. Changes in the fair value of those shares will only to a limited extent affect the Group's net profit. The remaining portfolio of unlisted shares of DKK 1,255 million (31 December 2017: DKK 1,517 million) consists primarily of banking-related investments and holdings in private equity funds. A 10% increase or decrease in the fair value would amount to DKK 126 million (31 December 2017: DKK 152 million). Under the current market conditions, a 10% decrease in the fair value is considered to be below a possible alternative estimate of the fair value at the end of the period. In the first half of 2018, the Group recognised DKK 192 million in unrealised losses (30 June 2017: DKK 96 million) and DKK 13 million in realised gains (30 June 2017: DKK 40 million) on those shares. The unrealised adjustments in the first half of 2018 and in 2017 were attributable to various unlisted shares. For shares allocated to insurance contract policyholders, the unrealised losses in the first half of 2018 amounted to DKK 612 million (30 June 2017: DKK 135 million) and the realised gains to DKK 441 million (30 June 2017: DKK 486 million).

The estimated fair value of illiquid bonds depends significantly on the estimated credit spread. If the credit spread widens 50bp, fair value will decrease DKK 216 million (31 December 2017: DKK 80 million). If the credit spread narrows 50bp, fair value will increase DKK 216 million (31 December 2017: DKK 83 million).

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

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

	30 June 2018			31 December 2017		
(DKK millions)	Shares	Bonds	Derivatives	Shares	Bonds	Derivatives
Fair value at 1 January	19,359	4,016	-389	20,943	4,803	-1,993
Value adjustment through profit or loss	1,198	2	128	1,556	-85	-345
Acquisitions	4,815	1,420	82	3,073	1,445	251
Sale and redemption	-407	-762	1,425	-6,213	-2,147	1,196
Transferred from quoted prices and observable input	-	-	-	-	-	-
Transferred to quoted prices and observable input	-	-	-	-	-	502
Fair value end of period	**24,965**	**4,676**	**1,246**	**19,359**	**4,016**	**-389**

The valuation of derivatives includes amortisation of the value of initial margins over the remaining term to maturity. The initial margins relate to elements not covered by CVA, DVA and FVA adjustments, such as future administrative expenses and capital consumption. At 30 June 2018, the value of unamortised initial margins was DKK 1,168 million (31 December 2017: DKK 1,054 million).

Notes – Danske Bank Group

13. Acquisition of subsidiary undertaking

In December 2017, the Group entered into an agreement to purchase all shares of the Danish companies SEB Pensionforsikring A/S (including the property subsidiaries SEB Ejendomme I A/S and SEB Ejendomme II A/S) and SEB Administration A/S (the acquired companies are referred to as SEB Pension Danmark below). Regulatory approvals were received on 30 May 2018, and the transaction was finalised on 7 June 2018. The financial statements of SEB Pension Danmark were consolidated in the financial statements of Danske Bank Group with effect from 7 June 2018. The companies have subsequently been renamed Danica Pensionsforsikring A/S and Danica Administration A/S.

SEB Pensionsforsikring is a major player in the Danish pension and commercial market. The principal activity of SEB Administration is to provide administrative and agency services to the companies of the SEB Pension Danmark and other support function services.

Through the acquisition of SEB Pension Danmark, the Group will increase its presence in the Danish pension market, strengthen its innovation capacity and be able to offer its customers even better pension and insurance solutions.

The fair value of net assets acquired and recognised in the balance sheet of Danica Group at the time of acquisition is shown in the table below. Due to the short time since the acquisition, it has not yet been possible to complete the initial accounting for the acquisition of SEB Pension Danmark. Hence, the amounts are provisional and can be adjusted in subsequent periods within one year, including the value of the acquired goodwill, to reflect information obtained about facts and circumstances that existed on 7 June 2018. This includes a potential reallocation between goodwill and customer relations or to other identifiable intangible assets.

Recognised amounts of identifiable assets acquired and liabilities assumed

DKK millions	Fair value at 7 June 2018
Assets under unit-linked investment contracts	30,902
Assets under insurance contracts	97,487
Customer relations	1,332
Tax assets	36
Other assets	3,103
Total assets	**132,860**
Deposits under unit-linked investment contracts	30,902
Liabilities under insurance contracts	72,542
Tax liabilities	584
Other liabilities	26,371
Total liabilities	**130,399**
Total identifiable net assets	2,461
Goodwill	2,539
Consideration paid in cash	**5,000**

No significant contingent liabilities exists at the acquisition date.

The fair value of liabilities under insurance contracts is calculated according to principles similar to those used in the Group's measurement of other liabilities under insurance contracts and is based on actuarial computations that rely on assumptions about a number of variables, including mortality and disability, and on the discount rate as at 7 June 2018.

Customer relations acquired in connection with the business combination is recognised as a separate identifiable intangible asset. The fair value of the customer relations at the acquisition date represents the net present value of expected future earnings related to the existing customer base in SEB Pension Danmark and is calculated based on the estimated future profit margin in the acquired companies at the acquisition date. Customer rights will be amortised over 10 years, which represents management's expectations to the period over which the majority of the future earnings on existing customer relations/contracts will be earned. If indications of objective evidence of impairment exists, the customer relations is tested for impairment and written down to the estimated value in use if the value is impaired.

Goodwill represents the value of the expected profit of SEB Pension Danmark which cannot be attributed reliably to individually identifiable assets, including the value of staff, know-how and innovation capacity as well as expected synergies, such as expense savings and ancillary business from the integration into Danske Bank Group. Goodwill will be tested for impairment before the end of 2018 based on earnings estimates for the coming five financial years, which have been approved by the Board of Directors. For subsequent financial years, cash flows are extrapolated and adjusted for expected growth rates. A number of factors affect the net present value of such cash flows, including discount rates, changes in the economic outlook, customer behaviour, competition and actuarial assumptions. Expected cash flows are discounted by a post-tax rate of 9%, equalling 12% before tax, and the principal assumption applied in the cash flow terminal period is a growth rate of 0%.

Notes – Danske Bank Group

13. Acquisition of subsidiary undertaking continued

The consolidation of SEB Pension Danmark has increased net premiums by DKK 947 million and net profit by DKK -19 million. Assuming that the Group had taken over SEB Pension Danmark with effect from 1 January 2018, the estimated impact on net premiums and net profit would have amounted to increases of DKK 5.9 billion and DKK 250 million, respectively.

Subsequent to the acquisition of SEB Pension Danmark, intangible assets in Danske Bank Group consist of the following items:

(DKK millions)	30 June 2018	31 December 2017
Goodwill	7,860	5,347
Customer relations	1,321	0
Software, acquired or internally developed	1,944	1,830
Total	**11,125**	**7,177**

(DKK millions)	1 January 2017 Goodwill	Foreign currency translation	31 December 2017 Goodwill	Addition/sale	Foreign currency translation	30 June 2018 Goodwill
C&I, General Banking	507	1	508			508
C&I, FICC and Capital Markets	2,893	4	2,897		3	2,900
Wealth Management, Danske Capital	1,806	3	1,809		2	1,811
Wealth Management, Danica Pension				2,539		2,539
Others	143	-10	133	-34	3	102
Total	**5,349**	**-2**	**5,347**	**2,505**	**8**	**7,860**

Notes – Danske Bank Group

Risk Management

The consolidated financial statements for 2017 provide a detailed description of the Group's risk management practices.

Breakdown of credit exposure

(DKK billions) 30 June 2018	Total	Lending activities Core	Non-core	Counter-party credit risk	Trading and in-vestment securi-ties	Customer-funded invest-ments
Balance sheet items						
Demand deposits with central banks	59.9	59.9	-	-	-	-
Due from credit institutions and central banks	265.4	217.7	-	47.7	-	-
Trading portfolio assets	523.5	-	-	294.0	229.5	-
Investment securities	274.1	-	-	-	274.1	-
Loans at amortised cost	972.0	955.2	16.7	-	-	-
Loans at fair value	1,024.8	792.6	-	232.1	-	-
Assets under pooled schemes and unit-linked investment contracts	144.8	-	-	-	-	144.8
Assets under insurance contracts	385.8	-	-	-	-	385.8
Off-balance-sheet items						
Guarantees	81.7	80.2	0.9	-	-	-
Loan commitments shorter than 1 year	206.9	203.8	3.1	-	-	-
Loan commitments longer than 1 year	162.9	161.4	1.6	-	-	-
Other unutilised commitments	0.5	-	-	-	0.5	-
Total	4,102.2	2,470.7	22.4	573.8	504.1	530.6
31 December 2017						
Balance sheet items						
Demand deposits with central banks	73.8	73.8	-	-	-	-
Due from credit institutions and central banks	277.7	277.6	-	-	-	-
Repo loans with credit institutions and central banks	56.3	56.3	-	-	-	-
Trading portfolio assets	449.3	-	-	256.9	192.4	-
Investment securities	324.6	-	-	-	324.6	-
Loans at amortised cost	940.5	935.8	4.7	-	-	-
Repo loans	172.2	172.2	-	-	-	-
Loans at fair value	787.2	787.2	-	-	-	-
Assets under pooled schemes and unit-linked investment contracts	112.1	-	-	-	-	112.1
Assets under insurance contracts	296.9	-	-	-	-	296.9
Off-balance-sheet items						
Guarantees	84.5	84.5	-	-	-	-
Loan commitments shorter than 1 year	142.1	139.4	2.8	-	-	-
Loan commitments longer than 1 year	161.8	161.2	0.6	-	-	-
Other unutilised commitments	0.4	-	-	-	0.4	-
Total	3,879.4	2,688.0	8.2	256.9	517.4	408.9

Following the extensive data analysis etc performed during the implementation of IFRS 9, a further DKK 75.6 billion has been included as loan commitments in the table above. The commitments consist of loan offers that previously were included as uncommitted lines. The comparative information has not been restated.

In addition to credit exposure from lending activities, Danske Bank had made uncommitted loan offers and granted uncommitted lines of credit of DKK 215 billion at 30 June 2018 (31 December 2017: DKK 269 billion). These items are included in the calculation of the total risk exposure amount in accordance with the Capital Requirements Regulation.

Notes – Danske Bank Group

Credit exposure

Credit exposure from core lending activities

Credit exposure from lending activities in the Group's core banking business includes loans, amounts due from credit institutions and central banks, guarantees and irrevocable loan commitments. The exposure is measured net of accumulated impairment charges and includes repo loans at amortised cost. For reporting purposes, all collateral values are net of haircuts and capped at the exposure amount. The credit exposure from Non-core lending activities is disclosed later in these notes.

At 1 January 2018, the Group implemented IFRS 9. The business model assessment in IFRS 9 resulted in loans in the trading units of Corporates & Institutions being measured at fair value through profit or loss. These loans are covered by the section in the risk management notes on Counterparty credit risk. The comparative information has not been restated, and the comparative information on credit risk is based on the information provided under IAS 39.

Classification of customers

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

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

In its credit risk management, the Group uses point in time (PIT) PD estimates for risk classification. These PIT PD estimates express a customer's probability of default within the next 12 months in the current economic situation. The Group's classification scale consists of 11 main rating categories with fixed PD bands. During a downturn, a customer's PIT PD may increase, and the customer may migrate to a lower rating category. The effect from a downturn is thus larger when PIT PD is used than if the classification were based on through-the-cycle (TTC) PD, which the Group uses to calculate the risk exposure amount for credit risk.

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

The classification of facilities between stage 1 and 2 for the purpose of calculating expected credit loss impairments under IFRS 9 depends on whether the credit risk has increased significantly since initial recognition. The assessment of whether the credit risk has increased significantly since initial recognition is performed by considering the change in the risk of default occurring over the remaining life of the facility and incorporate forward-looking information. A facility is transferred from stage 1 to stage 2 based on observed increases in the probability of default:

- For facilities originated below 1% in PD: An increase in the facility's 12-month PD of at least 0.5 percentage points since initial recognition and a doubling in the facility's lifetime PD since origination
- For facilities originated above 1% in PD: An increase in the facility's 12-month PD of 2 percentage points since origination or a doubling of the facility's lifetime PD since origination

Further, facilities that are more than 30 days past due are moved to stage 2. Finally, customers subject to forbearance measures are placed in stage 2, if the Group, in the most likely outcome, expects no loss or the customers are in the two-year probation period for performing forborne exposures.

Exposures which are considered to be in default for regulatory purposes will always be considered stage 3 under IFRS 9. This applies both to 90-days-past-due considerations and unlikely-to-pay factors leading to regulatory default.

Notes – Danske Bank Group

Credit exposure continued

Credit portfolio in core activities broken down by rating category and stages in IFRS 9

30 June 2018	PD level		Gross exposure			Expected Credit Loss			Net exposure			Net exposure, ex collateral		
(DKK billions)	Upper	Lower	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
1	-	0.01	216.7	0.0	0.0	0.0	0.0	0.0	216.7	0.0	0.0	207.2	0.0	0.0
2	0.01	0.03	203.5	0.4	0.0	0.0	0.0	0.0	203.5	0.4	0.0	116.0	0.3	1.6
3	0.03	0.06	444.1	0.9	0.0	0.0	0.0	0.0	444.1	0.9	0.0	158.6	0.2	1.2
4	0.06	0.14	602.3	2.4	0.1	0.1	0.0	0.0	602.2	2.4	0.0	235.9	0.8	0.9
5	0.14	0.31	445.4	10.8	0.1	0.2	0.1	0.0	445.3	10.7	0.1	147.1	4.1	0.4
6	0.31	0.63	243.0	17.1	0.1	0.3	0.3	0.0	242.7	16.8	0.1	81.6	6.4	0.2
7	0.63	1.90	132.3	46.2	0.1	0.2	1.4	0.0	132.1	44.8	0.1	42.0	15.3	0.0
8	1.90	7.98	18.7	33.7	0.2	0.6	2.2	0.0	18.1	31.5	0.2	5.0	7.8	0.0
9	7.98	25.70	1.3	9.0	0.4	0.1	1.3	0.0	1.2	7.7	0.4	0.4	1.5	0.0
10	25.70	99.99	4.9	3.1	30.8	0.0	0.0	5.4	4.9	3.1	25.3	3.3	0.9	7.3
11 (default)	100.00	100.00	1.8	0.7	21.4	-	-	8.6	1.8	0.7	12.8	0.5	0.2	1.6
Total			**2,314.1**	**124.3**	**53.2**	**1.5**	**5.4**	**14.1**	**2,312.6**	**118.9**	**39.1**	**997.5**	**37.5**	**13.2**

Credit portfolio in core activities broken down by rating category

31 December 2017	PD level		Gross exposure	Acc. individual impairment charges	Net exposure	Net exposure, ex collateral
(DKK billions)	Upper	Lower	a	b	=a-b	
1	-	0.01	323.8	-	323.8	291.1
2	0.01	0.03	268.6	-	268.6	124.2
3	0.03	0.06	436.6	-	436.6	139.3
4	0.06	0.14	586.7	-	586.7	227.6
5	0.14	0.31	489.1	-	489.1	157.6
6	0.31	0.63	297.7	-	297.7	82.2
7	0.63	1.90	170.3	-	170.3	44.7
8	1.90	7.98	56.5	-	56.5	15.9
9	7.98	25.70	11.2	-	11.2	3.7
10	25.70	99.99	37.2	6.0	31.3	9.2
11 (default)	100.00	100.00	26.1	10.0	16.1	2.1
Total before collective impairment charges			**2,703.9**	**16.0**	**2,688.0**	**1,097.5**
Collective impairment charges			4.1			
Total gross exposure			**2,708.0**			

Notes – Danske Bank Group

Credit exposure continued

Credit portfolio in core activities broken down by industry (NACE) and stages in IFRS 9

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

30 June 2018	Gross exposure			Expected Credit Loss			Net exposure			Net exposure, ex collateral		
(DKK billions)	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Public Institutions	271.5	1.1	0.0	0.0	0.0	0.0	271.5	1.1	0.0	266.0	1.1	0.0
Banks	59.0	0.4	0.0	0.0	0.0	0.1	58.9	0.4	-0.1	41.9	0.4	-0.1
Credit Institutes	5.0	0.0	-	0.0	0.0	0.0	5.0	0.0	-0.0	5.0	0.0	-0.0
Insurance	9.9	0.0	0.0	0.0	0.0	0.0	9.9	0.0	0.0	7.5	0.0	-0.0
Investment funds	24.1	0.4	0.7	0.0	0.0	0.1	24.1	0.4	0.5	12.6	0.2	0.2
Other financials	6.2	0.1	-	0.0	0.0	0.0	6.2	0.0	-0.0	5.9	0.0	-0.0
Agriculture	56.5	11.6	7.5	0.3	1.2	2.1	56.2	10.5	5.4	10.4	3.1	0.8
Commercial property	285.0	17.0	8.1	0.2	0.7	2.0	284.8	16.3	6.1	56.4	5.1	0.4
Construction & building products	34.2	3.8	1.0	0.0	0.1	0.3	34.2	3.7	0.7	25.3	1.9	0.4
Consumer discretionary	102.1	7.1	3.0	0.0	0.3	1.2	102.1	6.9	1.9	58.6	3.7	0.9
Consumer staples	57.3	2.8	0.6	0.0	0.1	0.1	57.2	2.7	0.5	38.9	1.7	0.3
Energy & Utilities	48.0	1.5	3.9	0.0	0.0	0.9	48.0	1.4	3.1	37.6	1.3	1.8
Health care	38.5	0.6	0.2	0.0	0.0	0.0	38.5	0.6	0.1	31.1	0.4	1.5
Industrial Services, Supplies & Machinery	108.5	4.6	3.1	0.0	0.1	1.1	108.5	4.5	2.0	89.9	2.4	2.6
IT & telecom	29.6	1.5	0.2	0.0	0.0	0.1	29.6	1.5	0.1	26.9	1.1	0.0
Materials	45.7	2.5	0.7	0.0	0.1	0.4	45.7	2.4	0.3	34.2	0.9	0.9
Non-profit & Associations	175.2	4.0	2.6	0.1	0.1	0.6	175.1	3.9	2.0	46.4	0.9	0.4
Other commercials	37.5	0.7	0.1	0.1	0.0	0.1	37.5	0.7	0.0	28.2	0.3	-0.0
Shipping	27.9	5.8	5.9	0.0	0.8	0.9	27.9	5.0	5.0	13.7	0.5	0.9
Transportation	26.5	2.2	0.3	0.0	0.1	0.1	26.5	2.1	0.1	17.6	0.7	0.1
Personal customers	865.8	56.7	15.2	0.6	1.8	3.8	865.1	54.9	11.4	143.8	11.8	2.2
Total	2,314.1	124.3	53.2	1.5	5.4	14.1	2,312.6	118.9	39.1	997.5	37.5	13.2

Notes – Danske Bank Group

Credit exposure continued

31 December 2017 (DKK billions)	Gross exposure a	Acc. individual impairment charges b	Net exposure =a-b	Net exposure, ex collateral
Public institutions	414.4	-	414.4	369.3
Banks	53.2	0.1	53.1	40.4
Credit institutions	9.4	-	9.4	3.9
Insurance	38.2	-	38.2	4.8
Investment funds	24.9	0.2	24.7	10.7
Other financials	92.8	-	92.8	19.6
Agriculture	65.1	2.5	62.5	11.3
Commercial property	299.4	2.5	296.9	55.3
Construction, engineering and building products	45.1	0.5	44.6	33.4
Consumer discretionary	107.1	1.3	105.8	59.5
Consumer staples	57.8	0.2	57.6	41.0
Energy and utilities	51.1	0.4	50.7	41.0
Health care	34.9	0.1	34.8	29.0
Industrial services, supplies and machinery	96.7	1.1	95.6	77.6
IT and telecommunication services	30.6	0.1	30.5	28.1
Materials	50.5	0.5	49.9	38.1
Non-profits and other associations	170.3	0.7	169.6	39.4
Other commercials	85.8	0.2	85.6	37.9
Shipping	36.7	0.7	36.0	13.1
Transportation	24.6	0.1	24.5	13.1
Personal customers	915.5	4.8	910.6	131.1
Total before collective impairment charges	**2,703.9**	**16.0**	**2,688.0**	**1,097.5**
Collective impairment charges	4.1			
Total gross exposure	**2,708.0**			

Notes – Danske Bank Group

Credit exposure continued

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

Credit portfolio in core activities broken down by business unit and stages in IFRS 9

30 June 2018	Gross exposure			Expected Credit Loss			Net exposure			Net exposure, ex collateral		
(DKK billions)	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Denmark	472.3	24.8	8.6	0.5	1.1	2.7	471.8	23.7	5.8	54.5	5.1	1.5
Finland	82.4	7.3	3.1	0.0	0.1	0.4	82.4	7.2	2.7	5.7	0.9	0.2
Sweden	97.4	7.9	0.4	0.0	0.2	0.1	97.4	7.7	0.3	31.3	1.8	0.0
Norway	119.3	7.1	1.1	0.0	0.1	0.1	119.2	7.0	1.0	31.2	2.0	0.1
Other												
Personal Banking	**771.4**	**47.1**	**13.1**	**0.6**	**1.5**	**3.3**	**770.8**	**45.5**	**9.8**	**122.8**	**9.8**	**1.9**
Denmark	427.3	32.3	21.4	0.5	2.1	6.1	426.8	30.2	15.3	113.8	10.5	2.4
Finland	76.5	10.8	1.6	0.0	0.2	0.6	76.5	10.5	1.0	38.4	3.5	0.2
Sweden	158.6	9.5	1.0	0.1	0.3	0.3	158.5	9.2	0.7	69.7	3.7	0.4
Norway	78.0	7.0	2.6	0.0	0.3	1.1	78.0	6.7	1.5	33.8	2.9	0.9
Other	147.1	0.2	0.1	0.0	0.0	0.0	147.1	0.2	0.1	146.1	0.2	0.0
Business Banking	**889.5**	**60.2**	**26.8**	**0.7**	**2.9**	**8.2**	**888.8**	**57.3**	**18.6**	**403.5**	**21.1**	**4.1**
C&I*	**481.2**	**9.3**	**9.2**	**0.1**	**0.8**	**1.5**	**481.1**	**8.4**	**7.7**	**411.9**	**3.7**	**6.4**
Wealth Management	**84.2**	**3.2**	**1.6**	**0.0**	**0.1**	**0.3**	**84.2**	**3.1**	**1.3**	**19.9**	**0.8**	**0.4**
Northern Ireland	**65.5**	**3.5**	**2.5**	**0.0**	**0.1**	**0.8**	**65.5**	**3.4**	**1.8**	**34.2**	**1.0**	**0.4**
Other	22.2	1.1	0.0	0.0	0.0	0.0	22.2	1.1	0.0	5.1	1.1	0.0
Total	**2,314.1**	**124.3**	**53.2**	**1.5**	**5.4**	**14.1**	**2,312.6**	**118.9**	**39.1**	**997.5**	**37.5**	**13.2**

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

Notes – Danske Bank Group

Credit exposure continued

Credit portfolio in core activities broken down by business unit

31 December 2017 (DKK billions)	Gross exposure a	Acc. individual impairment charges b	Net exposure =a-b	Net exposure, ex collateral
Denmark	500.2	3.4	496.8	62.1
Finland	92.1	0.5	91.6	6.1
Sweden	88.2	0.1	88.0	14.6
Norway	112.8	0.1	112.7	24.4
Personal Banking	**793.2**	**4.2**	**789.1**	**107.2**
Denmark	482.7	7.3	475.4	134.2
Finland	80.1	0.7	79.4	35.6
Sweden	163.0	0.4	162.6	68.4
Norway	81.9	1.1	80.8	35.4
Baltics	20.1	0.2	19.9	9.8
Other	198.7	-	198.7	1.3
Business Banking	**1,026.4**	**9.6**	**1,016.8**	**284.6**
C&I*	**711.8**	**1.1**	**710.7**	**633.4**
Wealth Management	**85.6**	**0.4**	**85.2**	**21.9**
Northern Ireland	**63.7**	**0.7**	**63.0**	**29.5**
Other	**23.2**	**-**	**23.2**	**21.0**
Total before collective impairment charges	**2,703.9**	**16.0**	**2,688.0**	**1,097.6**
Collective impairment charges	4.1			
Total gross exposure	**2,708.0**			

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

Notes – Danske Bank Group

Credit exposure continued

Forbearance practices and repossessed assets

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

If it proves impossible to improve the customer's financial situation by forbearance measures, the Group will consider whether to subject the customer's assets to a forced sale or whether the assets could be realised later at higher net proceeds. At the end of the first half of 2018, the Group recognised properties taken over in Denmark at a carrying amount of DKK 26 million (31 December 2017: DKK 38 million) and there were no properties taken over in other countries (31 December 2017: DKK 44 million). The properties are held for sale and included under Other assets in the balance sheet.

The table below shows the exposures that are subject to forbearance measures and is based on the EBA's definition as described in Annual Report 2017.

Exposures subject to forbearance measures

	30 June 2018		31 December 2017	
(DKK millions)	Performing	Non-performing*	Performing	Non-performing*
Active forbearance	10,495	9,247	8,255	12,718
Under probation	6,464	-	6,472	-
Total	16,959	9,247	**14,727**	**12,718**

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

Notes – Danske Bank Group

Credit exposure continued

Non-performing loans

The Group defines non-performing loans as facilities in stage 3 and for which impairment charges have been booked. For non-retail exposures with one or more non-performing loans, the entire amount of the customer's exposure is considered to be non-performing. For retail exposures, only impaired facilities are included in non-performing loans. The Group's definition of non-performing loans differs from the EBA's definition by excluding fully covered exposures to customers in default and previously forborne exposures that are now performing and are under probation. Furthermore, we exclude exposures in stage 3 where the allowance account is considered immaterial to the gross exposure.

Non-performing loans in core activities

(DKK millions)	30 June 2018	31 December 2017
Total non-performing loans	18,247	17,290
- Portion from customers in default*	6,515	6,049
Coverage ratio (default) (%)	95	97
Coverage ratio (non-default) (%)	65	73
Coverage ratio (total non-performing loans) (%)	81	86
Non-performing loans as a percentage of total gross exposure (%)	1.3	1.2

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

Allowance account in core activities

(DKK millions)	Stage 1	Stage 2	Stage 3	Total
Collective and individual impairment charges under IAS 39				20,069
Transition effect (ECL at 1 January 2018), including impact on loans granted by Realkredit Danmark	1,498	5,530	15,602	2,562
Transferred to Stage 1 during the period	630	-580	-50	-
Transferred to Stage 2 during the period	-17	319	-302	-
Transferred to Stage 3 during the period	-23	-187	210	-
ECL on new assets	215	618	1,057	1,890
ECL on assets derecognised	-193	-696	-1,476	-2,365
Impact of net remeasurement of ECL (incl. changes in models)	-605	393	57	-154
Write-offs debited to the allowance account	-3	-7	-917	-927
Foreign exchange adjustments	-8	8	26	26
Other changes	-30	-16	-98	-144
ECL allowance 30 June 2018	1,464	5,382	14,109	20,956

Notes – Danske Bank Group

Credit exposure continued

Allowance account in core activities broken down by segment

(DKK millions)	Personal Banking	Business Banking	C&I	Wealth Management	Northern Ireland	Other	Allowance account Total
1 January 2017	5,584	13,324	2,762	534	1,273	1	23,479
New and increased impairment charges	1,295	2,227	759	83	95	4	4,462
Reversals of impairment charges from previous periods	1,098	2,803	345	152	334	-	4,732
Write-offs debited to allowance account	535	1,321	763	4	207	-	2,831
Foreign currency translation	-16	-98	-205	-3	-38	-	-361
Other items	-29	123	-18	2	-25	-2	51
31 December 2017	5,200	11,452	2,189	460	764	2	20,069
Transition effect (ECL at 1 January 2018), including impact on loans granted by Realkredit Danmark	5,866	12,899	2,484	468	902	12	2,562
ECL on new assets	190	1,221	424	33	21	1	1,890
ECL on assets derecognised	-440	-1,557	-253	-64	-45	-8	-2,365
Impact on remeasurement of ECL (incl. change in models)	121	-133	-233	25	66	-1	-154
Write-offs debited to allowance account	-313	-558	2	-18	-41	-	-927
Foreign currency translation	-10	5	29	-	2	-	26
Other items	11	-148	3	-10	-	-	-144
30 June 2018	5,425	11,730	2,457	436	905	3	20,956

The expected credit loss is calculated for all individual facilities as a function of PD, EAD and LGD and incorporates forward-looking information. The forward-looking elements reflect the expectations of the Group's senior management and involves the creation of scenarios (base case, upside and downside), including an assessment of the probability for each scenario. Based on these assessments, the allowance account at 30 June 2018 amounted to DKK 21.0 billion. The allowance account would increase DKK 0.5 billion, if the downside scenario was assigned a probability of 100%. If instead the upside scenario was assign a probability of 100%, the allowance account would decrease DKK 0.5 billion.

Notes – Danske Bank Group

Credit exposure continued

Credit exposure from Non-core lending activities

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

With effect from 1 April 2018, the Group repositioned its activities in the Baltic countries to focus exclusively on customers and global corporates with a significant Nordic footprint. As a result, net credit exposure of DKK 14.6 billion was transferred to the Non-core unit in the second quarter of 2018.

Credit portfolio in Non-core activities broken down by industry (NACE) and stages in IFRS 9

30 June 2018	Gross exposure			Expected Credit Loss			Net exposure			Net exposure, ex collateral		
(DKK millions)	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Non-core banking	13,939	3,703	978	68	33	302	13,871	3,670	676	6,569	1,475	254
Personal customers	3,223	1,734	352	10	21	93	3,213	1,713	260	1,310	687	99
Commercial customers	8,403	1,935	626	37	11	209	8,366	1,924	416	3,307	760	155
Public Institutions	2,313	34	-	21	1	-	2,292	33	-	1,952	28	-
Non-core conduits etc.	3,705	5	827	-	-	370	3,705	5	457	626	-	178
Total	17,644	3,709	1,806	68	33	672	17,576	3,675	1,133	7,195	1,475	432

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

31 December 2017 (DKK millions)	Gross exposure a	Acc. individual impairment charges b	Net exposure =a-b	Net exposure, ex collateral
Non-core banking	3,890	280	3,610	70
Non-core conduits etc.	4,882	299	4,583	1,262
Total Non-core before collective impairment charges	**8,772**	**579**	**8,193**	**1,332**
Collective impairment charges	101			
Total gross Non-core exposure	**8,873**			

Credit portfolio in Non-core activities broken down by rating category and stages in IFRS 9

30 June 2018	PD level		Gross exposure			Expected Credit Loss			Net exposure			Net exposure, ex collateral		
(DKK millions)	Upper	Lower	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
1	-	0.01	137	-	-	-	-	-	137	-	-	-	-	-
2	0.01	0.03	1,106	-	-	-	-	-	1,106	-	-	-	-	-
3	0.03	0.06	2,141	76	13	-	-	-	2,141	76	13	742	76	13
4	0.06	0.14	3,266	770	128	52	-	-	3,214	770	128	1,100	175	28
5	0.14	0.31	3,209	828	137	2	-	-	3,207	828	137	1,598	368	60
6	0.31	0.63	2,929	753	125	4	-	-	2,924	753	125	1,539	361	60
7	0.63	1.90	3,113	798	126	8	8	-	3,106	790	126	1,316	295	48
8	1.90	7.98	1,086	301	59	2	17	13	1,084	284	46	593	136	22
9	7.98	25.70	287	83	12	-	8	-	287	75	12	268	65	11
10	25.70	99.99	103	27	876	-	-	405	103	27	471	31	6	182
11 (default)	100.00	100.00	268	71	329	-	-	254	268	71	75	9	-8	9
Total			17,644	3,709	1,806	68	33	672	17,576	3,675	1,133	7,195	1,475	432

Notes – Danske Bank Group

Credit exposure continued

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

31 December 2017	PD level		Gross exposure	Acc. individual impairment charges	Net exposure	Net exposure, ex collateral
(DKK millions)	Upper	Lower	a	b	=a-b	
1	-	0.01	287	-	287	-
2	0.01	0.03	1,054	-	1,054	-
3	0.03	0.06	1,762	-	1,762	461
4	0.06	0.14	639	-	639	298
5	0.14	0.31	61	-	61	-
6	0.31	0.63	339	-	339	17
7	0.63	1.90	2,177	-	2,177	5
8	1.90	7.98	765	-	765	105
9	7.98	25.70	315	-	315	25
10	25.70	99.99	832	303	530	418
11 (default)	100.00	100.00	539	277	262	-
Total Non-core before collective impairment charges			**8,771**	**579**	**8,192**	**1,331**
Collective impairment charges			101			
Total Non-core exposure			**8,872**			

Non-performing loans in Non-core activities

The net exposure from non-performing loans in Non-core amounted to DKK 924 million at 30 June 2018 (31 December 2017: DKK 645 million), of which the average unsecured portion of non-performing loans was 18.4% at the end of June 2018 (31 December 2017: 79.4%).

Notes – Danske Bank Group

Credit exposure continued

Counterparty credit risk and credit exposure from trading and investment securities

(DKK billions)	30 June 2018	31 December 2017
Counterparty credit risk		
Derivatives with positive fair value	294.0	256.9
Reverse transactions and other loans at fair value	279.9	-
Credit exposure from other trading and investment securities		
Bonds	494.4	496.7
Shares	9.2	20.3
Other unutilised commitments	0.5	0.4
Total	1,077.9	774.3

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

Loans included as counterparty credit risk are loans in the trading units of Corporates & Institutions and consist of reverse transactions (DKK 230,838 million) and other primarily short-term loans (DKK 1,307 million).

Derivatives with positive fair value

(DKK millions)	30 June 2018	31 December 2017
Derivatives with positive fair value before netting	429,708	399,452
Netting (under accounting rules)	135,736	142,561
Carrying amount	293,972	256,891
Netting (under capital adequacy rules)	212,578	182,071
Net current exposure	81,394	74,821
Collateral	51,376	45,032
Net amount	30,018	29,788
Derivatives with positive fair value after netting for accounting purposes:		
Interest rate contracts	165,071	167,506
Currency contracts	125,310	86,076
Other contracts	3,591	3,309
Total	293,972	256,891

Bond portfolio

(DKK millions)	Central and local government bonds	Quasi-government bonds	Danish mortgage bonds	Swedish covered bonds	Other covered bonds	Corporate bonds	Total
30 June 2018							
Held-for-trading (FVPL)	112,808	2,200	45,061	51,757	3,931	5,732	221,488
Managed at fair value (FVPL)	16,308	490	40,559	3,764	1,262	79	62,462
Held to collect and sell (FVOCI)	5,355	1,162	51,580	818	2,295	-	61,210
Held to collect (AMC)	59,272	1,200	78,183	6,967	3,158	421	149,201
Total	193,743	5,052	215,383	63,305	10,646	6,232	494,361
31 December 2017							
Held-for-trading	74,424	1,499	40,195	47,825	3,696	5,941	173,581
Designated at fair value	31,029	649	54,585	5,240	5,819	276	97,598
Available-for-sale	2,858	939	73,490	473	1,103	-	78,863
Hold-to-maturity	62,414	1,319	73,260	6,822	2,462	420	146,697
Total	170,725	4,406	241,530	60,360	13,080	6,637	496,739

At 30 June 2018, the Group had an additional bond portfolio worth DKK 215,805 million (31 December 2017: DKK 163,711 million) recognised as assets under insurance contracts and thus not included in the table above. The section on insurance risk in Annual Report 2017 provides more information. For bonds classified as hold-to-maturity, fair value exceeded amortised cost at the end of 30 June 2018 and 31 December 2017.

Notes – Danske Bank Group

Bond portfolio continued

Bond portfolio broken down by geographical area

(DKK millions)	Central and local government bonds	Quasi-government bonds	Danish mortgage bonds	Swedish covered bonds	Other covered bonds	Corporate bonds	Total
30 June 2018							
Denmark	30,967	-	215,383	-	402	651	247,404
Sweden	26,606	-	-	63,305	-	2,457	92,368
UK	7,477	1	-	-	1,843	146	9,467
Norway	11,581	143	-	-	4,701	1,479	17,904
USA	9,737	215	-	-	-	5	9,957
Spain	13,629	-	-	-	63	-	13,692
France	18,499	-	-	-	961	478	19,938
Luxembourg	-	3,818	-	-	-	6	3,824
Finland	15,082	875	-	-	1,137	479	17,573
Ireland	6,629	-	-	-	6	14	6,649
Italy	8,581	-	-	-	-	1	8,582
Portugal	414	-	-	-	-	-	414
Austria	6,987	-	-	-	-	12	6,999
Netherlands	9,644	-	-	-	130	234	10,008
Germany	20,410	-	-	-	1,088	24	21,522
Belgium	7,489	-	-	-	64	42	7,595
Other	11	-	-	-	251	203	465
Total	193,743	5,052	215,383	63,305	10,646	6,232	494,361
31 December 2017							
Denmark	22,830	-	241,527	-	406	2,220	266,983
Sweden	25,882	-	-	60,360	-	1,855	88,097
UK	5,899	-	-	-	1,787	196	7,883
Norway	4,577	-	3	-	5,781	495	10,855
USA	11,014	158	-	-	-	12	11,184
Spain	12,387	-	-	-	132	-	12,519
France	20,234	-	-	-	955	613	21,802
Luxembourg	-	3,194	-	-	-	4	3,198
Finland	16,390	1,054	-	-	1,685	698	19,827
Ireland	3,252	-	-	-	3	7	3,262
Italy	8,194	-	-	-	-	7	8,201
Portugal	256	-	-	-	-	-	256
Austria	9,070	-	-	-	227	3	9,299
Netherlands	7,457	-	-	-	224	342	8,024
Germany	15,752	-	-	-	1,351	62	17,165
Belgium	7,297	-	-	-	116	4	7,418
Other	234	-	-	-	414	119	768
Total	170,725	4,406	241,530	60,360	13,080	6,637	496,739

Notes – Danske Bank Group

Bond portfolio continued

Bond portfolio broken down by external ratings

(DKK millions)	Central and local government bonds	Quasi-government bonds	Danish mortgage bonds	Swedish covered bonds	Other covered bonds	Corporate bonds	Total
30 June 2018							
AAA	107,262	2,633	215,187	63,305	9,603	47	398,038
AA+	17,655	510	-	-	71	124	18,360
AA	33,841	1,909	10	-	900	1,247	37,907
AA-	5,552	-	39	-	60	128	5,779
A+	-	-	-	-	-	255	255
A	6,629	-	21	-	7	2,185	8,842
A-	9	-	94	-	-	293	396
BBB+	13,620	-	-	-	-	426	14,046
BBB	8,596	-	32	-	-	688	9,316
BBB-	-	-	-	-	-	299	299
BB+	399	-	-	-	-	140	539
BB	-	-	-	-	-	145	145
BB-	-	-	-	-	-	16	16
Sub-inv. grade or unrated	180	-	-	-	5	238	423
Total	193,743	5,052	215,383	63,305	10,646	6,232	494,361
31 December 2017							
AAA	84,721	2,699	241,350	60,360	11,561	1,693	402,384
AA+	21,127	343	-	-	336	126	21,932
AA	32,258	1,365	57	-	192	782	34,653
AA-	8,362	-	100	-	-	92	8,554
A+	138	-	-	-	130	256	524
A	3,252	-	14	-	857	1,481	5,604
A-	-	-	-	-	-	427	427
BBB+	85	-	-	-	-	391	476
BBB	20,496	-	6	-	-	486	20,989
BBB-	-	-	-	-	-	197	197
BB+	256	-	-	-	-	141	397
BB	-	-	-	-	-	353	353
BB-	-	-	-	-	-	39	39
Sub-inv. grade or unrated	31	-	3	-	4	172	209
Total	170,725	4,406	241,530	60,360	13,080	6,637	496,739

Financial statements – Danske Bank A/S

The financial statements of the Parent Company, Danske Bank A/S, are prepared in accordance with the Danish Financial Business Act and the Danish FSA's Executive Order No. 281 of 26 March 2014 on Financial Reports for Credit Institutions and Investment Companies, etc. as amended by the Executive Order No. 707of 1 June 2016 and the Executive Order No. 1043 of 5 September 2017.

The amendments to the Danish FSA's Executive Order on Financial Reports for Credit Institutions and Investment Companies, etc. included in the Executive Order No. 1043 of 5 September 2017 incorporates changes due to IFRS 9 Financial Instruments.

The implementation of the amendment had the following key impact on the financial statements of Danske Bank A/S:

- The allowance account in Danske Bank A/S has increased by DKK 1,826 million at 1 January 2018 due to the introduction of the new expected credit loss impairment model. Further, the allowance account in subsidiaries has increased by DKK 346 million and is recognised in Danske Bank A/S using the equity method for holdings in subsidiaries.
- Amounts due from credit institutions of DKK 48,941 million, loans of DKK 173,255 million, amounts due to credit institutions and central banks of DKK 156,505 million, deposits of DKK 149,820 million and issued bonds of DKK 66,052 million in the trading units of Danske Bank A/S have been reclassified from amortised cost to fair value through profit or loss.
- A bond portfolio of DKK 75,754 million in Group Treasury was recognised as available for sale in Danske Bank Group and at fair value through profit or loss in Danske Bank A/S at 31 December 2017. After the implementation of the amendments to the Danish FSA's Executive order on Financial Reports for Credit Institutions and Investment Companies etc. this bond portfolio has been classified as 'held to collect and sell' and is therefore recognised at fair value through other comprehensive income in both Danske Bank Group and Danske Bank A/S. This change had no impact on shareholders' equity in Danske Bank A/S.
- The total impact, net of tax, is a reduction in Shareholders' equity at 1 January 2018 of DKK 1,655 million.

Note 2 to the financial statements of Danske Bank Group provides further information on the impact from the implementation of IFRS 9.

The accounting policies applied are identical to the Group's IFRS accounting policies with the following exceptions:

- Domicile property is measured (revalued) at its estimated fair value through Other comprehensive income.
- Prior to the implementation of IFRS 9, i.e. in 2017 and prior years, the available-for-sale portfolio was not used. However, this difference no longer applies.

The estimated fair value of domicile property is determined in accordance with the Danish FSA's Executive Order on Financial Reports for Credit Institutions and Investment Companies, etc.

Holdings in subsidiaries are measured on the basis of the equity method. Net profit from these undertakings is recognised under Income from associates and group undertakings.

Group internal reorganisations (including business combinations under joint control) are generally accounted for according to the book value method. The acquirer accounts for the assets and liabilities of the acquirer at the carrying amounts at the acquisition date. Comparative information is not restated. As of 31 December 2017, Danske Bank Plc in Helsinki has been merged with Danske Bank A/S. For 2017, net profit after tax in Danske Bank Plc is included in the income statement in the line item Income from associates and group undertakings.

The format of the Parent Company's financial statements is not identical to the format of the consolidated financial statements prepared in accordance with IFRS.

The table below shows the differences in net profit and shareholders' equity between the IFRS consolidated financial statements and the Parent Company's financial statements presented in accordance with Danish FSA rules.

(DKK millions)	Net profit First half 2018	Net profit First half 2017	Total equity 30 June 2018	Total equity 31 December 2017
Consolidated financial statement (IFRS)	8,792	10,321	160,897	168,256
Domicile properties	-	-41	267	267
Financial assets available for sale	-	71	-	-
Tax effect	-	2	-39	-32
Consolidated financial statements (Danish FSA rules)	**8,792**	**10,353**	**161,125**	**168,491**

Income statement – Danske Bank A/S

Note	(DKK millions)	First half 2018	First half 2017
	Interest income	13,473	12,199
	Interest expense	6,075	5,219
	Net interest income	7,398	6,980
	Dividends from shares etc.	71	219
	Fee and commission income	6,951	6,135
	Fees and commissions paid	1,303	1,154
	Net interest and fee income	13,117	12,180
1	Value adjustments	1,870	3,077
	Other operating income	869	829
	Staff costs and administrative expenses	8,905	7,870
	Amortisation, depreciation and impairment charges	1,085	984
	Loan impairment charges etc.	-667	-469
	Income from associates and group undertakings	3,661	4,457
	Profit before tax	10,195	12,157
	Tax	1,403	1,804
	Net profit for the period	**8,792**	**10,353**

Statement of comprehensive income – Danske Bank A/S

(DKK millions)	First half 2018	First half 2017
Net profit for the period	8,792	10,353
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Remeasurement of defined benefit plans	-41	-168
Tax	2	24
Items that will not be reclassified to profit or loss	**-39**	**-144**
Items that are or may be reclassified subsequently to profit or loss		
Translation of units outside Denmark	-361	-291
Hedging of units outside Denmark	277	273
Unrealised value adjustments of bonds at fair value (OCI)	21	-
Realised value adjustments of bonds at fair value (OCI)	-14	-
Tax	-111	-64
Items that are or may be reclassified subsequently to profit or loss	**-188**	**-82**
Total other comprehensive income	**-227**	**-226**
Total comprehensive income for the period	**8,565**	**10,127**
Portion attributable to		
Shareholders of Danske Bank A/S (the Parent Company)	8,175	9,736
Additional tier 1 capital holders	390	391
Total comprehensive income for the period	**8,565**	**10,127**

Balance sheet – Danske Bank A/S

Note	(DKK millions)	30 June 2018	31 December 2017	30 June 2017
	Assets			
	Cash in hand and demand deposits with central banks	46,713	64,574	41,088
	Due from credit institutions and central banks	285,392	335,404	341,254
	Loans and other amounts due at fair value	232,145	-	-
2	Loans and other amounts due at amortised costs	838,296	1,001,711	939,843
	Bonds at fair value	328,450	332,211	339,541
	Bonds at amortised cost	112,745	110,128	103,451
	Shares etc.	9,188	20,062	8,460
	Holdings in associates	446	451	333
	Holdings in group undertakings	86,189	88,021	97,843
	Assets under pooled schemes	53,498	54,207	52,585
	Intangible assets	6,937	6,943	6,832
	Land and buildings	305	308	335
	Investment property	230	232	260
	Domicile property	75	76	74
	Other tangible assets	3,854	3,765	3,600
	Current tax assets	1,808	960	1,052
	Deferred tax assets	602	613	282
	Assets held for sale	155	131	131
	Other assets	312,736	272,856	298,753
	Prepayments	1,342	1,278	1,368
	Total assets	**2,320,801**	**2,293,624**	**2,236,750**
	Liabilities and equity			
	Amounts due			
	Due to credit institutions and central banks	266,174	252,924	268,026
	Deposits and other amounts due	993,539	992,544	850,281
	Deposits under pooled schemes	54,172	55,016	54,220
	Issued bonds at fair value	66,478	-	-
	Issued bonds at amortised cost	266,229	361,568	387,906
	Current tax liabilities	644	878	598
	Other liabilities	473,436	429,041	477,982
	Deferred income	774	858	965
	Total amounts due	**2,121,446**	**2,092,828**	**2,039,978**
	Provisions for liabilities			
	Provisions and pensions and similar obligations	150	201	216
	Provisions for deferred tax	5,837	5,845	5,874
2	Provisions for losses on guarantees	2,169	915	1,153
	Other provisions for liabilities	46	26	40
	Total provisions for liabilities	**8,201**	**6,986**	**7,282**
	Subordinated debt			
	Subordinated debt	30,029	25,319	26,345
	Equity			
	Share capital	8,960	9,368	9,368
	Accumulated value adjustments	-761	-677	-647
	Equity method reserve	24,115	24,115	25,455
	Retained earnings	114,472	111,978	114,636
	Proposed dividends	-	9,368	-
	Shareholders of Danske Bank A/S (the Parent Company)	146,785	154,152	148,812
	Additional tier 1 etc.	14,340	14,339	14,334
	Total equity	**161,125**	**168,491**	**163,145**
	Total liabilities and equity	**2,320,801**	**2,293,624**	**2,236,750**

Statement of capital – Danske Bank A/S

Change in equity

(DKK millions)	Share capital	Foreign currency translation reserve *	Equity method reserve	Retained earnings	Proposed dividends	Total	Additional tier 1 capital	Total
Total equity at 31 December 2017	9,368	-677	24,115	111,978	9,368	154,152	14,339	168,491
Effect from changed accounting policy (IFRS 9)		-	-274	-1,381		-1,655		-1,655
Total equity at 1 January 2018	9,368	-677	23,841	110,597	9,368	152,498	14,339	166,836
Net profit for the period	-	-	274	8,120	-	8,394	390	8,785
Other comprehensive income								
Remeasurement of defined benefit plans	-	-	-	-41	-	-41	-	-41
Tax on remeasurement of defined benefit plans	-	-	-	2		2	-	2
Translation of units outside Denmark	-	-361	-	-	-	-361	-	-361
Hedging of units outside Denmark	-	277	-	-	-	277	-	277
Unrealised value adjustments of bonds at fair value (OCI)	-	-	-	21	-	21	-	21
Realised value adjustments of bonds at fair value (OCI)	-	-	-	-14	-	-14	-	-14
Tax	-	-	-	-111	-	-111	-	-111
Total other comprehensive income	-	-84	-	-144	-	-227	-	-227
Total comprehensive income for the period	-	-84	274	7,977	-	8,167	390	8,557
Transactions with owners								
Paid interest on additional tier 1 capital	-	-	-	-	-	-	-392	-392
Dividends paid	-	-	-	517	-9,368	-8,851	-	-8,851
Share capital reduction	-409	-	-	409	-	-	-	-
Acquisition of own shares and additional tier 1 capital	-	-	-	-25,852	-	-25,852	3	-25,849
Sale of own shares and additional tier 1 capital	-	-	-	20,667	-	20,667	-	20,667
Tax and other changes	-	-	-	157	-	157	-	157
Total equity at 30 June 2018	8,960	-761	24,115	114,472	-	146,785	14,340	161,125

* The revaluation reserve (31 December 2017: DKK 2 million) has been included in the foreign currency translation reserve. No changes occurred in the revaluation reserve during the first half of 2018.

Statement of capital – Danske Bank A/S

Change in equity	Share capital	Foreign currency translation reserve *	Equity method reserve	Retained earnings	Proposed dividends	Total	Additional tier 1 capital	Total
Total equity at 1 January 2017	9,837	-629	28,013	106,469	8,853	152,543	14,343	166,885
Net profit for the period	-	-	-2,558	12,519	-	9,961	391	10,353
Other comprehensive income								
Remeasurement of defined benefit plans	-	-	-	-168	-	-168	-	-168
Translation of units outside Denmark	-	-291	-	-	-	-291	-	-291
Hedging of units outside Denmark	-	273	-	-	-	273	-	273
Tax	-	-	-	-40	-	-40	-	-40
Total other comprehensive income	-	-18	-	-208	-	-226	-	-226
Total comprehensive income for the period	-	-18	-2,558	12,311	-	9,736	391	10,127
Transactions with owners								
Paid interest on additional tier 1 capital	-	-	-	-	-	-	-393	-393
Dividends paid	-	-	-	521	-8,853	-8,332	-	-8,332
Share capital reduction	-469	-	-	469	-	-	-	-
Acquisition of own shares and additional tier 1 capital	-	-	-	-29,633	-	-29,633	-113	-29,746
Sale of own shares and additional tier 1 capital	-	-	-	24,427	-	24,427	106	24,533
Tax	-	-	-	71	-	71	-	71
Total equity at 30 June 2017	9,368	-647	25,455	114,636	-	148,812	14,334	163,145

* The revaluation reserve (30 June 2017: DKK 2 million) has been included in the foreign currency translation reserve. No changes have occurred in the revaluation reserve since the first half of 2017.

Notes – Danske Bank A/S

1. Value adjustments

(DKK millions)	30 June 2018	30 June 2017
Loans at fair value	-510	-246
Bonds	-292	1,218
Shares etc.	-231	848
Currency	1,396	19
Derivatives	686	-611
Assets under pooled schemes	55	-81
Other liabilities	769	1,930
Total	**1,872**	**3,077**

2. Impairment charges for loans and guarantees

	Due to credit institutions and central banks			Loans and other amounts due at AMC			Loan commitments and guarantees			Total
(DKK millions)	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Collective and individual impairment charges under IAS 39										16,398
Transition effect (ECL at 1 January 2018)	6	1	2	288	3,730	11,754	606	976	957	18,320
Transferred to Stage 1	-	-	-	479	-455	-24	86	-84	-2	-
Transferred to Stage 2	-	-	-	-13	208	-194	-4	29	-25	-
Transferred to Stage 3	-	-	-	-3	-109	112	-18	-69	87	-
ECL on new assets	10	1	-	139	419	915	32	118	101	1,736
ECL on assets derecognised	-2	-1	-	-143	-505	-1,057	-66	-149	-243	-2,165
Impact of net remeasurement of ECL (incl. changes in models)	-2	-	-	-376	338	207	-119	135	-165	18
Write offs debited to the allowance account	-	-	-	-	-	-624	-	-	-	-624
Foreing exchange adjustments	-	-	-	-8	2	-36	-	6	6	-30
Other changes	-	-	-	-	-	-87	-	-	-	-87
ECL allowance 30 June	12	1	2	363	3,628	10,966	518	961	716	17,168

(DKK millions)	Loans, advances and guarantees, individual impairment	Loans, advances and guarantees, collective impairment	Other amounts due, individual impairment	Other amounts due, collective impairment	Total
Impairment charges at 1 January 2017	15,362	4,163	7	8	19,540
Impairment charges during the year	3,695	121	-	-	3,816
Reversals of impairment charges from previous years	3,284	1,336	24	3	4,646
Addition from merger	1,116	108	12	5	1,241
Other changes	-3,673	115	10	-5	-3,553
Impairment charges at 31 December 2017	**13,216**	**3,171**	**5**	**6**	**16,398**
Value adjustment of assets taken over	-	-	-	-	-

Notes – Danske Bank A/S

Nøgletal - Danske Bank A/S Ratios and key figures	First half 2018	Full Year 2017	First half 2017
Total capital ratio (%)	25.2	25.9	26.9
Tier 1 capital ratio (%)	22.3	23.0	23.7
Return on equity before tax (%)	6.2	14.2	7.4
Return on equity after tax (%)	5.3	12.4	6.3
Income/cost ratio (%)	209.4	242.9	245
Interest rate risk (%)	3.4	3.2	4.4
Foreign exchange position (%)	4.2	0.5	4.0
Foreign exchange risk (%)	0.0	0.0	-
Loans plus impairment charges as % of deposits	81.1	97.1	105.7
Gearing of loans	5.2	5.9	5.8
Growth in loans (%)*	12.3	-2.6	0.8
Liquidity indicator (%) **	124.3	213.4	224.3
Sum of large exposures as % of CET1 capital **	109.3	12.5	11.7
Funding ratio	0.6	0.6	0.6
Real property exposure	17.2	14	12
Impairment ratio (%)	-0.1	-0.1	0.0
Return on assets (%)	0.4	0.9	0.5
Earnings per share (DKK)	10.0	21.7	10.8
Book value per share (DKK)	182.6	188.0	178.1
Proposed dividend per share (DKK)	-	10.0	-
Share price end of period/earnings per share (DKK)	20.1	11.1	23.2
Share price end of period/book value per share (DKK)	1.09	1.30	1.41

*As of 31 December 2017, Danske Bank plc in Helsinki has been merged with Danske Bank A/S contributing to the increase in Growth in loans.

** In 2018, changes have been made to the limit values and calculation method according to the guidelines for the Supervisory Diamond. No comparative figures are restated.

Statement by the management

The Board of Directors and the Executive Board (the management) have considered and approved Interim report – first half 2018 of Danske Bank Group.

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

In our opinion, the interim financial statements give a true and fair view of the Group's assets, liabilities, total equity and financial position at 30 June 2018 and of the results of the Group's operations and the consolidated cash flows for the period starting 1 January 2018 and ending 30 June 2018. Moreover, in our opinion, the management's report includes a fair review of developments in the Group's operations and financial position and describes the significant risks and uncertainty factors that may affect the Group.

Copenhagen, 18 July 2018
Executive Board

Thomas F. Borgen
CEO

Jacob Aarup-Andersen

James Ditmore

Carsten Rasch Egeriis

Henriette Fenger Ellekrog

Jakob Groot

Jesper Nielsen

Glenn Söderholm

Frederik Gjessing Vinten

Board of Directors

Ole Andersen
Chairman

Carol Sergeant
Vice Chairman

Ingrid Bonde

Lars-Erik Brenøe

Jørn P. Jensen

Jens Due Olsen

Rolv Erik Ryssdal

Hilde Tonne

Bente Bang
Elected by the employees

Kirsten Ebbe Brich
Elected by the employees

Thorbjørn Lundholm Dahl
Elected by the employees

Charlotte Hoffmann
Elected by the employees

Independent auditors' review report

To the shareholders of Danske Bank A/S

Independent auditors' review report on the interim financial statements
We have reviewed the interim financial statements of Danske Bank A/S for the financial period 1 January to 30 June 2018, pp. 31-82 which comprise the income statement, statement of comprehensive income, balance sheet, statement of capital and notes for the Group and the Parent Company, respectively, as well as the consolidated cash flow statement.

Management's responsibility for the interim financial statements
Management is responsible for the preparation of consolidated interim financial statements in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and Danish disclosure requirements for listed financial companies and for the preparation of the Parent Company's interim financial statements in accordance with the Danish Financial Business Act and Danish disclosure requirements for listed financial companies, and for such internal control as Management determines is necessary to enable the preparation of interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility
Our responsibility is to express an opinion on the interim financial statements. We conducted our review in accordance with the International Standard on Engagements to Review Interim Financial Information Performed by the Independent Auditor of the Entity and additional requirements under Danish audit regulation. This requires that we express a conclusion about whether anything has come to our attention that causes us to believe that the interim financial statements, taken as a whole, have not been prepared, in all material respects, in accordance with the applicable financial reporting framework. This also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with the International Standard on Engagements to Review Interim Financial Information Performed by the Independent Auditor of the Entity is a limited assurance engagement. The auditor performs procedures primarily consisting of inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

A review is substantially less in scope than an audit performed in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on the interim financial statements.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim financial statements have not been prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and Danish disclosure requirements for listed financial companies, and that the parent interim financial statements have not been prepared, in all material respects, in accordance with the Danish Financial Business Act and Danish disclosure requirements for listed financial companies.

Copenhagen, 18 July 2018

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No. 33 95 35 56

Erik Holst Jørgensen
State-Authorised
Public Accountant
Identification No
(MNE) mne9943

Jens Ringbæk
State-Authorised
Public Accountant
Identification No
(MNE) mne27735

Supplementary information

Financial calendar

1 November 2018	Interim report – first nine months 2018
1 February 2019	Annual Report 2018
18 March 2019	Annual general meeting
30 April 2019	Interim report – first quarter 2019
18 July 2019	Interim report – first half 2019
1 November 2019	Interim report – first nine months 2019

Contacts

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Claus Ingar Jensen Head of Investor Relations	+45 45 12 84 83

Links

Danske Bank	danskebank.com
Denmark	danskebank.dk
Finland	danskebank.fi
Sweden	danskebank.se
Norway	danskebank.no
Northern Ireland	danskebank.co.uk
Ireland	danskebank.ie
Realkredit Danmark	rd.dk
Danske Capital	danskecapital.com
Danica Pension	danicapension.dk

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

Bilaga

Mejl daterat 2018-07-18

Bilaga till Externt dokument 2021-01-26 08:56, diarienr 9000-K822-19

Beskrivning

Till mejlet är Danske Banks halvårsrapport 2018 bifogad.

From: Cecilia Hernqvist <cecilia.hernqvist@swedbank.com>
Sent: 2018-07-18 09:55:45 +0000
To: Liselott Alström <liselott.alstrom@swedbank.se>; Andreas Hobbelin <andreas.hobbelin@swedbank.no>; Håkan Bengtsson <hakan.bengtsson@swedbank.com>; Charlotte Elsnitz <charlotte.elsnitz@swedbank.com>
Subject: FW: Interim report - First half 2018(1).pdf
Attachments: Interim report - First half 2018(1).pdf

Se executive summaryn!

From: Tomas Hedberg
Sent: den 18 juli 2018 11:44
To: Cecilia Hernqvist
Subject: Interim report - First half 2018(1).pdf

Hej,

Står i Borgens egen kommentar på sid 5.

Hälsningar

Tomas

Message Headers:

Received: from SRV62316.fspa.myntet.se (10.8.31.62) by SRV63091.fspa.myntet.se
 (10.8.31.65) with Microsoft SMTP Server (TLS) id 15.0.1365.1 via Mailbox
 Transport; Wed, 18 Jul 2018 11:55:46 +0200
Received: from SRV62317.fspa.myntet.se (10.8.31.63) by SRV62316.fspa.myntet.se
 (10.8.31.62) with Microsoft SMTP Server (TLS) id 15.0.1365.1; Wed, 18 Jul
 2018 11:55:45 +0200
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 SRV62317.fspa.myntet.se ([fe80::4583:8a8:dba3:8634%21]) with mapi id
 15.00.1365.000; Wed, 18 Jul 2018 11:55:45 +0200
Content-Type: application/ms-tnef; name="winmail.dat"
Content-Transfer-Encoding: binary
From: Cecilia Hernqvist <cecilia.hernqvist@swedbank.com>
To: Liselott Alström <liselott.alstrom@swedbank.se>,
 Andreas Hobbelin <andreas.hobbelin@swedbank.no>,
 Håkan Bengtsson <hakan.bengtsson@swedbank.com>, "Charlotte
 Elsnitz" <charlotte.elsnitz@swedbank.com>
Subject: FW: Interim report - First half 2018(1).pdf
Thread-Topic: Interim report - First half 2018(1).pdf
Thread-Index: AdQee+Bmx5dZiNJ1Q9q1gNfGRGZFzgAAY2rQ
Date: Wed, 18 Jul 2018 11:55:45 +0200
Message-ID: <22624f04e3514096b1d3dab2699b6fb4@SRV62317.fspa.myntet.se>
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In-Reply-To: <9c44695bdd3349cc9dab415f41e3b7dd@SRV63094.fspa.myntet.se>
Accept-Language: en-US
Content-Language: en-US
X-MS-Has-Attach: yes
X-MS-Exchange-Organization-SCL: -1
X-MS-TNEF-Correlator: <22624f04e3514096b1d3dab2699b6fb4@SRV62317.fspa.myntet.se>
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X-MS-Exchange-Transport-FromEntityHeader: Hosted
X-MS-Exchange-Organization-MessageDirectionality: Originating
X-MS-Exchange-Organization-AuthSource: SRV62317.fspa.myntet.se
X-MS-Exchange-Organization-AuthAs: Internal
X-MS-Exchange-Organization-AuthMechanism: 04
X-Originating-IP: [10.8.33.4]
X-MS-Exchange-Organization-Network-Message-Id: 667a3ebb-bf64-4934-e191-08d5ec94a187
Return-Path: cecilia.hernqvist@swedbank.com

Myndighet
Ekobrottsmyndigheten

Enhet
Stockholm FMK

Danske Banks utredning 2018-09-19

Signerat av

Signerat datum

Diarienr
9000-K822-19

Orginalhandlingens förvaringsplats	Datum	Tid
	2021-01-22	10:27

Involverad personal	Funktion
Ann-Christin Sandén	Uppgiftslämnare

Berättelse

Danske Banks utredning

Report on the Non-Resident Portfolio at Danske Bank's Estonian branch ,

av Bruun & Hjejle och daterad 2018-09-19

Nedladdad från:

https://danskebank.com/-/media/danske-bank-com/file-cloud/2018/9/report-on-the-non-resident-portfolio-at-danske-banks-estonian-branch.pdf?rev=56b16dfddae94480bb8cdcaebeaddc9b&hash=B7D825F2639326A3BBBC7D524C5E341E

BRUUN & HJEJLE

Report on the Non-Resident Portfolio at Danske Bank's Estonian branch

19 September 2018

BRUUN & HJEJLE
ADVOKATPARTNERSELSKAB
NØRREGADE 21
1165 KØBENHAVN K
CVR-NUMMER: 37 97 51 92

REF 5301169
DOC 3151674

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1. Executive summary

1.1 Background

Danske Bank A/S ("Danske Bank") is the largest financial institution in Denmark with focus on the Nordic region and presence in sixteen countries. Danske Bank is listed on the Nasdaq OMX Copenhagen stock exchange. In Denmark, Danske Bank offers, in addition to banking services, life insurance and pension, mortgage credit, wealth management, real estate and leasing services. Danske Bank has a total of 2.7 million personal customers, 211,000 small and medium-sized business customers, and 2,000 corporate and institutional customers. Danske Bank is licensed by the Financial Supervisory Authority ("FSA") in Denmark, which considers Danske Bank to be one of six systemically important financial institutions in Denmark. Systemically important financial institutions are deemed essential to the financial system.

Until early 2016, Danske Bank had in its Estonian branch a portfolio of some thousands customers residing outside Estonia (the "Non-Resident Portfolio"). The Estonian branch and the Non-Resident Portfolio had become part of Danske Bank when in 2007 Danske Bank acquired Finnish-based Sampo Bank. The Non-Resident Portfolio included customers from the Russian Federation and the larger Commonwealth of Independent States ("CIS"), including countries such as Azerbaijan and Ukraine.

The Estonian branch had its own IT platform. This meant that the branch was not covered by the same customer systems and transaction and risk monitoring as Danske Bank Group headquartered in Copenhagen (also referred to as "Group"), and it also meant that Group did not have the same insight into the branch as other parts of Group. Many documents at the Estonian branch, including information about customers, were written in Estonian or Russian.

For a long time, it was believed within Group that the high risk represented by non-resident customers in the Estonian branch was mitigated by appropriate anti-money laundering ("AML") procedures. In early 2014, following a report from a whistleblower and audit letters from Group Internal Audit, it became clear that AML procedures at the Estonian branch had been manifestly insufficient and inadequate. This caused a number of initiatives on the part of Group. AML procedures also became subject to harsh criticism from the FSA in Estonia, and Danske Bank was met with regulatory sanctions from both the Estonian FSA in July 2015 and the Danish FSA in March 2016. The Non-Resident Portfolio was terminated in 2015 with the last accounts being closed in early 2016.

Since March 2017, the terminated Non-Resident Portfolio at Danske Bank's Estonian branch has attracted significant public interest.

In press release of 21 September 2017, Danske Bank acknowledged that it was "major deficiencies in controls and governance that made it possible to use Danske Bank's branch in Estonia for criminal activities such as money laundering". The press release made reference to the findings of a "root-cause analysis" prepared for the bank by US-based consultancy Promontory Financial Group, LLC ("Promontory"). According to the same press release, Danske Bank had expanded its ongoing investigation into the situation at its Estonian branch, which was expected to be completed in the course of nine to twelve months. This expanded investigation, here referred to as the Portfolio Investigation, examines the customers in the terminated Non-Resident Portfolio and their historical activities, that is payments and other transactions and trading activities. It also investigates possible cooperation between customers and employees with the Estonian branch (internal collusion). Part of the purpose of the Portfolio Investigation has been to understand, to the extent possible, the activity and to report to the Financial Intelligence Unit ("FIU") in Estonia customers found to be "suspicious" as required under Estonian law. By now, the investigation finds to have a good general understanding of the portfolio.

In addition to the Portfolio Investigation, there has been a separate investigation into accountability. Part of its purpose has been to understand how Danske Bank ended up in this situation. In addition to analysing the bank's own exposure and legal responsibility as an institution, the investigation has assessed whether individuals in leading positions at Group level and also in the Estonian branch failed to comply with legal obligations forming part of their employment or position. This investigation, which is here referred to as the Accountability Investigation, has been completed.

1.2 Scope of the report

This report summarises characteristics of the terminated Non-Resident Portfolio at Danske Bank's Estonian branch as well as other facts relating to it, including main events both at branch and Group level.

For legal reasons, it is not possible in this report to share all information relating to the Non-Resident Portfolio. Specific information about customers and employees cannot be shared. This also includes assessments of individuals. Equally, suspicious activity reports ("SARs") filed with the Estonian FIU or elsewhere are subject to secrecy. Moreover, information over which Danske Bank exercises legal privilege cannot enter the public domain.

Financial regulation has established separate channels for reporting and exchange of information between financial institutions and regulators, and Danske Bank continues to share information on a wider scale with the Danish FSA and the Estonian FSA as well as other relevant authorities.

1.3 Looking back

This report looks back into the Non-Resident Portfolio at Danske Bank's Estonian branch. The portfolio was terminated in late 2015 with the last accounts being closed in early 2016. As part of the look-back, the report describes AML procedures and IT solutions then in place at the Estonian branch. The report does not include a description of present-day AML procedures at the Estonian branch, leaving aside AML procedures in Danske Bank Group at large. It follows from a number of press releases as well as internal reporting and communication with regulators that Danske Bank has been investing in improved AML procedures throughout the Group and also covering the Estonian branch, as also noted by the Danish FSA in its decision of 3 May 2018 on this matter. On 26 April 2018, Danske Bank publicly announced that the bank would scale down its Baltic banking activities focusing "exclusively on supporting subsidiaries of Nordic customers and global corporates with a significant Nordic footprint".

1.4 Key takeaways

The description in this report of the Non-Resident Portfolio at Danske Bank's Estonian branch and developments from the acquisition in late 2006 until last year includes the following key takeaways:

The Estonian branch and non-resident customers
1. How the Estonian branch became part of Danske Bank
In November 2006, Danske Bank announced its acquisition of Finnish-based Sampo Bank. The acquisition was completed in February 2007. It included Sampo Bank's subsidiary in Estonia named AS Sampo Pank. The majority share interest in this Estonian bank had been acquired by Sampo Bank back in 2000. The seller had been the Estonian Central Bank. In 2002, Sampo Bank had acquired the rest of the shares from minority shareholders. A year after the acquisition, in 2008, Sampo Pank in Estonia was turned into a branch of Danske Bank.
2. Market share of non-resident deposits
There had been strong economic ties between the Baltic countries and Russia. Since the 1990s Sampo Pank in Estonia had had a portfolio of non-resident customers. By the end of 2013, the Non-Resident Portfolio within Danske Bank's Estonian branch held 44 per cent of the total deposits from non-resident customers in Estonian banks (up from 27 per cent in 2007) and nine per cent of the total deposits from non-resident customers in Baltic banks (up from five per cent in 2007).
3. The Non-Resident Portfolio at the Estonian branch
The Non-Resident Portfolio was managed by a separate group of employees, from 2013 named the International Banking department and from March 2015 the International Banking division. This Non-Resident Portfolio consisted at any time of between 3,000 and 4,000 customers. At the end of 2015, the International Banking division was closed and the Non-Resident Portfolio terminated, with a few accounts closed only in early 2016. From 2007 through 2015, there were approximately 10,000 customers in total in the Non-Resident Portfolio. These are all subject to the Portfolio Investigation.

4. Other non-resident customers at the Estonian branch

The Estonian branch had non-resident customers also outside the Non-Resident Portfolio. These were non-resident customers not managed by the separate group of employees that became the International Banking department and division. In order to secure completeness, the Portfolio Investigation includes all customers with the Estonian branch with one or more cross-border characteristics, such as address, contact data or ownership outside Estonia. This has increased the total number of customers subject to investigation to approximately 15,000.

Activity in the Non-Resident Portfolio

5. High activity in the Non-Resident Portfolio

From 2007 through 2015, there was high activity in the Non-Resident Portfolio. Services offered by the Estonian branch to the customers in the Non-Resident Portfolio consisted of payments and other transactions in various currencies and also foreign exchange lines as well as bond and securities trading. There were also deposits from customers. As regards the Non-Resident Portfolio, the branch took no credit risks of any significance. For the same reason, little capital was allocated to the Non-Resident Portfolio.

6. Payments

There were incoming payments received by customers in the Non-Resident Portfolio, as well as outgoing payments from these customers to recipients outside the Non-Resident Portfolio. In addition, there were book transfers between the customers, that is internal payments between customers in the Non-Resident Portfolio. In total for the approximately 10,000 customers, there were approximately 7.5 million payments not including book transfers between the customers (for the 15,000 customers there were approximately 9.5 million such payments).

7. Flow of money through the Non-Resident Portfolio

Funds transferred from external parties to customers in the Non-Resident Portfolio and subsequently transferred from such customers to external recipients are referred to as “the flow”. Over the nine years from 2007 through 2015, the flow converted into EUR for both the approximately 10,000 customers in the Non-Resident Portfolio and the 15,000 customers subject to investigation was approximately EUR 200 billion. Most used currencies were USD and EUR (for purposes of analysis, all payments have been converted into EUR using historical exchange rates).

Failed AML procedures at the Estonian branch

8. Historical misconception of AML procedures

The Estonian branch had its own IT platform. This meant that the branch was not covered by the same customer systems and transaction and risk monitoring as Group, and it also meant that Group did not have the same insight into the branch as other parts of Group. Many documents at the Estonian branch, including information about customers, were written in Estonian or Russian. For a long time, it was believed within Group that the high risk represented by non-resident customers in the Estonian branch was mitigated by appropriate AML procedures.

9. Failed AML procedures realised by Group in 2014

In early 2014, following a whistleblower and new reporting from Group Internal Audit, Danske Bank Group realised that there had been a historical misconception. It was now realised at Group level that AML procedures at the Estonian branch involving the Non-Resident Portfolio had been manifestly insufficient and inadequate. It was also realised that all control functions (or lines of defence) had failed, both within the branch and at Group level. This included business functions as well as Group Compliance & AML and Group Internal Audit. As demonstrated by Group Internal Audit in the first quarter of 2014 and by an external consultancy report from April 2014, (i) there had been insufficient knowledge of customers, their beneficial owners and controlling interests, and of sources of funds; (ii) screening of customers and payments had mainly been done manually and had been insufficient; and (iii) there had been lack of response to suspicious customers and transactions.

Suspicious customers and activity

10. Suspicious customers

The Portfolio Investigation has adopted a risk-based approach. A large number of risk indicators have been defined, and customers have been run against them and grouped. In examining customers, a customer-by-customer approach has been adopted starting with customers hitting the most risk indicators. So far, approximately 6,200 customers have been examined, and the vast majority of these customers have been deemed suspicious. Almost all of the approximately 6,200 customers examined so far were among the approximately 10,000 customers in the Non-Resident Portfolio.

11. Filing of suspicious activity reports

Customers found to have suspicious characteristics or to have been involved in some suspicious transactions are being reported to the Estonian FIU in an agreed format and in accordance with Estonian law. The reporting have the form of suspicious activity reports ("SARs"). It is in addition to the SARs filed historically by the Estonian branch on 653 customers in the Non-Resident Portfolio (the Estonian branch filed SARs on 760 customers when including the additional 5,000 customers also subject to investigation).

12. Suspicious flow

The fact that customers have suspicious characteristics or have been involved in some payments deemed suspicious does not provide a basis for concluding with reasonable certainty what part of the flow was suspicious. For some customers, all payments are likely to be suspicious. For other customers, the fact that they have been involved in some suspicious payments does not necessarily imply that all their payments were suspicious. However, a transaction-by-transaction approach has not been adopted, and there is no accurate estimate. It is expected that a large part of the payments were suspicious.

13. Criminal activity
The fact that a customer or a transaction is deemed suspicious does not in itself implicate criminal activity on the part of the customer or other party. When filing SARs, the FIU as recipient has the opportunity to collect further information from other sources and to initiate investigation. Money laundering requires proof that funds transferred are proceeds of a crime. Ascertaining whether this is the case typically requires more information than is possessed by a financial institution.
14. Internal collusion
Former and current employees and former agents (persons receiving commission for facilitating customers) of the Estonian branch have been examined for suspicious activity, ultimately with a view to determining whether they may have been colluding with customers in the Non-Resident Portfolio. 42 employees and agents have been deemed to have been involved in some suspicious activity. This is being reported to the Estonian FIU, again in an agreed format and in accordance with Estonian law. Further, eight former employees have been reported to the Estonian police by Danske Bank. Despite the SARs and police reports filed, it cannot be concluded with reasonable certainty to what extent criminal activity in the form of collusion has actually taken place.
Events and red flags
15. Red flag at the time of acquisition
In 2007, shortly after completing the acquisition of Sampo Bank, Danske Bank had a real opportunity to conclude that the Non-Resident Portfolio involved suspicious activity not caught by AML procedures at Sampo Pank in Estonia. In 2007, the Estonian FSA came out with a critical inspection report, and at the same time Danske Bank at Group level received specific information from the Russian Central Bank, through the Danish FSA. This information pointed to possible "tax and custom payments evasion" and "criminal activity in its pure form, including money laundering", estimated at "billions of rubles monthly". However, Danske Bank missed this first real opportunity.
16. Decision not to migrate to Group IT platform
The Estonian branch and the Baltic banking activities formed only small parts of Danske Bank, which faced numerous challenges throughout the financial crisis, not least from 2008. That year, plans to migrate the Baltic banking activities onto the IT platform of Danske Bank Group were abandoned on grounds that it was considered too expensive and required too many resources. In consequence, the Estonian branch did not employ AML procedures developed at Group level, including customer systems and transaction and risk monitoring. At the same time, Group had only limited insight into the Estonian business activities.
17. Business reporting
Over the many active years that followed, the Non-Resident Portfolio turned into a well-established business within Danske Bank, albeit particular to the Baltics and the

Estonian branch. Most presentations on the Estonian branch included little or no information about the Non-Resident Portfolio. This was also the case in connection with strategy discussions, irrespective of the importance of the Non-Resident Portfolio to the Estonian branch in terms of profitability. The Estonian FSA had conducted a follow-up investigation in 2009, which resulted in a less critical report compared to 2007. This information was shared with the Danish FSA upon inquiries in 2012 and 2013. The Estonian branch also used minutes of a meeting in 2013 with the Estonian FSA, based upon information provided by the branch, to give comfort to Danske Bank at Group level. Group appeared to place undue reliance on these minutes, which were more nuanced than generally presented within the bank.

18. Reporting from control functions

Up until 2014, reporting on the Estonian branch from Group Compliance & AML to the Executive Board and the Board of Directors was overall comforting, just as reporting from Group Internal Audit was generally positive in 2011 to 2013.

19. Termination of correspondent banking relationship in 2013

In 2013, a correspondent bank clearing USD transactions out of the Estonian branch brought the correspondent banking relationship with the branch to an end on grounds of AML. This was another real opportunity to scrutinise the Non-Resident Portfolio. Actually, it did give rise to a business review of the Non-Resident Portfolio initiated by Group, and although never properly completed before overtaken by other events in the form of a whistleblower it provided Group with new and partly disturbing information. At the same time, there were initiatives within the Estonian branch to strengthen oversight.

20. Responses to whistleblower and Group Internal Audit in 2014

It was a whistleblower from within the Estonian branch in late 2013 and new reporting from Group Internal Audit in early 2014 that made Group realise that AML procedures at the Estonian branch had been manifestly insufficient and inadequate and that all three lines of defence, both within the branch and at Group level, had failed. Upon realising this, action was taken at Group level with regard to the Non-Resident Portfolio. A few months later, however, it was seemingly felt within Group that the situation had come under control and that critical observations by Group Internal Audit and an external consultancy and later also the Estonian FSA mainly concerned the past. In turn, this impression influenced reporting to the Executive Board and the Board of Directors, both of which were again given comfort that had no basis. Also, there was no reporting to authorities.

21. Insufficient actions in 2014

Actions actually taken in 2014 turned out to be insufficient, with a number of processes not brought to an end. For one thing, the allegations brought forward by the whistleblower were not properly investigated. More generally, focus was mainly on procedures, as opposed to mitigating real and concrete risks arising out of a still active Non-Resident Portfolio. One exception was a review by the branch of the corporate customers in the Non-Resident Portfolio, but this exercise also turned out to be insufficient.

22. Process leading to termination of the Non-Resident Portfolio in 2015
In the first half of 2015, the Estonian branch would seem to have planned to maintain the majority of the customers in the Non-Resident Portfolio. This was irrespective of a new branch policy to serve such customers, according to which customers were required to have "legitimate reasons" for doing business in the Baltics, and upon which the Board of Directors had relied when deciding on new strategy for the Baltic banking activities. A proper run-off was initiated and nearly completed only in the second half of 2015, following terminations of the remaining USD clearing correspondent banking relationship and interactions with the Estonian FSA after a highly critical inspection report from December 2014.
23. Analysis of and reporting on the Non-Resident Portfolio in 2017
In 2017, Danske Bank began to look into the Non-Resident Portfolio in response to media coverage. Information was gathered in a process which was chaotic in part, and which did not leave much time for analysis. Reporting was lacking in some respects, both to the Board of Directors and to the Danish FSA.
Accountability
24. Individuals' compliance with legal obligations
With regard to the Non-Resident Portfolio, it has been found that, from 2007 through 2017, a number of former and current employees, both at the Estonian branch and at Group level, did not comply with legal obligations forming part of their employment with the bank. Most of these employees are no longer employed by the bank. For employees still with the bank, the bank has informed us that appropriate action has been or will be taken. We are not in a position to share an assessment of an individual unless requested by the individual in question. We have been requested by the Board of Directors, the Chairman and the Chief Executive Officer ("CEO") to share their assessments. According to assessments made, the Board of Directors, the Chairman and the CEO have not breached their legal obligations towards the bank.

1.5 Structure of the report

The remaining part of this report begins with a presentation of relevant regulation and practice regarding AML (Section 2). This is followed by a description of methodology applied in the Portfolio Investigation and the Accountability Investigation, respectively (Sections 3 and 4). Following this, the Non-Resident Portfolio is presented in figures (Section 5). Next, an overview is provided of the inadequate AML procedures in the Estonian branch (Section 6), which is followed by more detailed information about suspicious activity and criminal activity (Section 7) as well as possible internal collusion (Section 8). These sections raise the question as to why the inadequate AML procedures were not detected at an earlier stage and, more broadly, what brought Danske Bank in this situation. What follows next is an overview of events (Section 9). The final section is about individual accountability (Section 10).

This report has been prepared in Danish and English. In case of discrepancy, the English version shall prevail.

2. AML regulation and practice

The Non-Resident Portfolio at Danske Bank's Estonian branch is to be understood against the background of applicable AML regulation and the conditions under which the Estonian branch operated.

2.1 AML regulation

EU Directive 2005/60 ("Third AML Directive") was implemented into Estonian law on 28 January 2008 in the form of the Money Laundering and Terrorist Financing Prevention Act ("MLTFPA").

Pursuant to this regulation, financial institutions had to perform customer due diligence, e.g. when establishing a business relationship with a customer or when there was a suspicion of money laundering (or terrorist financing), regardless of any derogation, exemption or threshold. The customer due diligence measures included an obligation to establish the customer's identity (and, where applicable, the beneficial owner) and to obtain information on the purpose and intended nature of the business relationship. The customer due diligence obligation is also referred to as "Know Your Customer" ("KYC"). Financial institutions had an obligation to conduct enhanced customer due diligence in situations which by their nature presented a higher risk of money laundering (or terrorist financing).

Financial institutions were to conduct ongoing monitoring of the business relationship with every customer, including scrutiny of transactions. The aim was to ensure that the transactions conducted were consistent with the institution's knowledge of the customer, the customer's business and risk profile, including, where necessary, the source of funds.

Yet another important part of the regulation consisted in reporting obligations. If a financial institution knew of, suspected or had reasonable grounds to suspect a customer of engaging in money laundering (or terrorist financing), this had to be reported to the Financial Intelligence Unit ("FIU"), that is a public law enforcement agency as mentioned above in Section 1.1, in the form of a suspicious activity report ("SAR").

According to advisory guidelines regarding the characteristics of transactions with a money laundering suspicion issued by the Estonian FIU in January 2008 in connection with the regulation, typical grounds for suspicion warranting reporting included, inter alia (an updated version was issued in 2011, the only change being that the currency used in the guidelines was changed from EEK to EUR due to the adoption of the euro in Estonia as per 1 January 2011):

- "cash payments to the client's account which will be used for purchasing securities or derivatives";
- "single unusually large [national or cross-border] payment not conforming to normal turnover and/or not sufficiently justified";

- "large payments (EEK 200,000 [EUR 15,000 according to the 2011 version]) and/or smaller periodic payments with the clients of the banks located in the territories with higher money laundering risks"

Following the advisory guidelines from 2008 (updated in 2011), the Estonian FIU issued new versions of the guidelines in 2013 and in 2015. These guidelines contained similar principles, but set out more detailed requirements for reporting.

In addition, financial institutions were obligated to keep records of information and documents obtained during customer due diligence and review of business relationships and transactions for a period of at least five years.

In order to forestall money laundering (and terrorist financing), financial institutions were also obligated to establish adequate and appropriate policies and procedures of customer due diligence, reporting, record keeping, internal control, risk assessment, risk management, compliance management and communication.

To ensure a proper culture within a financial institution with respect to AML, financial institutions were to provide education and training programmes to relevant employees to enable them to recognise operations potentially related to money laundering (or terrorist financing).

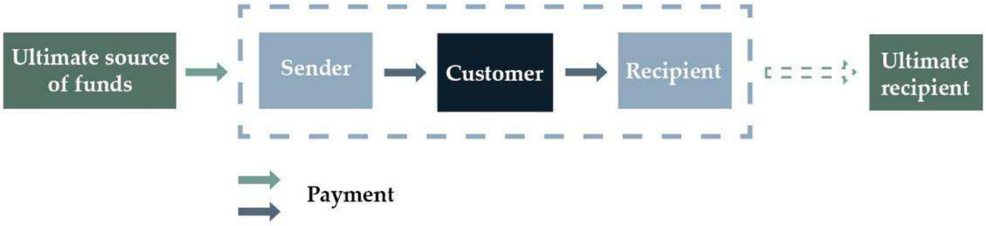
In addition to the MLTFPA, the Estonian FSA has issued further regulatory and advisory guidelines for financial institutions on additional measures for preventing money laundering.

Principles similar to those described also applied in Estonia prior to the implementation of the Third AML Directive in January 2008, although to a lesser extent. With the implementation of the Third AML Directive into Estonian law, the obligations for financial institutions were strengthened significantly.

2.2 AML practice and information available to a financial institution

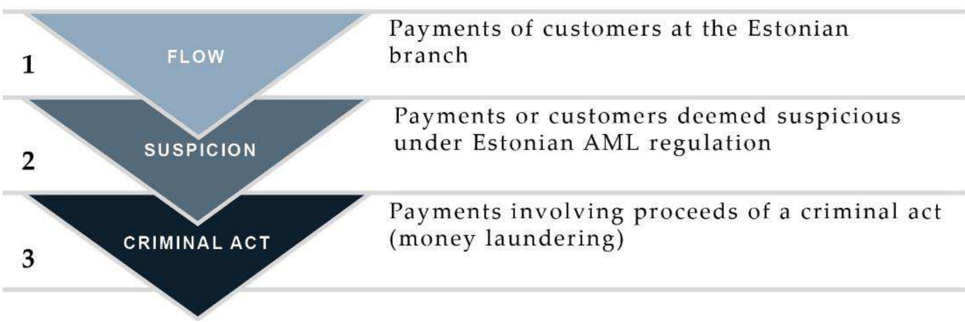
Among the obligations laid out in Section 2.1, financial institutions must gather information on, inter alia, its customers' identities and the purpose and intended nature of their relationships with the financial institution. Further, a financial institution must conduct ongoing monitoring of its customers and report suspicious activity to the FIU. Observing these obligations does not require that financial institutions conclude on or establish whether criminal acts or violations of law have been committed.

In processing payments for its customers, the Estonian branch may not have access to information on the ultimate source of funds nor the ultimate recipient of funds. For explanatory purposes, a chain of payments having flowed through the Estonian branch may be illustrated as follows:



In the illustration, the Estonian branch has visibility of the parties within the dotted line box. As regards a payment made to a customer of the Estonian branch from an external sender, the Estonian branch will, in connection with the payment, obtain information about the external sender (as well as the Estonian branch's customer). This may include the name and country of the sender's bank, information on the sender, the value of the payment and a payment description. As regards a payment made from a customer of the Estonian branch to an external recipient, the Estonian branch will, similarly, in connection with the payment, obtain information about the external recipient (as well as the Estonian branch's customer). This may include the name and country of the recipient's bank, information on the recipient, the value of the payment and a payment description. These links in the payment chain are illustrated by the dotted line box above and show that the knowledge of the Estonian branch may well be confined to information about the preceding link and the subsequent link in a payment chain. Consequently, where the Estonian branch's customer is not the ultimate source of the funds nor the ultimate recipient of the funds (marked with green), information about the ultimate source of funds or the ultimate recipient of funds is not necessarily available to the Estonian branch.

As money laundering revolves around transactions involving proceeds obtained from criminal acts, even a fully compliant financial institution will rarely have access to information enabling it to conclude whether criminal acts have, in fact, generated the proceeds in question. This may be illustrated by the following model of analysis (for illustrative purposes only):



Upon submission of a SAR to the relevant FIU, the FIU is given the opportunity to collect information in addition to the information which has been submitted to it by the reporting financial institution. Such additional information will be collected for the purposes of assessing whether criminal acts have generated the proceeds in question, that is whether money laundering may have taken place as a part of the transactions.

The relevant FIU will be able collect such additional information using different means than those available to a financial institution, for instance through interrogations or exchange of information with other authorities, including foreign authorities.

3. Portfolio Investigation

The purpose of this section is to present the methodology applied by the investigation involving thousands of customers and millions of transactions as well as trading activity. The investigation was formally mandated by Danske Bank's Board of Directors on 8 December 2017.

3.1 Purpose and scope

The Portfolio Investigation examines the now terminated Non-Resident Portfolio in the Estonian branch from the time of Danske Bank's acquisition of Sampo Bank completed in 2007 until the termination of the Non-Resident Portfolio in late 2015 (with some accounts closing only in early 2016). The main focus is on the customers in the Non-Resident Portfolio and their payments and trading activities during this period. The employees and agents of the Estonian branch who handled the Non-Resident Portfolio or could otherwise have been involved are also investigated to uncover potential internal collusion.

3.2 Overall conduct of the Portfolio Investigation

The Portfolio Investigation is overseen, supervised and directed by Bruun & Hjejle Advokatpartnerselskab ("Bruun & Hjejle") in order to ensure that the investigation is objective and thorough. "Objective" means that the investigation is in the hands of Bruun & Hjejle in order not to be affected by conflicts of interests within the bank or otherwise. "Thorough" means that the investigation seeks to uncover all facts of potential relevance to the investigation and irrespective of their implications. The Association of Danish Law Firms has issued a guide on investigations, in which the term "impartial" (in Danish, "uvildig") investigation is limited to investigations undertaken by law firms not regularly advising the company subject to investigation. Prior to the current investigations, Bruun & Hjejle had not been engaged by Danske Bank's Board of Directors, but Bruun & Hjejle does advise Danske Bank on a number of other matters. While accordingly this investigation is not presented as "impartial", the investigation is following general principles laid out for impartial investigations by the Association of Danish Law Firms. In order to avoid misunderstandings, the investigation is also not presented as (fully) "independent", although obviously Bruun & Hjejle has maintained its independence as required under the Code of Conduct for the Danish Bar and Law Society adopted by the General Council of the Danish Bar and Law Society.

On the basis of instructions issued by Bruun & Hjejle, investigation work has been – and continues to be – conducted by Danske Bank's Compliance Incident Management team, together with forensic experts from the consultancy firms PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab and Ernst & Young P/S. The international data management software company Palantir Technologies Inc. ("Palantir") has deployed its software platform to integrate and enable analysis of the comprehensive amount of customer, transaction and trading data available. CERTA Intelligence & Security A/S ("CERTA") is also assisting.

3.3 Methodology regarding customers

3.3.1 *Collecting data and other information and ingesting it into Palantir's software platform*

The Estonian branch's IT department assisted in identifying available relevant data to be applied (sources and tables) based on the scope of the Portfolio Investigation. The identified data was then collected from various data sources within Danske Bank's systems. This included both customer data and transaction data, including 87 million payments over 10 years for all customers at the Estonian branch. Subsequently, the identified data was transferred from the Estonian branch and ingested into Palantir's software platform to store, structure and enable the Portfolio Investigation to examine the data. Afterwards, the data was transformed into a readable and searchable format to be used for analysis by the Portfolio Investigation. Also, external data from other sources than the Estonian branch was identified, collected and ingested into the software platform.

3.3.2 *Defining and identifying the population of customers subject to investigation*

Customers subject to investigation include customers that are believed to have formed part of the Non-Resident Portfolio in the period from 2007 until the termination of the Non-Resident Portfolio. This is based on lists provided by the Estonian branch. In addition, the Portfolio Investigation has applied a broader definition to all customers at the Estonian branch so as to identify and capture all customers with non-resident characteristics, such as address, contact data or ownership outside Estonia, that were active during the period between 1 January 2007 and 31 January 2016 (with one or more transactions) to make sure that all potentially suspicious activity on the part of non-resident customers is examined. All these customers are subject to investigation.

3.3.3 *Defining, applying and grouping risk indicators to identify and prioritise customers for investigation*

The Portfolio Investigation has developed risk indicators, which have been applied to customers subject to investigation with a view to identifying the customers with higher risk. Subsequently, the Portfolio Investigation grouped the risk indicators – and the customers that hit the risk indicators – and initiated a number of investigations into groups of customers. The application of the risk indicators has allowed the Portfolio Investigation to prioritise the investigations. The Portfolio Investigation also launched a number of investigations to review customers connected to established money laundering schemes mentioned by media etc.

3.3.4 *Investigation of customers subject to investigation*

The Portfolio Investigation examines customers subject to investigation by reviewing and conducting multiple searches across the available data on Palantir's software platform. The investigation also involves screenings against sanctions lists. Furthermore, and as described above, the Portfolio Investigation has conducted investigations into the customers connected to money laundering schemes mentioned by media etc.

3.3.5 *Decision as to whether the characteristics or activities of investigated customers should be deemed suspicious*

The Portfolio Investigation has on a regular basis made decisions as to whether customers should be deemed suspicious. In accordance with AML regulation, customers have been deemed suspicious if a suspicion has been identified, and it has not been possible for the Portfolio Investigation to disprove this suspicion.

3.3.6 *Reporting of findings to relevant authorities on an ongoing basis*

Based on the decisions as to whether customers should be deemed suspicious, the Portfolio Investigation has reported, or is in the process of reporting, in the form of SARs to the Estonian FIU as required under Estonian AML regulation. SARs are filed in a format agreed with the FIU, and there is an ongoing dialogue with the Estonian FIU in this respect.

3.3.7 *Outstanding investigative steps*

While the Portfolio Investigation has obtained a good general understanding of the Non-Resident Portfolio, investigative steps in relation to specific customers remain outstanding. So far, approximately 6,200 customers hitting the most risk indicators have been investigated. It follows that approximately 8,800 customers (the ones hitting fewest risk indicators) are still to be examined. Also, investigation steps in relation to sanctions screening and analysis of trading activities are outstanding. Information regarding specific customers may be shared only with authorities. As long as the investigation is ongoing, findings remain subject to change.

3.4 **Methodology regarding employees and agents (possible internal collusion)**

3.4.1 *Identifying employees and agents subject to investigation*

The Portfolio Investigation has identified a number of employees (both former and current) that have historically worked with the Non-Resident Portfolio. These are all subject to investigation. Further, the Portfolio Investigation has identified other employees (both former and current) from other departments and divisions for whom it is also relevant to consider internal collusion due to the roles they have had. In total, more than 100 employees (both former and current) are subject to investigation. Also, 25 former agents contracted by the Estonian branch are in scope.

3.4.2 *Investigation of employees and agents subject to investigation*

The Portfolio Investigation examines employees and agents in scope by reviewing data available on the employees and agents and by conducting searches within publicly available information. CERTA assists with this.

3.4.3 *Suspicious activity reports*

The Portfolio Investigation has on a regular basis made decisions as to whether employees and agents should be deemed suspicious. In accordance with AML regulation, employees or agents have been deemed suspicious if a suspicion has been identified, and it has not been possible for the Portfolio Investigation to disprove this suspicion.

In the course of the investigation, the Portfolio Investigation has filed, or is in the process of filing, SARs on employees and agents. SARs are filed with the Estonian FIU in a format agreed with the FIU, and there is an ongoing dialogue with the Estonian FIU in this respect.

3.4.4 *Police reporting*

If additional information on employees or agents is identified suggesting that the employee or agent has shown suspicious behaviour to such an extent that criminal activities is rendered probable, police reporting is considered.

3.4.5 *Outstanding investigative steps*

Examination of employees and agents subject to investigation will continue in an ongoing dialogue with relevant authorities, including the Estonian FIU. As long as the investigation is ongoing, findings remain subject to change.

4. Accountability Investigation

The purpose of this section is to present the methodology applied in the Accountability Investigation, involving thousands of documents and millions of emails as well as a large number of interviews with relevant persons. The investigation was formally mandated by Danske Bank's Board of Directors on 8 December 2017.

4.1 Purpose and scope

The purpose of the Accountability Investigation was to investigate potential institutional and individual accountability arising out of actions and omissions by individuals within Danske Bank who may have failed to identify, escalate or halt suspicious activities related to the Non-Resident Portfolio in Danske Bank's Estonian branch. The purpose of the Accountability Investigation was also been to form a basis for decision-making in Danske Bank's Board of Directors. The basis for both was a detailed description of facts, here presented as a chronology of events. These facts may be analysed and assessed from different perspectives. The Accountability Investigation included our assessments based on legal rules and standards as summarised in Section 10.1.

4.2 Overall conduct of the Accountability Investigation

The Accountability Investigation was conducted by Bruun & Hjejle in order to ensure that the investigation was objective and thorough. For the understanding of these terms and Bruun & Hjejle's role, reference is made to Section 3.2 above. As part of the investigation, Bruun & Hjejle engaged Promontory, which was instructed to collect and review material together with Bruun & Hjejle. Upon its completion, the investigation was found by Bruun & Hjejle to have been objective and thorough.

4.3 Methodology

4.3.1 *Collection and review of documents*

Bruun & Hjejle, with assistance from Promontory, requested, collected and reviewed material held by Danske Bank. Several information and document requests were scoped in order for the Accountability Investigation to receive all such information and documentation, which could potentially be relevant. Danske Bank provided the requested documents from a variety of departments and units in both Denmark and Estonia. The investigation required active support from Danske Bank in providing documentation. At the same time, the investigation took steps to ensure completeness. Information from documents, materials etc. caused the Accountability Investigation to request further documents, materials and email accounts etc., all with a view to closing identified information gaps and ensuring a thorough investigation. In total, the Accountability Investigation collected, reviewed and assessed over 12,000 documents. Danske Bank has declared that, to the best of its knowledge, all relevant documents, material and information in the possession of Danske Bank has been provided to the Accountability Investigation.

4.3.2 *Collection and review of emails*

As part of the Accountability Investigation, Bruun & Hjejle was given access to email accounts belonging to selected current and former employees in Danske Bank. The Accountability Investigation was given access to over 40 email accounts, in total containing more than eight million emails, documents, calendar invites etc., which Bruun & Hjejle, together with Promontory, searched for relevant information. Email searches were planned and conducted on both broad and specific topics for the purpose of identifying information relevant to the investigation. The email searches were designed so as to narrow the numbers of emails to manageable amounts, which were reviewed and assessed for relevance to the Accountability Investigation. Significant items were exported, reviewed and assessed separately. The Accountability Investigation exported more than 3,700 emails, documents etc. Danske Bank has declared that, to the best of its knowledge, full access to all requested e-mail accounts available to Danske Bank has been provided to the Accountability Investigation.

4.3.3 *Preparation and completion of interviews*

Bruun & Hjejle, with assistance from Promontory, conducted interviews with employees, including members of the Executive Board, and members of the Board of Directors, both current and former. 49 individuals were interviewed, and a total of 74 interviews were conducted as part of the investigation. All interviews were conducted in accordance with rules on due process.

4.3.4 *Assessments*

Based on all collected information, the conducted interviews and observations, Bruun & Hjejle assessed the potential institutional and individual accountability. All individuals subject to individual assessment were given the opportunity to review a draft assessment together with relevant material. Also, other individuals with knowledge of the events relevant to the Accountability Investigation, but not subject to individual assessment, were given the opportunity to review relevant material. Comments and proposed amendments received were subsequently evaluated and reflected where deemed appropriate.

4.3.5 *Investigation by the Danish FSA*

In September 2017, the Danish FSA initiated an investigation into Danske Bank's management and governance in relation to the AML case at the Estonian branch. Following receipt of the Danish FSA's preliminary assessment on 21 December 2017, Danske Bank's Board of Directors asked Bruun & Hjejle to prepare a written reply to the Danish FSA in order to avoid conflicts of interests and to make information already gathered within the investigation available to the Danish FSA. Bruun & Hjejle, together with Promontory, prepared the replies filed on 7 February and 26 March 2018 by Danske Bank's Board of Directors and Executive Board. In response to a series of draft decisions provided by the Danish FSA throughout April and May 2018, Bruun & Hjejle prepared further submissions to the Danish FSA at the initiative of Danske Bank's Board of Directors. First of all, Bruun & Hjejle shared the investigation's preliminary factual findings and compared those to factual findings on the part of the Danish FSA. Also, Bruun

& Hjejle offered its views on some intended procedural decisions apparent from the draft decisions. Bruun & Hjejle did this in an attempt to secure the rule of law to the benefit of all stakeholders. Ultimately, the Danish FSA followed the views on procedural matters offered by Bruun & Hjejle, as reflected in its decision of 3 May 2018.

5. Non-Resident Portfolio

This section contains a description of the terminated Non-Resident Portfolio at Danske Bank's Estonian branch.

5.1 Overview

Since the acquisition, the Estonian branch consisted of different divisions that reported to the branch manager. Within each division, there were one or more departments.

The Non-Resident Portfolio was understood to mean the pool of non-resident customers managed within the Estonian branch by a designated group of employees (relationship managers and others). There were also some non-resident customers outside the Non-Resident Portfolio, and obviously practical life resulted in a number of nuances, such as non-resident customers changing to other parts of the branch.

Back in June 1998, the International Banking department had been established in the Estonian branch holding a portfolio of non-resident customers, that is the Non-Resident Portfolio. In May 2007, this department was integrated into the Private Banking department within the Personal and Retail Banking division handling both resident and non-resident customers. In late 2012, the Estonian branch was reorganised, and the Private and International Banking department was renamed the International & Private Banking division, still comprising both resident and non-resident customers. Early in 2013, two separate departments within the International & Private Banking division were established, namely the Private Banking department and the International Banking department, the latter holding the Non-Resident Portfolio. In March 2015, the Private Banking department was moved to the newly established Private Banking division, and the International & Private Banking division was renamed International Banking division. In late 2015, the International Banking division was closed down.

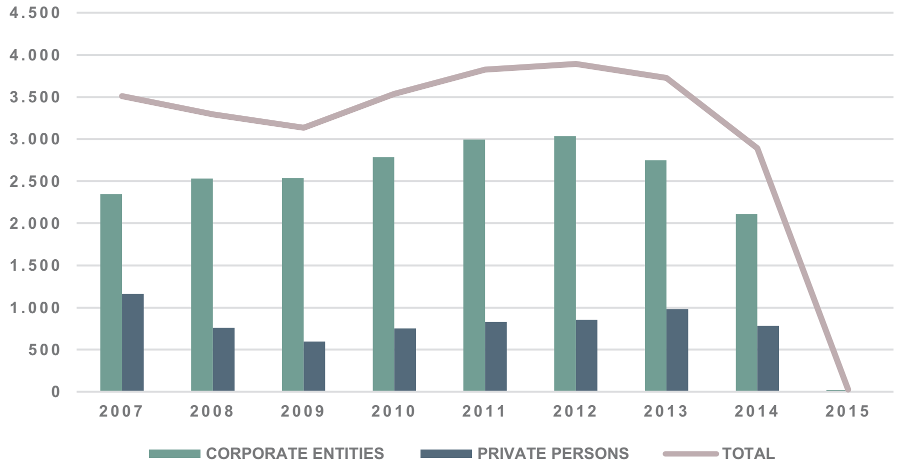
Services offered to the customers in the Non-Resident Portfolio in Danske Bank's Estonian branch consisted not least of payments and other transactions in various currencies, but also foreign exchange lines ("FX lines") and bond and securities trading. Only very limited credit facilities were offered to customers in the Non-Resident Portfolio.

Customers in the Non-Resident Portfolio were both private persons and corporate entities. A small number of customers were non-regulated entities acting as intermediaries providing cross-border payment solutions to unknown end-clients in Russia and other CIS countries.

5.2 Number of customers

From 2007 through 2015, it was not the same customers that constituted the Non-Resident Portfolio at all times. Some customers left while other customers came. The International Banking department (later division) as established in 2013 kept lists of its customers. Similar lists did not exist before 2013, but they have been created by the Estonian branch applying the same methodology as used from 2013, that is by including customers that had a relationship manager who would have belonged within the International Banking department (later division) if such had existed before 2013. In total, and according to these lists, the number of customers in the Non-Resident Portfolio was approximately 10,000 in the period from 2007 through 2015. This number includes customers that were passive.

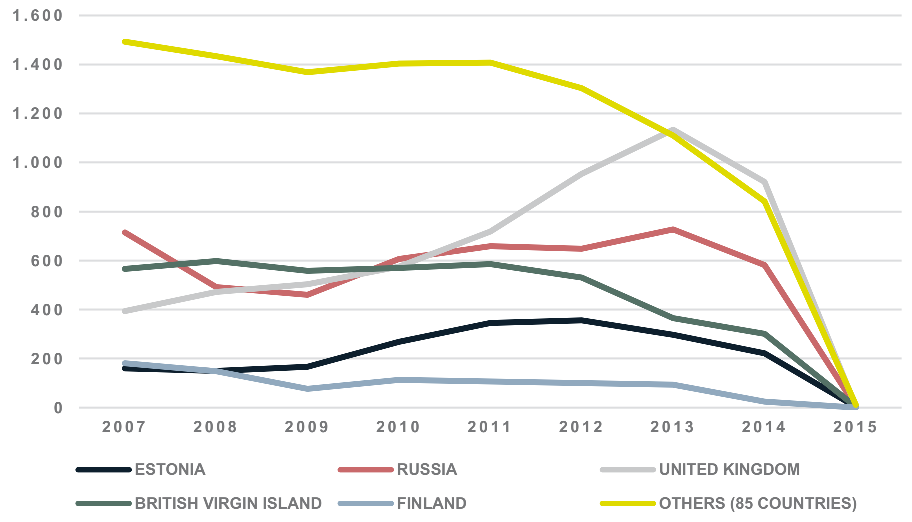
The development of the Non-Resident Portfolio over time can be illustrated as follows (customers in the Non-Resident Portfolio at the end of each year):



As can be seen, the Non-Resident Portfolio went from having approximately 3,500 customers at the end of 2007, approximately 3,900 customers at the end of 2012 and approximately 3,750 at the end of 2013 to have only a few at the end of 2015 when the International Banking division had been closed. Some of the customers within the Non-Resident Portfolio remained with the Estonian branch when the International Banking division was closed (after scrutiny of the customers), but then as part of either Private Banking or Corporate Banking.

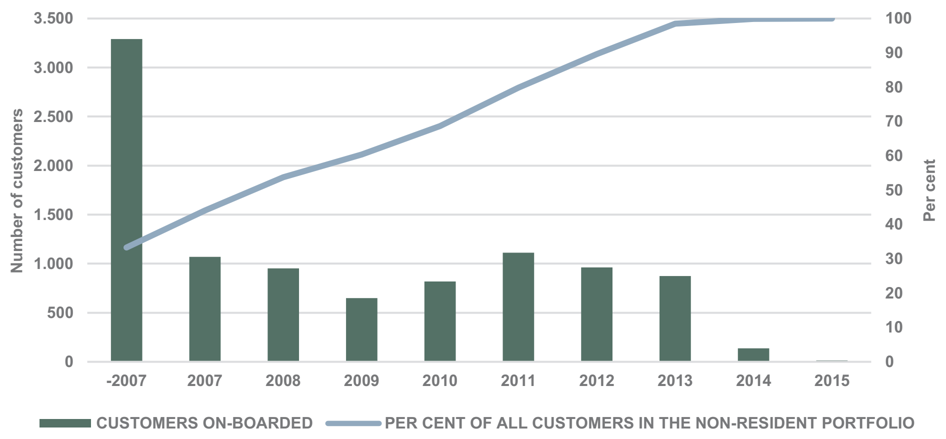
Per year, customers in the Non-Resident Portfolio accounted for approximately 2 to 4 per cent of the total number of customers at the Estonian branch.

Over time, the geographical distribution of the customers in the Non-Resident Portfolio changed. In total, customers came from 90 countries based on their registered or recorded residency status (for example, postal address for private persons and country of incorporation for corporate entities), the three main countries being Russia, the UK and the British Virgin Islands (customers in the Non-Resident Portfolio at the end of each year):



As can be seen from the chart above, some customers in the Non-Resident Portfolio had Estonia as their registered or recorded residency status, but were considered non-resident, for instance because they had non-resident ultimate beneficial owners (the natural persons ultimately owning or controlling a corporate entity). As can also be seen, neighbouring country Finland was the fifth largest country represented in the Non-Resident Portfolio. Among the approximately 10,000 customers in the Non-Resident Portfolio were 72 Danish customers, namely two private persons and 70 corporate entities (of which 53 were K/S companies).

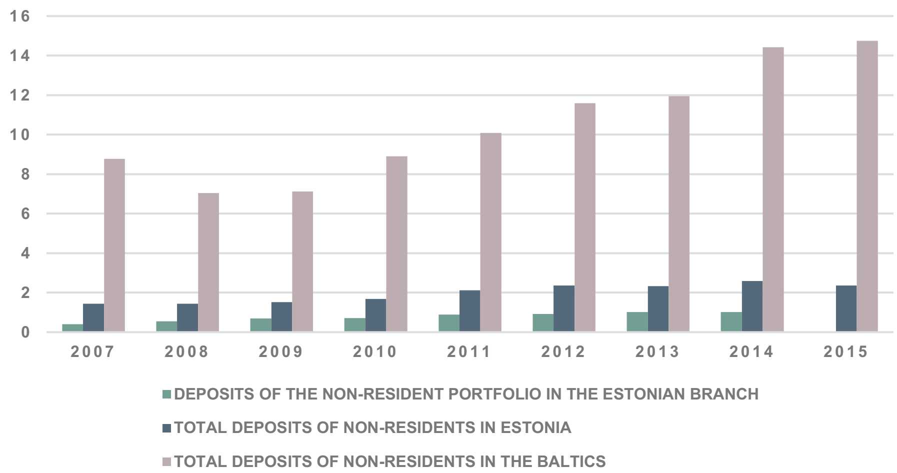
The time for on-boarding the approximately 10,000 customers in the Non-Resident Portfolio can be illustrated as follows (customers on-boarded on an annual basis):



In the above chart, 2007 refers to the period from 1 February 2007 when Danske Bank's acquisition of Sampo Bank was completed and took effect. At this point, around one third of the approximately 10,000 customers in the Non-Resident Portfolio from 2007 through 2015 were with Sampo Pank in Estonia.

5.3 **Deposits**

Data on deposits belonging to non-resident customers in banks in the three Baltic countries are published by the central banks in Estonia and Lithuania and by the Financial and Capital Market Commission in Latvia. These data may be compared with the information on deposits of customers in the Non-Resident Portfolio at Danske Bank's Estonian branch (deposits in EUR billion at the end of each year):



The amount of deposits held by the approximately 10,000 customers in the Non-Resident Portfolio increased from EUR 0.4 billion at the end of 2007 to EUR 1.0 billion at the end of 2014. Compared to the total deposits of non-residents in Estonian banks, the share held by the approximately 10,000 customers in the Non-Resident Portfolio at Danske Bank's Estonian branch increased from 27 per cent at the end of 2007 to 44 per cent at the end of 2013 and 40 per cent at the end of 2014. The closing of the Non-Resident Portfolio at the Estonian branch would not seem to have had a significant immediate effect on the total amount of deposits in Estonia held by non-resident customers, but the total deposits of non-residents in Estonia decreased from EUR 2.4 billion at the end of 2015 to EUR 1.2 billion at the end of 2017.

In the period from 2007 through 2015, the majority of deposits belonging to non-resident customers in Baltic banks was placed with banks in Latvia. When considering Baltic banking as a whole, the approximately 10,000 customers in the Non-Resident Portfolio at Danske Bank's Estonian branch accounted for five per cent of the total deposits of the non-resident customers in the Baltics at the end of 2007, nine per cent at the end of 2013 and seven per cent at the end of 2014.

5.4 Profits

In the period from 2007 through 2015, customers in the Non-Resident Portfolio generated an increasing part of profits in Danske Bank's Estonian branch:

Share in per cent	2007	2008	2009	2010	2011	2012	2013	2014	2015
Profits before credit losses	49 %	52 %	50 %	50 %	69 %	94 %	99 %	95 %	47 %
Profits before tax	51 %	79 %	n/a	67 %	42 %	51 %	76 %	71 %	40 %

The differences between the two accounting figures are the following:

Accounting figures
Profits before credit losses: total revenues, including internal costs, internal income and operating costs and expenses in general (except credit losses and tax)
Profits before tax: total revenues, including internal costs, internal income and operating costs and expenses in general (except tax)

The Estonian branch's share of the total profits generated by Danske Bank at Group level was as follows (IT migration costs in 2014 and 2015 are not included):

Share in per cent	2007	2008	2009	2010	2011	2012	2013	2014	2015
Profits before credit loss	1.6 %	2.4 %	1 %	1.5 %	1.6 %	1.3 %	2.1 %	1.7 %	0.8 %
Profits before tax	1.6 %	9.9 %	n/a	3.5 %	10.7 %	6.0 %	4.2 %	3.5 %	0.9 %

Profits before tax include impairments. In 2008, there were high impairments at Group level while in 2011 impairments were significantly reduced in the Estonian branch.

During the same period, the Estonian branch's share of the total assets of Danske Bank Group was stable at approximately 0.5 per cent.

The total gross income received directly from non-resident customers, including customers in the Non-Resident Portfolio, in the period from 2007 through 2015 was approximately DKK 1.5 billion.

5.5 Customers subject to investigation

Non-resident customers also existed outside the Non-Resident Portfolio. For the sake of completeness, the Portfolio Investigation has considered all customers with one or more cross-border characteristics, such as an address, contact data or ownership outside Estonia. This increases the number of customers from 2007 through January 2016 by approximately 5,000 to approximately 15,000.

6. AML procedures in the Estonian branch

AML procedures at the Estonian branch in relation to the Non-Resident Portfolio were manifestly insufficient and inadequate and in breach of international standards as well as Estonian law. This was so even though the non-resident customers were categorised as high risk. Shortcomings included the following, as established in 2014 by Group, the external consultancy and the Estonian FSA:

Obligations for a financial institution	AML failings re the Non-Resident Portfolio
Due diligence measures. Identify and verify the customer (and (ultimate) beneficial owners where applicable) and obtain information on the purpose and nature of the business relationship	▪ Lacking knowledge of customers ▪ Lacking identification of (ultimate) beneficial owners and "controlling interests" ▪ Customers included so-called intermediaries, which were unregulated and represented unknown end-customers
Monitoring of transactions and screening. Scrutiny of transactions to ensure that the transactions are consistent with the information on the customer and the business and risk profile	▪ Insufficient attention to customer activities ▪ Lacking identification of the source and origin of funds used in transactions ▪ No screening of customers against lists of politically exposed persons ▪ No screening of incoming payments against sanctions or terror lists ▪ In general, no automatic screening of incoming payments
Reporting. Notification to authorities in case of reasonable grounds to suspect money laundering	▪ Lack of response to suspicious customers and transactions

Other shortcomings have been identified, such as the lack of independence between the AML function at the Estonian branch and the business and insufficient training of the staff of the Estonian branch and lack of formal procedures.

7. Activity of customers in the Non-Resident Portfolio

This section presents more detailed facts on the approximately 10,000 customers in the Non-Resident Portfolio. Where relevant, also the additional approximately 5,000 customers are mentioned, see Section 5.5 above. The section should be read while bearing in mind the manifestly insufficient and inadequate AML procedures summarised in Section 6.

7.1 Payments

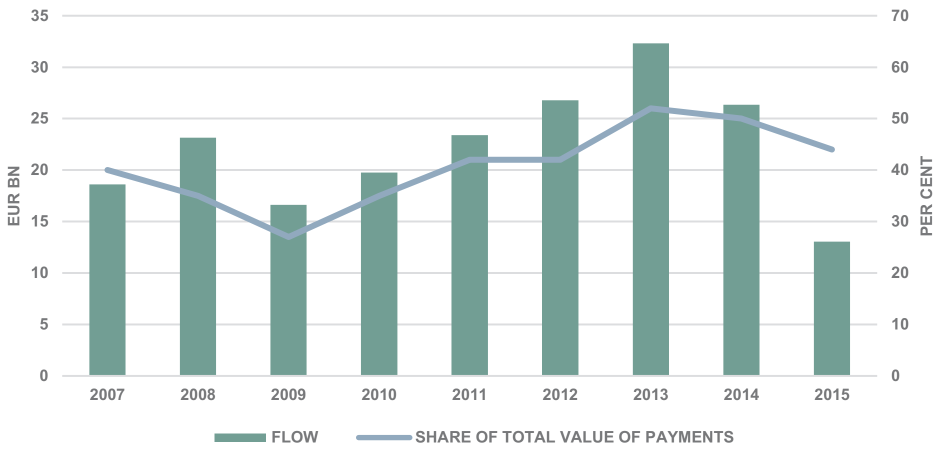
As a starting point, reference is made to the model of analysis in Section 2.2:

Funds transferred from external parties to customers in the Non-Resident Portfolio and subsequently transferred from such customers to external recipients are referred to as "flow". The flow excludes book transfers between the customers in the Non-Resident Portfolio to avoid counting the same amounts of money more than once.

As for the approximately 10,000 customers in the Non-Resident Portfolio from 2007 through 2015, there were payments in 32 different currencies, the majority of the total amounts being in USD and EUR. For the purposes of analysis, and in order to present an overview, payments denominated in a currency other than EUR have been converted into EUR. As for incoming payments, the spot rate for the day sums received has been used, and, with regard to outgoing payments, the spot rate for the day sums left has been used. Obviously, rates change over time. In consequence, the flow expressed remains, by definition, an approximation.

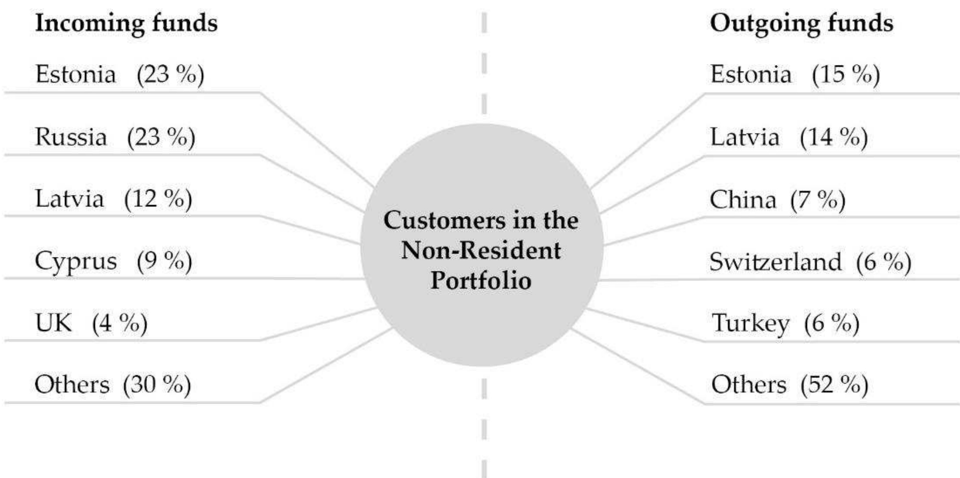
In the period from 2007 through 2015, the approximately 10,000 customers in the Non-Resident Portfolio had approximately 7.5 million incoming and outgoing payments (while all the 15,000 customers subject to investigation had approximately 9.5 million incoming and outgoing payments). Taking into account that the flow provided remains an approximation, there is no significant difference between the flow of the 10,000 customers in the Non-Resident Portfolio and the 15,000 customers subject to investigation, as the 5,000 customers outside the Non-Resident Portfolio accounted only for a minor part of the total flow. The flow as converted into EUR was approximately EUR 200 billion.

This flow was distributed as follows over the years (in EUR billion on a yearly basis):



As appears from the blue line, the total value of payments (including both incoming and outgoing funds as well as book transfers) of the approximately 10,000 customers in the Non-Resident Portfolio accounted for approximately 40 per cent of the total value of payments within Danske Bank's Estonian branch.

The geographical distribution of the flow of EUR 200 billion is illustrated below:



"Others" represent a large number of countries all over the world (more than 150 countries) each of which account for a smaller part than the UK (i.e. 4 per cent) with regard to incoming funds and Turkey (i.e. 6 per cent) with regard to outgoing funds.

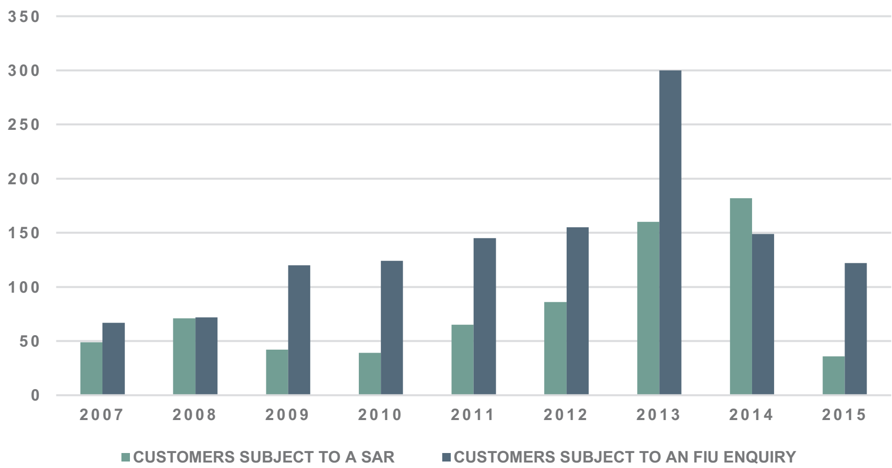
0.6 per cent of the incoming funds came from Denmark, and 0.9 per cent of the outgoing funds were sent to Denmark.

7.2 Suspicious customers in the Non-Resident Portfolio

Again, reference is made to the model for analysis in Section 2.2:

7.2.1 *Historical SARs and FIU inquiries*

Over time, there were inquiries from the Estonian FIU and also reporting from the Estonian branch in the form of SARs. This reflects that historically some of the customers in the Non-Resident Portfolio, or transactions made by them, were considered suspicious. In the period from 2007 and onwards, and based on the approximately 10,000 customers in the Non-Resident Portfolio, the Estonian Branch filed SARs on 653 customers (some subject to more than one over the years), and 1,007 customers were subject to inquiries from the Estonian FIU (some subject to more than one over the years and some also subject to a SAR):



In the period from 2007 through 2015, SARs were also filed by the Estonian branch on customers outside the Non-Resident Portfolio. The SARs filed on the approximately 10,000 customers in the Non-Resident Portfolio accounted for approximately 13 per cent of the total number of SARs filed in the period. The approximately 10,000 customers in the Non-Resident Portfolio accounted for approximately 30 per cent of the total number of FIU inquiries received by the branch in the period from 2007 through 2015.

The Portfolio Investigation has taken these historical FIU inquiries and SARs into account when examining the approximately 10,000 customers in the Non-Resident Portfolio.

Similarly, the Portfolio Investigation has considered historical SARs and FIU inquiries in relation to the additional approximately 5,000 customers which are also subject to investigation, see Section 5.5 above. From 2007 and onwards, 107 of these customers were subject to one or more SARs being filed by the Estonian branch. 61 of these customers were subject to an FIU inquiry.

The Portfolio Investigation is also taking into account that some payments were returned by correspondent banks for various reasons, including policies of the correspondent banks.

7.2.2 *Customers investigated*

The Portfolio Investigation has adopted a risk-based customer-by-customer approach in order to identify suspicious customers, and the investigation has used risk indicators to identify the customers with higher risks. This approach has been discussed with the Estonian FIU, which has had no objections.

So far, the Portfolio Investigation has reviewed approximately 6,200 customers of the approximately 15,000 customers subject to investigation. This includes approximately 60 customers from Denmark. Almost all of these approximately 6,200 customers were among the approximately 10,000 customers in the Non-Resident Portfolio.

When examining customers, the Portfolio Investigation has in particular identified the following suspicious features:

- customers that have been identified as registered to or otherwise associated with addresses that are shared with numerous other customers and that have been identified as suspicious in various jurisdictions including the British Virgin Islands, United Kingdom, Cyprus and also Denmark. Some of the customers also share other properties, for instance email addresses and phone numbers;

- customers with significant differences between their revenue figures reported in publicly available documents and their payment activity as per their accounts at the Estonian branch;

- customers that have been identified in the public domain as being associated with money laundering schemes;

- customers with large amounts of funds passing through accounts regularly in short periods of time, with unusual payment chains, with unexplained or unusual source of funds or wealth, with unusual payments descriptions, with adverse media or with other suspicious characteristics or behaviour; and

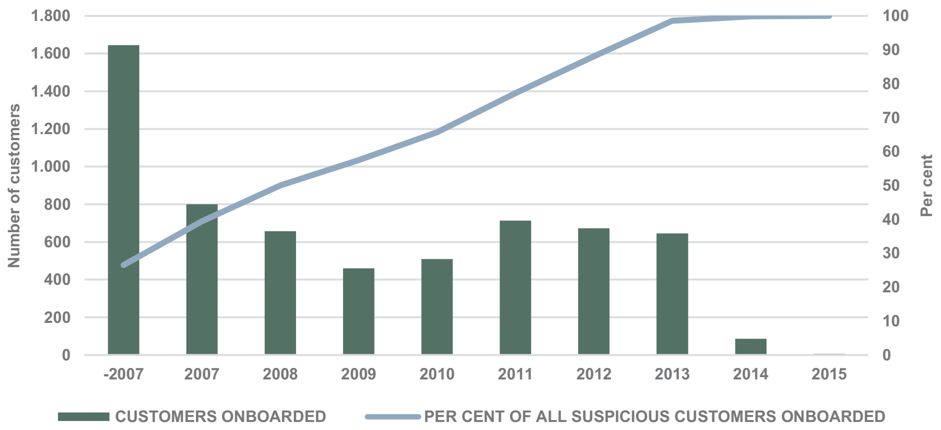
- customers with payments with suspicious counterparties in other banks.

Only few of the customers examined have been deemed not suspicious, that is without suspicious characteristics and not having been involved in payments deemed suspicious. The main reasons for suspicion are as follows (where a customer has been placed in the most pertinent category in the event that a customer fits into more than one category):

Suspicion	Number of customers (approximately)
Customers with shared addresses or other properties that have been identified as suspicious	3,500
Customers with significant differences between revenue figures and payment activity	1,700
Customers associated with money laundering schemes in the public domain	500
Customers with other suspicious characteristics or behaviour	450
Customers with payments with suspicious counterparties in other banks	50

Based on the methodology applied in the Portfolio Investigation, the approximately 6,200 customers deeded suspicious represent a higher risk profile than the approximately 8,800 customers that are still to be investigated.

On-boarding of the approximately 6,200 customers that have been deemed suspicious (as laid out above) can be illustrated as follows (customers on-boarded on an annual basis):



In the above chart, 2007 refers to the period from 1 February 2007 when Danske Bank's acquisition of Sampo Bank was completed and took effect. At this point, around a quarter of the approximately 6,200 customers that have been deemed suspicious were with Sampo Pank in Estonia.

7.2.3 *Suspicious flow*

The approximately 6,200 customers that have been deemed suspicious represent the majority of the flow. The fact that customers have suspicious characteristics or have been involved in some payments deemed suspicious does not provide a basis for concluding with reasonable certainty what part of the flow was suspicious. For some customers, all payments are likely to be suspicious. For other customers, the fact that they have been involved in some suspicious payments does not necessarily imply that all their payments were suspicious. However, a transaction-by-transaction approach has not been adopted, and there is no accurate estimate. Overall, it is expected that a large part of the payments were suspicious.

7.2.4 *"Russian Laundromat"*

In relation to the "Russian Laundromat", the Portfolio Investigation has identified 177 customers that received payments through Moldindconbank and Trasta Komercbanka from 21 "core companies" mentioned by the media. These 177 customers could potentially be involved in the "Russian Laundromat". The majority of the 177 customers are limited partnerships ("LPs") or Limited Liability Partnerships ("LLPs") incorporated in the U.K. or in countries generally considered tax havens (British Virgin Islands, Hong Kong, Belize, Cyprus, etc.). Among the 177 customers are also three Danish K/S entities. The main activity took place in 2013 and 2014.

7.2.5 *"Azerbaijani Laundromat"*

In relation to the "Azerbaijani Laundromat", the Portfolio Investigation has identified 75 customers of the Estonian branch that have made payments with private persons and corporate entities outside of the Estonian branch that, according to media, have been involved in the scheme. Two thirds of the 75 customers were LPs or LLPs incorporated in the U.K. Funds transferred by the 75 customers were characterised by being moved rapidly (credits followed by immediate debits with corresponding amounts). The Portfolio Investigation has identified six customers which have conducted the vast majority of payments that could potentially relate to the "Azerbaijani Laundromat". All six customers were LPs or LLPs incorporated in the U.K.

7.2.6 *Hermitage Capital Management*

Included in the Portfolio Investigation is an examination of the allegations made by Hermitage Capital Management of alleged tax fraud of USD 230 million involving high-ranking officials in the Russian Government. The proceeds of the fraud are believed to have been laundered through various countries. Hermitage Capital Management is registered as a victim in a criminal investigation in France in which Danske Bank is currently an assisted witness. Hermitage Capital Management has also reported Danske Bank and employees of Danske Bank's Estonian branch to the police in Estonia and Denmark.

7.2.7 *Danish K/S entities*

53 customers of the approximately 15,000 customers subject to investigation were incorporated as Danish K/S entities. All of these customers have been deemed suspicious.

The 53 customers all shared addresses (seven in total) in Copenhagen, and the vast majority of the entities also shared the same directors.

7.3 Possible criminal activity of customers

Reference is made to the model of analysis in Section 2.2:

The fact that a customer or a payment is deemed suspicious does not in itself imply that criminal activity is involved. Ascertaining whether criminal activity has taken place, that is whether the funds are proceeds resulting from a crime, will typically require more information than is possessed by a financial institution.

The Portfolio Investigation has made no findings which enable it to conclude whether money laundering, tax evasion or other criminal activity has actually taken place. Findings do not allow to go further than identifying suspicious customers, that is whether customers have suspicious characteristics or have been involved in payments deemed suspicious, and reporting them to authorities.

Screening against sanctions lists is ongoing. So far, there has been no findings of sanctions violations.

8. Employees and agents engaged by the Estonian branch

The Portfolio Investigation has investigated employees (both former and current) and agents who were employed with or engaged by the Estonian branch. As a starting point, the Portfolio Investigation identified all employees that handled the Non-Resident Portfolio from 2007 through 2015. This comprises some 50 employees, including relationship managers, consultants, assistants, some legal counsels and a director, of the former International & Private Banking department and, from 2013, the International Banking department (later division). Further, the Portfolio Investigation has, based on historical lists of all employees within the Estonian branch, identified employees within other departments for whom it is also relevant to consider internal collusion due to the roles they have had.

Over time, some of the employees were subject to disciplinary action by the Estonian branch. One employee was dismissed, and five received a written warning. The Portfolio Investigation has taken these historic disciplinary actions into account when reviewing the employees.

In addition, the Portfolio Investigation has included 25 agents receiving commissions for their efforts in locating customers.

As of today, the Portfolio Investigation has reviewed more than a hundred persons (employees (both former and current) and former agents). 42 employees and agents have been deemed suspicious. The main reasons are:

Involvement in payments with suspicious counterparties	Significant cash deposits that seem suspicious
Involvement in suspicious payments with other employees	Relationship with one or more customers

The Portfolio Investigation is in the process of filing SARs on all employees and agents deemed suspicious. In accordance with AML regulation, employees or agents have been deemed suspicious if a suspicion has been identified, and it has not been possible for the Portfolio Investigation to disprove this suspicion. The information available to the Portfolio Investigation has also led to police reports to the Estonian police in relation to eight former employees, where the investigation has identified suspicious behaviour to such an extent that criminal activities is rendered probable, that is a higher threshold than what applies to a SAR.

Despite the SARs and police reports filed, it cannot be concluded with reasonable certainty to what extent criminal activity in the form of collusion has actually taken place. In particular, SARs do not allow to go further than identifying employees or agents as suspicious, that is whether employees or agents have participated in suspicious activity, and reporting them to the authorities. Although suspicious activity of employees and agents has been identified, this activity is not necessarily related to the work conducted by the employees or agents at the branch or to the Non-Resident Portfolio.

9. Overview of events

This section provides an overview of events from 2007. It is based on the information available to us, as explained in Section 4. In general, we have a better understanding of what was known and done at Group level than in the Estonian branch, and we also have more information about more recent times, not least from 2013.

9.1 Organisational overview

9.1.1 *Three lines of defence*

Danske Bank's risk management structure has been organised in a "three-lines-of-defence" model, which has been implemented gradually over time (and not complete before September 2014). The first line of defence consists of the day-to-day operational management which manages risk (the business units, including the business units in the Estonian branch). The second line of defence is performed by the risk, compliance and AML functions, which oversee, monitor and challenge the risk exposures of the bank's business units and is responsible for implementation of efficient risk management and compliance procedures. Finally, the third line of defence lies with functions that provide independent assurance and assessments (above all Group Internal Audit).

9.1.2 *Estonian branch, Baltic Banking and international banking activities at Group level*

Danske Bank's entity in Estonia, Sampo Pank, was in 2007 a bank and subsidiary on its own and from 2008 a branch of Danske Bank. It changed its name to Danske Bank in November 2012. The Estonian branch has its own Executive Committee.

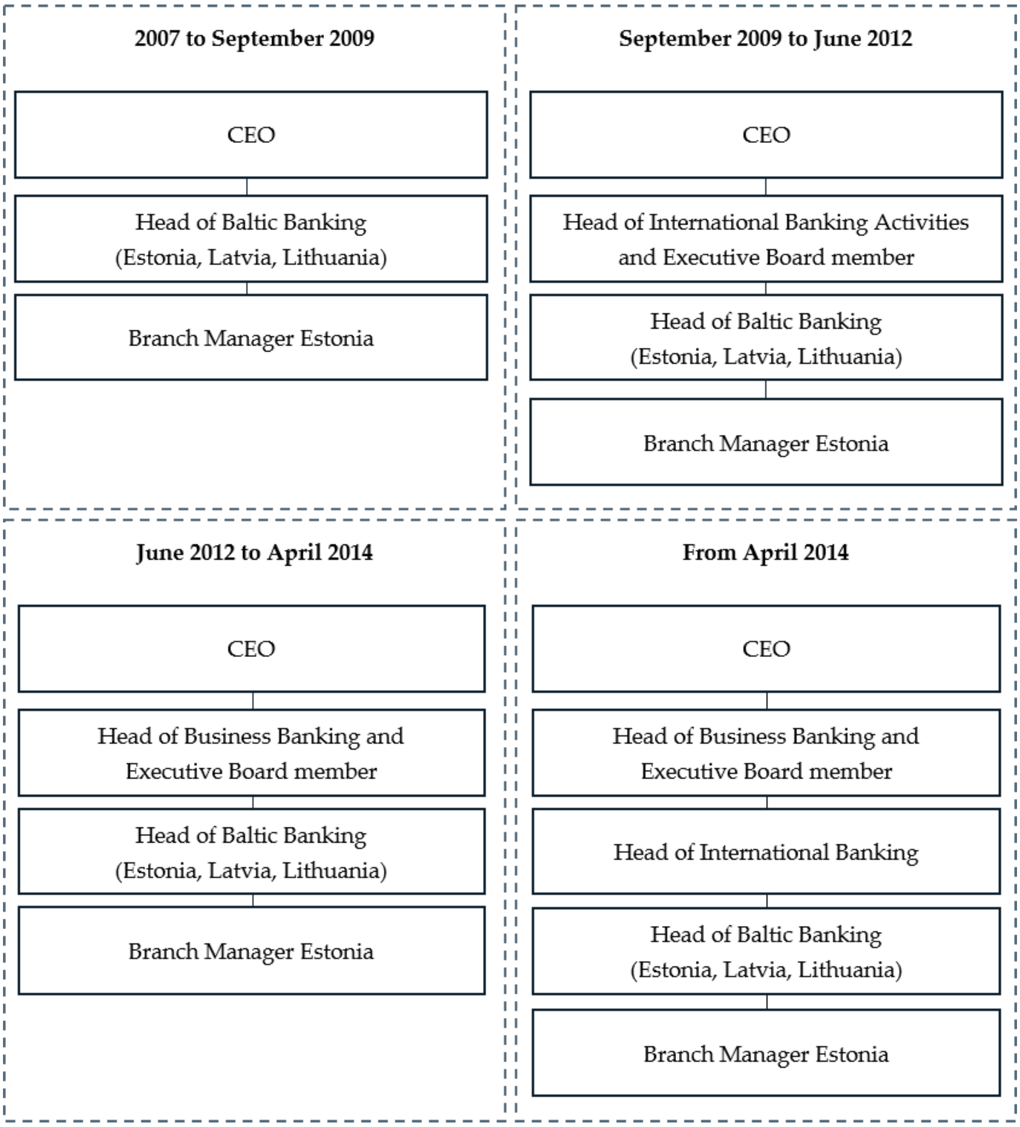
Baltic Banking was the first level above each of the three Baltic branches (Estonia, Latvia and Lithuania), forming a connecting link between the Baltic banking activities and Danske Bank Group in Copenhagen. There was also a joint board of directors for the Baltic entities, the Baltic Advisory Board (earlier named the Baltic Supervisory Board) with members from Group, as well as a Baltic Executive Committee.

Prior to the new operational model introduced in June 2012, Baltic Banking reported to the Head of International Banking Activities, which formed part of Thomas Borgen's ultimate executive responsibilities as member of the Executive Board from September 2009 until June 2012. In June 2012, the Baltic banking activities was moved to Business Banking. From June 2012, the Head of Business Banking was member of the Executive Board and had ultimate executive responsibility for the Estonian branch.

In 2014, International Banking was introduced as a new level between Business Banking and Baltic Banking.

9.1.3 *Business reporting*

The line of business reporting (first line of defence) from the Estonian branch to Danske Bank Group developed over time from a reporting line of three stages in 2007 to four stages in September 2009 to five stages in April 2014:



9.1.4 *Board of Directors and Audit Committee*

The Board of Directors is entrusted with the overall and strategic management of Danske Bank, including responsibilities to monitor compliance and risk management. From 2007 to 2017, the Board of Directors consisted of eight members elected at the general meeting and four employee representatives.

The Audit Committee is a board committee with members appointed from the Board of Directors. It supervises accounting and auditing and, from 2012, also compliance and AML on behalf of the Board of Directors.

9.1.5 *Executive Board*

The Executive Board is responsible for the day-to-day management of the bank and is chaired by the CEO. Its obligations include ensuring the bank's organizational structure is robust and transparent and has effective lines of communication and reporting, including in relation to compliance and AML.

9.1.6 *Group Legal*

Group Legal provides legal advice and services internally in Danske Bank. The Head of Group Legal reported directly to the CEO until 2012, but from 2013 instead to the Chief Financial Officer ("CFO"), who was member of the Executive Board. Until September 2014, Group Legal was responsible for Group Compliance & AML.

9.1.7 *Group Compliance & AML*

As a function overseeing the compliance and AML areas in the bank's business units (first line of defence), Group Compliance & AML forms part of the second line of defence. The name of the unit has changed over time but is referred to as Group Compliance & AML throughout this report. From September 2014, the Head of Group Compliance & AML reports directly to the CFO as opposed to the Head of Group Legal as was the case prior to September 2014.

9.1.8 *Group Internal Audit*

Group Internal Audit constitutes the third line of defence and is entrusted with internally auditing all companies and certain other entities within the Danske Bank Group. Group Internal Audit is headed by the Chief Audit Executive, who is appointed by the Board of Directors. Group Internal Audit forms the third and last line of defence.

9.2 **Acquisition**

In this overview of events, the first phase involves the acquisition and related events in 2006 and 2007.

9.2.1 ***Acquisition of Sampo Bank***

On 9 November 2006, Danske Bank announced its acquisition of Finnish-based Sampo Bank, which Danske Bank in its public announcement to the stock exchange described as "the third largest bank in Finland with an extensive branch network, subsidiaries in Estonia, Latvia and Lithuania, and a recently acquired bank in Russia". The price was just above EUR 4 billion, with a little more than half allocated to goodwill in Danske Bank's subsequent annual report for 2006. The completion of the acquisition was announced on 1 February 2007.

In addition to the activities in Finland, Sampo Bank had three smaller subsidiaries in the Baltics: AS Sampo Pank in Estonia, AB Sampo Bankas in Lithuania and AS Sampo Banka in Latvia.

Sampo Pank in Estonia could trace its origin back to two Estonian banking entities established in 1992, in the immediate aftermath of the collapse of the Soviet Union, namely Eesti Forekspank and Eesti Investeerimispank. At the time, there were strong economic ties between Estonia and the Russian Federation. It appears that, following its establishment, Eesti Forekspank prioritised and developed a significant client base of retail and corporate customers from Russia, with a focus on cross-border payments and foreign exchange transactions (involving conversion of currencies). The Russian customers were notably from the Moscow region, where the bank opened an office in 1997, as well as the Saint Petersburg region. In 1998, Estonia experienced a banking crisis caused in part by a deteriorating Russian economy. Later the same year, the Estonian Central Bank acquired the majority of the shares of both Eesti Forekspank and Eesti Investeerimispank, and the banks were merged under the name Optiva Pank, by then the third largest bank in Estonia. This was the bank that, in 2000 and 2002, Finnish-based Sampo Bank acquired and renamed Sampo Pank.

Prior to 2007, Danske Bank had not been operating out of the Baltic countries.

It followed from public annual reports for the three Baltic subsidiaries that Sampo Pank in Estonia was the most profitable of the three Baltic subsidiaries. It was also the only subsidiary which presented Return on Equity ("ROE") in its annual report, that is earnings compared to equity (capital). According to the annual reports, ROE for the Estonian subsidiary was 23 per cent in 2005, 26 per cent in 2006 and 30 per cent in 2007.

9.2.2 *Inspection by the Estonian FSA in 2007*

In March and April 2007, the Estonian FSA carried out an inspection at Sampo Pank in Estonia focusing on the bank's non-resident customers. The final inspection report, written in Estonian, was issued on 16 August 2007. On 20 September 2007, the branch sent an English translation of the summary of the inspection report to Danske Bank's Group Compliance & AML in Copenhagen, which shared it with Group Legal.

According to the English summary, the Estonian FSA had found that "the approved internal rules are mostly in compliance with the requirements set forth in the valid legal acts", and that "[i]n principle, control systems for the monitoring of compliance with these regulations have also been established". Yet, actual practice at the branch attracted criticism, not least with respect to KYC (Know Your Customer) information, as the Estonian FSA wrote that "the Bank's routine practice has not been fully in compliance with the requirements stipulated in valid legal acts and international standards". The Estonian FSA concluded that "the Bank has underestimated potential risks, associated with providing services to legal entities registered in a low-tax area and undue compliance with relevant procedure rules". As for non-resident customers in particular, the Estonian FSA stressed the "additional risks" involved and found that "the actual activity of the Non-resident Customers Department aimed at examining the activities of clients is not in compliance with international practice and is not sufficient, regarding the specifics of the activities of this particular client group and associated risks".

On 18 September 2007, the inspection report was followed by a precept from the Estonian FSA issuing orders for the bank to comply with. On 25 September and 20 December 2007, the Estonian branch informed the Estonian FSA about steps taken by the branch to comply with the precept. According to the branch, this included closing of "597 accounts of non-resident legal and natural persons" in 2007. On 3 December 2007, an English translation of the precept was shared with Group Compliance & AML in Copenhagen.

9.2.3 *Information from the Russian Central Bank in 2007*

In a letter of 8 June 2007 to the Danish FSA, the Russian Central Bank expressed concern with regard to non-resident customers of Sampo Pank in Estonia. It shared information that "clients of Sampo Bank permanently participate in financial transactions of doubtful origin" estimated at "billions of rubles monthly". After a description of a type of transaction, the Russian Central Bank further stated that "the mentioned transactions can be aimed at tax and custom payments evasion while importing the goods, or giving the legal form to the outflow of the capital, or they can be connected with the criminal activity in its pure form, including money laundering". On 18 June 2007, the Danish FSA forwarded this letter to the Executive Board of Danske Bank and asked for its comments in English.

The letter from the Russian Central Bank was on the agenda at meetings on 7 August 2007 in both the Executive Board and Board of Directors. At these meetings, information was given that the matter would be investigated internally.

Group Legal and Group Compliance & AML replied to the Danish FSA on behalf of the bank by letter of 27 August 2007. The reply made reference to the recent inspection report from the Estonian FSA and stated that the Estonian FSA's "conclusion of the inspection was that the bank complies with the existing laws and regulations", and that the Estonian FSA had had no "material observations". The reply also stated that the AML concept of Danske Bank Group had been implemented in the Estonian subsidiary, and that reporting lines had been set up. The Danish FSA convened a meeting with the bank on 3 September 2007, at which Group Legal provided equally comforting information. The Danish FSA had also talked to the bank's Group Internal Audit, which had informed the Danish FSA that local internal auditors with Sampo Pank in Estonia had looked more closely into the matter and found nothing of note.

9.3 **Operation**

In this overview of events, the second phase concerns operation lasting from 2008 to 2013.

9.3.1 *Separate IT platform*

In 2008, Sampo Pank in Estonia was turned into a branch of Danske Bank, as would seem to have been planned already at the time of the acquisition. Another plan had been to migrate the Baltic subsidiaries onto the Group IT platform to secure access to information of the business and minimise operational risks. In August 2008, however, this plan was abandoned. Migration was then found to be too expensive and take up too much capacity. It was made clear at the time that the cancelled IT migration called for additional initiative in the area of compliance.

9.3.2 *Internal reporting in 2008 and 2009*

In an audit report of 29 April 2008 on AML procedures in the Estonian branch, Group Internal Audit gave the branch a "satisfactory" rating (the second best rating out of five). It was observed that "[t]he non-resident customers department has improved considerably in applying KYC [Know Your Customer] principles" although Group Internal Audit also noted "a few shortcomings". At the same time, reports on AML from the Estonian branch were predominantly green (the best rating out of three), and there was nothing of note relating to Estonia in the reports on AML produced by Group Compliance & AML throughout 2009.

9.3.3 *Follow-up inspection by the Estonian FSA in 2009*

In June 2009, the Estonian FSA performed a follow-up AML inspection on its inspection in 2007 at the Estonian branch. This resulted in a final inspection report of 15 October 2009, written in Estonian. By the end of October 2009, the branch provided Group Compliance & AML with an English summary. According to the summary, the Estonian FSA noted that the attitude of branch employees concerning the objectives of and compliance with statutory requirements had "improved considerably". The Estonian FSA also found that the branch had "changed or updated its internal procedures in line with the legal amendments made in 2008" (albeit with "some deficiencies"). The Estonian FSA further wrote that "[t]he documents and information about customers and their activities reviewed in the course of the on-site inspection did not comply with the requirements of legislation and/or the internal procedures of the Branch in all cases". The Estonian FSA stressed "the importance of obtaining the relevant information, especially about the beneficial owners, ownership and control structures and economic activities of customers in order to guarantee that the Branch and the entire financial system of Estonia function in a manner that is trustworthy and in compliance with international standards".

9.3.4 *News reports in 2010*

In 2010, information about the customers of the Estonian branch were discussed in a number of news reports.

On 4 January 2010, the American newspaper Barron's published an article linking a specific company to the Estonian branch and a North Korean arms smuggling case in Thailand. The branch had been approached by the journalist prior to publication of the article, but the article was published without mentioning of the branch or Danske Bank. Action was taken within the Estonian branch, which we due to legal obligations are not permitted to share. We cannot see that Group was informed at the time.

On 25 January 2010, Estonian media linked the Estonian branch to an alleged money-laundering scheme involving a currency exchange company and a specific customer. On 28 January 2010, this story was, in short form, reflected in Danish media when another Danish bank stated that the matter related to Sampo Bank. This gave rise to questions at Group level, and the matter came up again in March 2010 among members of the Executive Board following approach by one of Danske Bank's correspondent banks.

Action was taken within the Estonian branch, which we due to legal obligations are not permitted to share.

9.3.5 *Discussions in the Executive Board in 2010 and 2011*

In 2010 and 2011, Danske Bank's Executive Board touched upon the Estonian branch and its Non-Resident Portfolio.

At the meeting in the Executive Board on 21 January 2010, there had been a Group-wide discussion on focus areas and profitability, including the Baltics. The discussion is not reflected in the minutes of the meeting. According to an email from February 2010 between other employees at Group level, a member of the Executive Board had pointed to the possibility of a slow expansion in Estonia, while making it clear that such expansion should not be at the cost of AML.

At a meeting in the Executive Board on 9 March 2010, there was a discussion of the number of suspicious activity reports ("SARs") filed by the Estonian branch on the basis of reporting. The discussion is reflected in minutes as follows (translation):

"The AML report states at page 5 that Estonia accounts for a 30 % market share of the "Suspicious Activity Reports". According to [name], the reason for this high share is that the standard of Danske Bank is high compared to other banks in Estonia.

[Name] expressed concern over the many Russian transfers. [Name] stated that the Russian Central Bank had been contacted, and it had agreed to these transfers. Nor had [name] come across anything that could give rise to concern."

Half a year later, at the meeting in the Executive Board on 21 September 2010, there was again reporting on the number of SARs, which led to the following discussion (as stated in minutes):

"In reply to a question from [name], [name] and [name] confirmed that they are comfortable with the situation in Estonia with substantial Russian deposits. This was also underlined by the approval received from the Russian Central Bank to establish a representative office in Moscow."

9.3.6 *Reporting from Group Internal Audit in 2011*

On 26 August 2011, Group Internal Audit issued an audit report on compliance and AML in the Estonian branch. The audit report assigned a "satisfactory" rating (the second best rating out of five) for compliance and a "fair" rating (the third best rating out of five) for AML. With regard to AML, the report stated that, "although the risk analyzes are made, the AML procedures are done and the regular reporting to local management and Group Compliance is in place, there are several deficiencies in mandatory documentation".

On 14 November 2011, Group Internal Audit issued an audit report on customer engagement at the Estonian branch, also reviewing Customer Due Diligence and KYC procedures. The audit report assigned a "satisfactory" rating (the second best rating out of five) to the internal control environment. It was noted that "the requirements were generally followed" and that "the shortcomings detected in the course of the controls were mostly fixed" although there was "a room for further improvement in AML process".

9.3.7 *Information to the Board of Directors in 2011 and 2012*

On 5 May 2011, the Board of Directors was provided with some background material for an overall strategy discussion about the Baltic banking activities. The presentation had no detailed analysis and did not mention the Non-Resident Portfolio. The presentation contained slides with titles such as "Operating profit stable before loan losses – Dominated by Estonia" and "Good ROE [Return on Equity] before loan losses – Again, Estonia at high levels". According to the presentation, ROE before loan losses for the Estonian branch had increased from 45 per cent in 2007 to 58 per cent in 2010. According to the minutes of the meeting, it was said and agreed that "it was important to focus on the right customers" and that "[t]he short-term target was not to be number one or two, but the Bank had to have ambitious goals for the long term". When again discussing the Baltics at a meeting of the Board of Directors on 1 March 2012, information about the Baltics was provided on a more general level.

9.3.8 *Request in 2012 from the Danish FSA about the Estonian branch*

On 13 February 2012, the Danish FSA approached Group Compliance & AML in connection with a letter from the Estonian FSA concerning (translation) "a number of serious AML/CFT issues in the Estonian branch". In its request, the Danish FSA made reference to a "survey within Estonian credit institutions and foreign branches", which the Estonian FSA had pointed to in its letter. It was stated about the Estonian branch that "[t]he relatively big concentration of the business relationships from risk countries in Branch is not accidental" and that "the same risk patterns" had been identified by the Estonian FSA during its inspections in 2007 and 2009. On this basis, the Danish FSA requested comments from Group on the matters set out in the letter as well as the lack of actions taken by the Estonian branch.

When replying to the Danish FSA on 20 February 2012, Group Legal and Group Compliance & AML relied upon information from the Estonian branch. It was stated that "[i]n order to mitigate the risk of being used for money laundering or terror financing Sampo Pank Estonia operates a determined control environment regarding customer relation establishment and transaction monitoring". As for the Estonian FSA's inspection report from 2009, it was written that "the shortcomings have been corrected subsequently". In conclusion, it was stated: "To sum up we are fully aware that the customer database of Sampo Pank Estonia includes a number of high risk customers. However, we are confident that the control setup corresponds to the actual risk."

On 3 April 2012, following a request from the Danish FSA for further information on the specific handling of high risk customers in the Estonian branch, Group Compliance & AML provided a second reply on behalf of Danske Bank. This reply provided a more detailed overview of the AML control procedures in the Estonian branch. The conclusion read, also referring to reports from Group Internal Audit: "As a closing note we would like to state that we feel confident that the control setup described above mitigates the actual risk regarding high risk customers in Sampo Pank at a satisfactory level."

9.3.9 *Group Compliance & AML's visit to the branch in 2012*

In the letter of 3 April 2012 to the Danish FSA, it was stated that Group Compliance & AML planned to visit the Estonian branch in May 2012. This visit took place on 7 May 2012. Observations from the visit were reflected in an appendix to the report from Group Compliance & AML for the first half of 2012. This appendix listed AML risks in the local functions. As for the Estonian branch, focus had been on "the ongoing process of controls to ensure that rules are complied with" and "screening of outgoing payments against EU/UN and OFAC list [US Office of Foreign Assets Control's sanction list]". It was added that "[a]s of today incoming payments are not screened and this might be one of the focus areas going forward". The report from Group Compliance & AML also mentioned the bank's reply in 2012 to the Danish FSA "regarding the high market share of high risk customers (e.g. offshore or Russian customers)". It was commented that "the due diligence and monitoring procedures are adjusted to mitigate the risk involved". An appendix included an overview of the risk analysis for 2012. According to the overview, all areas in the Estonian branch were green (the best rating out of three) with the exception of two areas, which were yellow (the second best rating out of three).

Similar statements as the one in the appendix about lack of screening of incoming payments were included in the Group Compliance & AML report for first half of 2013 to the Executive Board and the Audit Committee and also in the annual Group AML report for 2013 to the Board of Directors.

9.3.10 *FX lines memorandum from Business Banking from 2012*

As a result of an organisational change in June 2012, Danske Bank's Baltic banking activities had been placed under the Group business unit Business Banking. A few months after its establishment, the credit and risk function within Business Banking became aware that use of foreign exchange lines (FX lines) in the Estonian branch fell outside Group credit policy in that they were used by non-resident customers and irrespective of lack of financial statements. It was pointed out that these were high-risk customers, and concerns were raised regarding AML. Ultimately, the use of FX lines was made subject to a memorandum of 26 October 2012. Although the memorandum was primarily about credit policy, and deviation therefrom, it also addressed AML issues in the following way:

"The paramount risk in these arrangements relate to the banks reputation. Today risk mitigation is achieved by screening customers using the KYC process. The process was presented to the local and Danish FSA and is more comprehensive than what is currently being used in other business areas."

The memorandum was approved by two members of the Executive Board as well as other employees at Group level. One of the members of the Executive Board added in handwriting: "What is the motivation for these customers opening an account with Sampo? I mean the customers' motivation". The other member added, also in handwriting, that "[i]t would be relevant to go through the work done by e.g. Group Audit etc." Throughout the discussions on the use of FX lines, Baltic Banking provided comforting information to Group.

9.3.11 *AML programme referred to as "Best in Class" and correspondence with the Danish FSA in 2012*

On 15 June 2012, the Danish FSA presented Danske Bank with nine orders and four pieces of risk information on AML relating to its activities in Denmark. The orders covered a broad field and included KYC procedures, correspondent banking, transaction monitoring and training programmes. In response, Danske Bank's Board of Directors decided to not only comply with the orders and risk information, it also expressed an ambition to become "Best in Class" within AML.

In connection with Danske Bank's application to open a branch in New York, the bank produced an AML action plan to the US Federal Reserve. At its meeting on 6 September 2012, the Board of Directors rejected the first action plan presented to it. In minutes of the meeting, it is stated that "the AML issues had been known for a long time, actually several years" and that the Board of Directors was not comfortable with issuing a declaration to the Federal Reserve about the AML issues "at the present stage". At a subsequent meeting, on 12 October 2012, the Board of Directors approved a new action plan. On 30 October 2012, the Danish FSA issued a statement of support to the US Federal Reserve, which the Danish FSA did on the basis of the action plan ratified by the Board of Directors on 12 October 2012 and a progress report from Danske Bank dated 24 October 2012, both of which the bank had forwarded to the Danish FSA. In the Danish FSA's statement of support, it was noted that "during our AML/CTF inspection we did not discover any suspicious customer transactions (money laundering or terrorist financing), which had not been handled by Danske Bank in accordance with the FATF [Financial Action Task Force] standards and the Danish Money Laundering Act". According to the statement, the Danish FSA had reviewed the action plan and concluded "that it appears to comprise the elements necessary to sufficiently address the AML/CTF deficiencies". After a follow-up inspection on 12 November 2012, the Danish FSA, by letter of 30 November 2012 to Danske Bank, stated that the bank had complied with all orders and risk information issued in June 2012. The Danish FSA underlined that its assessment relied on the information received in connection with the inspection, including presentations, written rules of procedure, reports and other documents. Ultimately, at its meeting on 8 August 2013, Danske Bank's Board of Directors decided to withdraw the application for a branch in New York for reasons not related to AML.

9.3.12 ***Reporting from Group Internal Audit in 2012***

On 30 November 2012, Group Internal Audit issued a report on AML in the Estonian branch with an overall rating of "extensive" (the best rating out of four). The report included no recommendations for improvement.

9.3.13 ***Lack of AML responsible person in 2013***

At the end of 2012, Danske Bank's AML responsible person retired. A new AML responsible person, as required under Danish law, was not appointed until 7 November 2013.

9.3.14 ***Request in 2013 from the Danish FSA***

In the spring of 2013, there were again communications with the Danish FSA about the Estonian branch, its customers and AML procedures. On 4 April 2013, the Danish FSA approached Group Legal. In a first reply the following day, Group Legal referred to the bank's previous letter of 3 April 2012 to the Danish FSA, which was also enclosed. Group Legal stated (translation): "The circumstances are still the same – namely that a very special setup has been made for the Russian customers we have in Estonia, for the very reason that these customers involve a high risk. It has been described in detail in the attached letter". It appears from an email of 5 April 2013 from Group Legal that the Estonian FSA had also mentioned a list kept by the Russian Central Bank containing (translation) "Russian customers who were blacklisted". On 7 April 2013, Group Compliance & AML contacted branch management, referring to "our blacklisted Russian customers". It was added that "the Danish FSA is now very worried because they have confirmed to the US authorities that we comply with Danish FSA's requirements on AML", and "[i]t is critical for the Bank that we do not get any problems based on this issue. We cannot risk any new orders in the AML area". Again branch management provided comforting information to Group Compliance & AML (with Baltic Banking copied in on the email).

On 25 April 2013, and at the initiative of Baltic Banking, the Estonian branch had a meeting with the Chairman of the Board of the Estonian FSA. The branch produced minutes of the meeting, which were reviewed by the Estonian FSA. Most of the minutes summarised the information provided by the Estonian branch at the meeting. Reporting from Group Internal Audit was emphasised. There were also responses from the Estonian FSA. According to the minutes, the Estonian FSA "acknowledged presented information and pointed out that the FSA pays very high attention to the AML prevention in banks and payment institutions". Also, it was stated that "[t]he FSA admits that the Bank's internal AML regulations are in compliance with the established requirements in order to prevent in a satisfactory level". This text had been contributed by the branch, and it was the one point where the Estonian FSA inserted additional text when reviewing the minutes. This additional text was as follows: "however they pointed out that from FSA perspective risk appetite in Estonian Danske A/S looks above the average comparing with Estonian banking sector in general". Also, it was stated that "[t]he FSA underlines that Know Your Customer Policy must be observed not only in written procedures but also in everyday business activities" and that "[i]t is important to know where and how the customer makes business and that would be in compliance with transactions in bank account". According to the minutes, "both parties found that it is very important to realize bigger risks with non-resident customers and take all possible measures to reduce and minimize them", and the Estonian FSA had stressed the high risk represented by "financial mediators". It was not reflected in the minutes that they would be circulated outside Danske Bank. On 15 May 2013, however, and as had been intended internally, Group Legal shared the minutes with the Danish FSA. Group appeared to place undue reliance on these minutes, which were more nuanced than generally presented within the bank.

9.3.15 *Preparation in 2013 of Baltic strategy review*

In 2013, preparations were made for a review of strategy with respect to the Baltic banking activities. A draft presentation on "Baltic strategy review" was circulated internally in Business Banking, seemingly intended for the meeting in the Board of Directors on 19 June 2013. The presentation presented three strategic approaches: "Become national champion", "Build on cross sales" and "Exit Baltic countries". There was also a slide on "The Journey for Baltic Banking towards 2015". The presentation contained a so-called SWOT [Strengths, Weaknesses, Opportunities and Threats] analysis. Among the strengths, AML was mentioned, with the headline: "Anti Money Laundering and Know Your Customer processes have been reviewed and FSAs are confident with them". On another slide, it was listed as a threat that "35% of Estonian profit generated by Russian business customers in Estonia". The presentation never made it to the Board of Directors, but specific slides were later used at meetings in Baltic Banking.

9.3.16 *Termination in 2013 of correspondent banking relationship*

For purposes of clearing USD payments, the Estonian branch had its own correspondent banks. In June 2013, a member of the Executive Board was contacted by one of the correspondent banks with a view to terminating the correspondent banking relationship on grounds of AML. The issue was brought up at a Business Banking Performance Review Meeting on 27 June 2013. This caused an action point titled "Non-Resident Russian profiles" for which Business Banking and "Local Finance in Baltics" were responsible; it included the following: "a) Review size of business; b) Alternative sources for correspondent banking of part of the business volume; c) Review KYC profiles and review relationship if documentation not in place". In turn, a small group led by Business Banking looked into the matter. Ultimately, and in agreement with the correspondent bank in question, the Estonian branch sent a closure notification terminating the correspondent banking relationship, effective as of 1 August 2013 with ordinary notice of three months. Following the termination, it would seem that another correspondent bank accepted to expand its cooperation with Danske Bank to include the Estonian branch.

9.3.17 *Reporting from Group Internal Audit in 2013*

In an audit report dated 1 August 2013, Group Internal Audit reviewed KYC controls for non-resident customers in the Estonian branch. The report concluded that KYC procedures and related internal controls were "reasonable" (the second best rating out of four), and the KYC documentation was described as "generally sufficient". At the same time, Group Internal Audit noted that "several issues … in which further improvement was needed". The audit was led locally, but this time it also involved members of Group Internal Audit from outside the branch.

9.3.18 *Business review of the Non-Resident Portfolio in 2013*

The above-mentioned termination of a correspondent banking relationship with the Estonian branch led to a business review of the Non-Resident Portfolio at the initiative of members of the Executive Board. This brought new information to Group. Business Banking noted that "over-normal profit is usually a warning sign, superior service or not", and concern was expressed regarding "the lack of price-sensitivity with some customers is due to other factors than good service". For its part, Group Compliance & AML stated that "the business volume (transactions) with non-resident customers in Estonia" was larger than expected. Also, the presence of so-called intermediaries in the form of "non-regulated entities" was questioned. As mentioned in Section 5.1, intermediaries constituted a small group of customers in the Non-Resident Portfolio holding accounts for the purpose of facilitating transactions with their own end-customers outside the branch.

Within the Estonian branch, a memorandum to the branch's Executive Committee, titled "Solutions in the Non-resident Intermediaries customer segment using bonds" (the "OFZ memo", OFZ being Russian government bonds) was circulated on 15 October 2013. The memorandum presented "a solution for ten customers in our Non-resident Intermediaries segment using bonds as a faster, cheaper and more reliable way for their end-clients to transfer money overseas than making an international payment through a domestic Russian bank". It was added that "the solution" was "highly profitable", but also that "[c]onsistent with our strategy for the segment, we do not add new Intermediary clients and expect the number of clients in the segment to decline over time". Two main risks were indicated: (i) "We do not have full knowledge about the end-clients of the Intermediary", and (ii) "[t]here is potential reputational risk in being seen to be assisting 'capital flight' from Russia". With regard to the first main risk, an earlier draft had added: "and therefore potentially this solution could be used for money-laundering", but these words had been left out in the final version at the initiative of a member of branch management.

On 16 October 2013, the full presentation on the business review and a summary were forwarded to Business Banking. The presentations stated that intermediaries would be "harvested" and subject to a "[r]un-off", and that the business segment would follow a strategy to "focus on preserving client quality not on acquiring new clients". When forwarding the presentations, Baltic Banking noted, among other points, that "[t]he business line is profitable and contributing significantly to Baltic Banking performance", and that "[t]here are resilient KYC and AML procedures in place" and "no pending discussions on business with regulators".

On 23 October 2013, there was a Business Banking Performance Review Meeting for Q3 2013 with the CEO and three other members of the Executive Board present. The action point about the Non-Resident Portfolio defined at the previous meeting on 27 June 2013 was discussed. According to the minutes, the “initial take” presented by a member of the Executive Board was “that the size of Danske Bank business undertaken with this category of customer is larger than DB peers, and the proportion of business needed to be reviewed and potentially reduced”. Also according to the minutes, the CEO “emphasized the need for a middle ground, and wanted to discuss this further outside of this forum”, and the already mentioned member of the Executive Board “agreed to hold a meeting when Business Banking had finalised its conclusions”. A new action point to this effect was added with deadline in November 2013 and with Business Banking as responsible. However, we have found no information about any follow-up.

On 29 November and 13 December 2013, Baltic Banking forwarded material on the business review of the Non-Resident Portfolio to three members of the Executive Board, and on 17 December 2013, and supposedly after a meeting, two of these members also received the OFZ memo from October 2013 about the use of intermediaries. We cannot see that this material was shared with the CEO.

Minutes of the Business Banking Performance Review Meeting for Q4 2013 on 31 January 2014, again with the CEO participating, describe the business review as completed between two members of the Executive Board (not involving the CEO) and that the business review was intended to be followed by an exit of customers. There was no mentioning of a meeting with the CEO.

9.3.19 *Initiatives at branch level in 2013*

At the same time as the business review, initiatives were also taken at branch level. At a meeting on 15 August 2013 in the Baltic Executive Committee, a rapid increase in income from bond trading activities was pointed to. A review of the Baltic business was suggested to ensure proper management of risks. At the meeting, the Baltic Executive Committee approved four specific proposals, which included compliance review and increased oversight. During the autumn of 2013, the Estonian branch set up a working group looking into intermediaries, which received weekly reports on bond activity and convened on a monthly basis.

9.4 Termination

The third phase covers the lengthy and complicated termination of the Non-Resident Portfolio in 2014 and 2015.

9.4.1 *Whistleblower reports from December 2013 through April 2014*

On 27 December 2013, an employee with the Estonian branch filed a whistleblower report concerning the Non-Resident Portfolio. Over the following months, the whistleblower made further allegations.

The first whistleblower report was sent by email of 27 December 2013 to a member of the Executive Board as well as employees from Baltic Banking, Group Compliance & AML and Group Internal Audit. It was titled "Whistleblowing disclosure – knowingly dealing with criminals in Estonia Branch". This first report concerned a specific customer with the Estonian branch and included the following:

- The whistleblower wrote that the Estonian branch did not have financial data on the specific customer, and that the customer had filed false financial accounts with the UK Companies House.
- The whistleblower further stated that "the bank knowingly continued to deal with a company that had committed a crime".
- It was also stated that after the whistleblower had brought up within the branch the question of false financial accounts, "[a]n employee of the bank co-operated with the company to fix the 'error'", whereby new financial accounts had been filed, which were equally false.
- According to the whistleblower, the customer remained with the branch, and "[t]he bank continued dealing with the company even after it had committed another crime by submitting amended false accounts".
- The whistleblower added that in September 2013, it was decided to close all accounts held by the customer in question as well as by "other members of the influence group". This was decided as a result of suspicious payments, insufficient knowledge of beneficial owners (according to the whistleblower, "apparently it was discovered that they included the Putin family and the FSB", that is the Russian Federal Security Service), and also due to the beneficial owners having "been involved with several Russian banks that had been closed down in recent years".
- By conclusion, the whistleblower shared views on "what looks wrong here", and the whistleblower stated that "[t]his should all be seen in the context of the high-risk nature of the international business in Estonia (that is supposed to be well-recognised and addressed by local management), that UK LLPs [Limited Liability Partnerships] are the preferred vehicle for non-resident clients (so should be well understood) and that the control environment is supposed to be 'comprehensive'".

It was quickly decided among the four recipients of the whistleblower report that Group Internal Audit should conduct an investigation into the allegations, using employees from outside the Estonian branch. The Executive Board was informed at its meeting on 7 January 2014 (without receiving copy of the whistleblower report). The Audit Committee was also given information about the investigation by Group Internal Audit at its meeting on 27 January 2014. However, according to the minutes of the Audit Committee meeting, it was not specified that the investigation resulted from a whistleblower report.

On 9 January 2014, three more customers with "similar irregularities" were reported to Group Internal Audit by the whistleblower. In March and April 2014, there were additional reports from the whistleblower, including concerns about customers structured as Danish limited partnership companies (K/S companies). In its Corporate Responsibility report from 2013, Danske Bank wrote:

"In 2013, four cases were reported through the whistleblower system. They occurred both in and outside Denmark. Three cases that were concluded led to changes in procedures or increased management attention. One case is still under investigation."

9.4.2 ***Investigation by Group Internal Audit in early 2014***

As a result of its investigation into the allegations by the whistleblower in early 2014, Group Internal Audit produced two audit letters in January and February 2014, which were addressed to members of the Executive Board and not shared with the Estonian branch.

In the audit letter of 13 January 2014, Group Internal Audit confirmed some of the allegations made by the whistleblower. Documents provided by some customers when opening accounts were found to be insufficient. Group Internal Audit also pointed to the potential risk of a customer having been "tipped off" (hereby implying that the customers had been colluding with employees at the Estonian branch). More generally, it was noted that "ongoing monitoring" was performed manually by account managers, who were responsible for so many customers that it was "in fact impossible to perform the monitoring in an effective and efficient way". It was added that "[b]ased on the work performed, we have not identified areas that need immediate reporting to the FSA".

From 3 February through 6 February 2014, Group Internal Audit conducted an on-site audit at the Estonian branch. Auditors were provided with the OFZ memo from October 2013 on intermediaries. On 5 February 2014, Group Internal Audit presented its draft conclusions in an email forwarded to two members of the Executive Board and in turn shared with other members, including the CEO. It was stated that "we cannot identify actual source of funds or beneficial owners" and also that an employee with the branch had "confirmed verbally (in the presence of all 3 auditors …) that the reason underlying beneficial owners are not identified is that it could cause problems for clients if Russian authorities requests information". Moreover, it was stated that "[t]he branch has entered into highly profitable agreements with a range of Russian intermediaries where underlying clients are unknown". As part of the overall conclusions, Group Internal Audit recommended "a full independent review of all non-resident customers". Group Internal Audit followed up on this in its audit report of 10 March 2014 as described below.

Also on 5 February 2014, emails demonstrate reactions to the audit findings from members of the Executive Board. One member of the Executive Board wrote (translation): "Unfortunately, it looks as if there is reason for concern. I will inform [CEO] and will arrange a review ASAP. Will keep you [name] in the loop." Another member replied: "At very least, the bond/intermediaries business has to be closed down immediately. Let's discuss how". A third member wrote to Group Legal (translation): "Will you ensure that this case does not go off track if it has [not] already been handled?" When informed, the CEO responded (translation): "Noted. Here you should consider an immediate stop of all new business and a controlled winding-down of all existing business".

The findings summarised in the email from Group Internal Audit of 5 February 2014 cited above were also – although in different wording – found in an audit letter issued by Group Internal Audit on 7 February 2014. The audit letter of 7 February 2014 also described in more details "[t]he cooperation with intermediaries", including bond trading.

9.4.3 *Working group in February 2014*

For the purpose of taking action in response to the draft conclusions reached by Group Internal Audit on 5 February 2014, a working group was established. The working group consisted of two members of the Executive Board as well as members from Business Banking, Baltic Banking, Group Compliance & AML and Group Internal Audit. At its first meeting on 7 February 2014, the working group defined six action points:

"1. Close for all new off-shore customers, pending an independent review of the business area

2. Close all business with intermediaries immediately.

3. Draft terms for an external second opinion on the adequacy of and compliance with the KYC procedures and systems in Estonia.

4. Review identified files

5. Consider any HR actions to be taken

6. Clarify responsibility for escalation of whistle blower findings to relevant FSA - or other authority"

These action points were dealt with in subsequent meetings.

- As for **item 1**, it was decided on 11 February 2014 that "[n]o new accounts will be opened for off-shore customers, with the exception of customers, which are currently customers elsewhere in the Group (IBB [International Business Banking] customers) or which have other valid reason for wanting an account in Estonia". On 12 February 2014, following a suggestion from Baltic Banking, and as "a balance has to be found, also taking in the competitive environment", it was agreed to allow known beneficial owners to open accounts in the name of a new legal entity, provided that "all CDD [Customer Due Diligence] and KYC requirements are met, including a thorough and well documented insight into the underlying business(es) and the rationale of the transactions".

- As for **item 2**, on 14 February 2014 the working group was informed by Baltic Banking that "the intermediary business was now fully closed down". While the bond trading was discontinued, we have established that some of the intermediaries continued to carry out payments.

- In order to address **item 3**, the working group instructed an external consultancy to look at procedures and controls.

- With regard to **item 4**, and following some discussions within the working group, it was decided in April 2014 by the Estonian branch to follow recommendations from Group Internal Audit and an external consultancy and initiate a review of corporate customers.

- According to minutes of meetings in the working group, **item 5** concerning possible HR actions was discussed, but not dealt with.

- **Item 6** was addressed on various occasions. At working group meetings on 10 February 2014, Group Compliance & AML explained that there was no reason to inform "the FSA or others" of "whistle blower findings" because "we do not yet have any suspicion of money laundering". On 11 February 2014, Group Compliance & AML had also come to the view that there was no legal obligation to inform authorities in the UK. In April 2014, following the report from the external consultancy, there was an exchange of views at Group level regarding reporting obligations. It was stated in an email of 3 April 2014 that there had been an "informal call" with the Estonian FSA mentioning the whistleblower. We have found no further information on this, and the discussion as to whether to report continued. We have no evidence of reporting to any regulators.

9.4.4 *Group Internal Audit's audit report from March 2014*

Following the two audit letters of 13 January and 7 February 2014, Group Internal Audit issued an audit report of 10 March 2014 about non-resident customers. This report was also shared with the Estonian branch. The rating used was "Action needed" (the worst rating out of three). According to the report, "[t]he Branch's portfolio of non-resident customers has to be reviewed and information on the commercial rationale for the customers structuring their business within LLP layers as well as on the ultimate beneficial owners of the trading entities underlying the LLPs have to be sufficiently documented in the Bank systems". Included in the report were the following six observations with first-priority recommendations attached: (i) "Documentation of due diligence on non-resident customers structured with LLPs", (ii) "Segregation of duties", (iii) "Risk assessment", (iv) "Customer monitoring", (v) "Closure of accounts", and (vi) "FX lines granting". Deadlines were included and responsibility assigned to employees within the branch.

9.4.5 *Report from external consultancy in April 2014*

On 17 February 2014, and following discussions in the working group, an external consultancy was engaged by Group Compliance & AML with a view to evaluate internal AML procedures and controls at the Estonian branch. The consultancy provided a draft report on 31 March 2014 and a final report on 16 April 2014. Both were sent to Group Compliance & AML and shared, also with some members of the Executive Board. In connection with its draft report, the consultancy wrote that "[b]ased on our experience in conducting such engagements, you do not have as many low impact issues as some of your peers, but your critical gaps (e.g. regarding risk assignment, transaction monitoring, level of CDD [Customer Due Diligence] applied) are greater than we've seen in other banks in the region". In response to a question whether there had been breaches of AML regulation, the consultancy confined itself to general remarks and a statement to the effect that "[c]ertain specific local legislation gaps do however exist".

In the final report, the external consultancy found that procedures for accepting new clients and opening new accounts for non-residents customers were overall followed. However, the report also noted shortcomings in relation to, inter alia, unclear instructions in relation to account agreement and KYC questionnaire and insufficient monitoring of transactions. The report identified 17 "control deficiencies" that all were assessed as "critical or significant".

Subsequently, the Estonian branch worked throughout 2014 to close the gaps as identified by the external consultancy.

9.4.6 *Customer review in the Estonian branch throughout 2014*

On 15 April 2014, the Estonian branch initiated a new review into corporate customers in the Non-Resident Portfolio. The review was overseen by Baltic Banking and the newly established Group business unit, International Banking. As part of this review, relationship managers with the branch completed separate memos for each of the non-resident business customers for whom they were responsible. Documentation was kept of the customers' answers to questions about their financial statements. The memos were reviewed by a committee at the branch in which members of branch management took part. It was for the committee to decide whether customer relationships were allowed to be carried on or should be terminated.

9.4.7 *Reporting to Group management in April 2014*

In April 2014, various information about the Estonian branch and the whistleblower case was presented to the Executive Board and the Board of Directors. For its meeting on 11 April 2014, the Executive Board was given a presentation by a member of the Executive Board titled "Status Danske Bank Estonia Branch". The presentation, which had been prepared by employees within Business Banking, contained three slides titled "Timeline for Whistleblower Case and Audit Reports", listing some of the whistleblower allegations as well as findings by Group Internal Audit and the external consultancy. According to the minutes of the meeting, the Executive Board was told that "the appropriate steps were being taken to continue dealing with the matter in accordance with the Group's whistle blowing policy, as well as all the applicable local regulations and supervisory rules". The customer review was mentioned, including that it was being "assessed how the business could be exited in an appropriate fashion". Later correspondence recorded that, at this meeting, the CEO took the initiative to have Group Compliance & AML prepare a new plan for AML in the Baltics, which was eventually approved on 1 August 2014.

At its meeting on 22 April 2014, the Executive Board had before it the draft status report for Q1 2014 from Group Internal Audit, which provided detailed information about the whistleblower case, including a list of the whistleblower's allegations. The Executive Board also received a draft long-form audit report dated 29 April 2014, which contained similar observations (the list of whistleblower allegations was included only in the status report for Q1 2014). It was also stated that "[m]anagement have agreed a series of actions to address the issues raised" and that "[t]hese will be completed during the course of 2014".

The same reporting from Group Internal Audit was submitted to the Audit Committee for its meeting on 28 April 2014. According to the minutes of the meeting in the Audit Committee, Group Internal Audit "highlighted the "whistleblower case" from Estonia about non-resident customer handling", adding that "[name] would brief the Board of Directors at the meeting the following day". In response to questions from the Audit Committee, Group Internal Audit replied that "the local internal auditor was under surveillance" and that "[t]he Bank's best practice [at Group level] was different from the local Estonian practice, and the local internal auditor had not followed the procedures as he should have". A semi-annual Group AML report, which had also been submitted to the Audit Committee, summarised the draft report produced by the external consultancy in April 2014. The Group AML report mentioned that the Estonian branch "do not have as many low impact issues as some of the peers", but "the critical gaps … are greater", while also pointing to the Estonian branch having initiated activities to deal with the specific findings from Group Internal Audit and the external consultancy.

At its meeting on 29 April 2014, the Board of Directors had before it only the long-form audit report from Group Internal Audit dated 29 April 2014. According to the minutes of the meeting "[name] elaborated on the whistleblower case referred to in the long-form audit report from Internal Audit and explained the steps taken to investigate the matter as well as the initiatives taken and planned to strengthen processes and controls with respect to AML and KYC in the Baltics".

9.4.8 *Continued investigations into whistleblower allegations*

In the spring and early summer of 2014, different work streams were carried out to investigate and conclude the whistleblower case. While Group Internal Audit would seem to have finished its work in response to the whistleblower allegations, Group Legal took over. As part of this, Group Legal contracted with an external consultancy to conduct an "[i]n inquiry into allegations of misconduct" on the basis of the whistleblower and "critical information on a number of irregularities involving senior members of staff". This, however, was overturned by two members of the Executive Board. Instead, on 27 May 2014, Group Legal asked Group Compliance & AML to (translation) "take on the task of bringing this whistleblower matter to an end". At the same time, Group Legal provided what was referred to as the "full list" of the allegations by the whistleblower reported in emails exchanged since December 2013. However, several of the whistleblower allegations was only covered by the list in very broad terms whereas others were left out entirely, including allegations of internal collusion and allegations relating to K/S companies.

On 10 June 2014, Group Compliance & AML circulated an overview to Group Legal and Group Internal Audit based on the mentioned list of allegations. To each allegation, the list stated preliminary "facts and mitigation actions" and "conclusion". A few days later, on 16 June 2014, Group Compliance & AML sent the overview of 10 June 2014 to two members of the Executive Board and also to International Banking and Group Legal. This time, the overview was treated as more conclusive. It was stated that "[b]eside the below described action points no more action will be done due to the specific allegations", but also that Group Compliance & AML would be following "the progress of the suggested actions". As for five whistleblower allegations which had been verified to be true, reference was made to the AML Action Plan for the Baltics. With regard to two whistleblower allegations in the process of being verified, reference was made to Group Legal. Finally, as for seven whistleblower allegations not verified or only partly verified, very little action was identified. We have found no information about additional investigation into the whistleblower allegations.

For the purpose of inclusion in Group Internal Audit's status report for Q2 2014, Business Banking was asked by Group Internal Audit to reply to the open audit observations regarding "Non-resident customer handling Baltics" in the long-form audit report dated 29 April 2014. On 7 July 2014, Business Banking suggested to Group Internal Audit that "[t]he allegations made by the whistleblower have all been investigated." At the same time, Business Banking listed actions that had been taken. Baltic Banking expressed the opinion that it found this to be a "fair summary". The suggested text was not included in Group Internal Audit's status report for Q2 2014, but it was used a few months later in Group Internal Audit's status report for Q3 2014, dated 24 October 2014. Here, Group Internal Audit commented that "[w]e still agree with the comments made by the area [Business Banking]", including Business Banking's comment that the allegations made by the whistleblower had all been investigated.

9.4.9 *Follow-up by Group Internal Audit in July 2014*

By audit letter of 1 July 2014, Group Internal Audit followed up on its audit performed in February 2014 (resulting in the audit report of 10 March 2014). The audit letter of 1 July 2014 was addressed to the Estonian branch and Baltic Banking (with copy to Group). With regard to non-resident customers onboarded since 1 March 2014, Group Internal Audit had "no major comments to the quality of the due diligence requirements applied and completeness of the documentation collected and filed by the area". However, Group Internal Audit made critical comments on the ongoing customer review based on a sample of eight customers, which had all been reviewed and confirmed by the branch. In this connection, the possibility of a postponement of the implementation date for one of the six material observations in the audit report of 10 March 2014 concerning "[d]ocumentation of due diligence on non-resident customers structured with LLPs", was mentioned. The branch agreed and the deadline was therefore extended.

Later in July 2014, the Executive Board and the Audit Committee received Group Internal Audit's draft status report for Q2 2014 which stated, with reference to the work reflected in the audit letter of 1 July 2014, that "[a] follow up has been conducted in Estonia to assess progress against previously reported AML issues", and that "[t]he testing performed showed improvement of processes in place for on boarding of new customers, but more focus needed with regard to review of existing customers".

9.4.10 *New branch policy to serve non-resident customers*

During 2014, the Estonian branch was preparing a new policy for customers in the Non-Resident Portfolio, and on 6 May and 12 May 2014 drafts were shared with Business Banking. The new policy was titled "Policy to serve non resident clients in Danske Bank Estonian Branch". It was stated that there was an "existing customer base that not fully matches the profile". Also according to the draft policy, the bank would not establish customer relationships with persons appearing on various "dark grey" or "grey" lists. It was stated that "[t]he bank must be confident that it fully understands the customer area of activity and its transaction profile", and that "[t]he bank must make sure that it fully understands ownership and beneficial owners of its business customers".

According to Baltic Banking, the Estonian FSA had been informed at a meeting on 3 October 2014 that the draft policy had not yet been adopted, but that the branch, nevertheless, had already started using the policy in practice. On 15 December 2014, the new policy was approved by Baltic Banking, including the above-mentioned statements. It was also emphasised that "[w]hen establishing customer relationship and opening an account the bank must make sure that the customer has legitimate business reasons to operate in Baltic countries or neighbouring region" (drafts included similar wording). In relation to customer onboarding and understanding the business model of the customer, it had been added that the source of funds would also have to be identified. As for existing customers, it was now stated that "[s]trategically the bank foresees winding down relationships by end of second quarter 2015".

9.4.11 *Baltic banking strategy process in 2014-2015*

A new strategy process involving the Baltic banking activities was initiated in the spring of 2014. The strategy process had been prepared within Business Banking and was discussed in the Executive Board and the Board of Directors. As appears from a presentation to the meeting of the Executive Board on 27 May 2014, three main options were considered as part of the strategy, namely "[e]xit Baltics", "[r]eposition towards a Corporate Baltic bank" (and leave out other activities), and "[o]ptimise current position". The presentation noted that "[t]he current performance will be difficult to maintain and there are a number of challenges going forward", including "limited future appetite for non-resident business". In the presentation, AML requirements were overall seen as a threat. A separate slide titled "Significant change in appetite for non-resident business will reduce net profit for the Baltic operation" provided information on the Non-Resident Portfolio, noting that it contributed "90% of the profit before tax for Estonia". The presentation made reference to the new policy prepared by the branch by stating: "Going forward only non-resident customers with a strong link to Baltic countries will be able to open an account with Danske Bank Estonia branch (details defined in non-resident policy)". The presentation also recommended as strategy which involved "a reposition towards a Corporate Baltic bank with focus on Nordic customers", including "[g]radually run-off of Non-resident business". When used for the meeting in the Board of Directors on 26 June 2014, the presentation had been changed on some points, but it was maintained that there was "limited future appetite for non-resident business", and repositioning remained the recommended strategy.

The minutes of the meeting of the Board of Directors on 26 June 2014 recorded the recommendation of "an exit of Personal Banking and off-shore business" presented by a member of the Executive Board. The minutes also state:

"[CEO] emphasised that the Baltic countries are important for many of the Bank's Nordic corporate clients and particularly the Finnish customers. Further, [CEO] found it unwise to speed up an exit strategy as this might significantly impact any sales price. Lastly, [CEO] and [name] explained the development of the Baltic countries. The preferred option would be to support Nordic corporate clients, but a closer review of the business case needed to be undertaken, concluded [CEO]."

Also according to the minutes, two members of the Board of Directors "would like to have the options analysed further with an aspect of what is the best way to get out of the Baltics and how quickly it would be possible". The Chairman concluded that "the Board was supportive of the proposed repositioning towards a corporate bank", but that "all exit options in respect of the non-resident and retail business, including a potential three-way merger, should be further explored prior to making a decision".

The continuation of the Baltic strategy process in the Board of Directors was prepared at meetings in the Executive Board. At its meeting on 7 October 2014, the Executive Board had agreed to the recommendation to investigate further options. This was subject to a number of comments, including that "[t]he process of exiting the non-resident business should continue". At the following meeting on 16 October 2014, the Executive Board had before it a memorandum from International Banking summarising the strategic options. In this memorandum, which was also shared with the Board of Directors (final version dated 21 October 2014), it was noted in relation to the Non-Resident Portfolio that "[i]n 2014 focus has been on KYC, AML and no customers have been on boarded since June 2014". Further, it was stated that "[g]oing forward the size of this segment is uncertain due to such regulation and reputational considerations, however, the winding down of relationships outside is ongoing with 30% drop in topline". A new presentation, dated 20 October 2014, was also presented to the Executive Board. It stated, in relation to "[r]eposition of Non-resident business", that going forward only customers "with strong business reasons with Baltic countries (and other detailed requirements) will be on boarded" and that "[i]mplementation of the new policy is ongoing".

The minutes of the meeting of the Board of Directors on 28 October 2014 stated that the Board of Directors "resolved to pursue the recommended repositioning strategy and advised management to cease the exploratory merger talks". On the other hand, it was suggested in a presentation before the Board of Directors that "a sale of the 'non-residential' business" to two named entities "could be worth considering". In the minutes of the meeting, it was added: "With respect to the 'non-resident' portfolio it was resolved, however, that management should continue to consider all strategy options, including a sale, and revert to the Board with a recommendation at the Board meeting in January 2015 at the latest".

In a memorandum of 22 January 2015 with the title "Execution update on Baltics" prepared for the Board of Directors, it was stated that the branch was "exiting the non-resident segment, hence, focusing only on customers with a real Baltic presence" and that "non-resident customers are being reduced as planned". According to the minutes of the meeting of the Board of Directors on 29 January 2015, a member of the Executive Board reported that "having reviewed and considered the repositioning of the non-resident business and possible alternatives, the Executive Board recommended the said repositioning". In conclusion, "the Board of Directors noted… and approved … the repositioning of the Baltics non-resident business in line with the recommendation from 28 October 2014". In Danske Bank's annual report for 2014, goodwill for the Estonian branch was written down to zero.

9.4.12 *Estonian FSA's inspections in 2014*

During 2014, the Estonian FSA conducted three inspections at the Estonian branch. Two are relevant here.

First, in March 2014, the Estonian FSA had conducted an onsite inspection into the activity of the "FIU [Financial Intelligence Unit] contact person", with the final inspection report being issued on 21 July 2014. The inspection report was translated into English as part of the Accountability Investigation. In the inspection report, the Estonian FSA found that the branch management had not ensured that each employee performed "only those tasks for which they have sufficient education, required abilities, personal qualities, experience and for which they have professional suitability".

Second, the Estonian FSA had also performed an inspection of the branch in June and July 2014, this time into performance of AML requirements. The introduction (a summary) of the draft report of 11 September 2014 was translated into English by the branch. Here, it was stated that "Danske Bank systematically established business relationships with persons in whose activities it is possible to see the simplest and most common suspicious circumstances". A number of details were given, which led to the observation that "[w]e have therefore systematically identified situations during our on-site inspection where Danske Bank's system for monitoring transactions and persons is effectively not working". In the draft report, the Estonian FSA voiced as its suspicion that at the branch "economic interests prevail over the obligation to apply enhanced due diligence measures".

When on 18 September 2014 having read the draft report from the Estonian FSA, a member of the Executive Board wrote in an internal email that "[i]t is a total and fundamental failure in doing what we should do and doing what we claim to do", and that "[t]his just even more underline the need of full clean up now". Another member of the Executive Board, who received this email, replied the same day, also asking: "Has this business been cleaned up or not?" Equally, International Banking replied the same day that "[i]f you by that mean that the business has been cleaned up, yes it has, or there is a process to clean up the portfolio".

On 24 September 2014, Group Legal shared the English summary of the draft inspection report with Group Compliance & AML. Group Legal wrote that the Estonian FSA had only commented on matters until 31 December 2013 (and therefore had not taking into account AML measures implemented during 2014). The same afternoon, an employee with Group Compliance & AML wrote that the real question was not procedures and collection of KYC data, but what use was made of the KYC data. The following day, another employee with Group Compliance & AML stated that "[t]he executive summary of the Estonian FSA letter is brutal to say the least and is close to the worst I have ever read within the AML/CTF area" and that "if just half of the executive summary is correct, then this is much more about shutting all non-domestic business down than it is about KYC procedures". The email urged that the CEO and another member of the Executive Board should be informed.

On 25 September 2014, International Banking and Baltic Banking met with the Estonian FSA regarding the draft inspection report. Another meeting took place on 3 October 2014 with only Baltic Banking participating. The Estonian FSA sent a reply to the Estonian FSA on 10 October 2014. On 13 October 2014, Group Legal sent a summary of the observations made by the Estonian FSA in the draft inspection report of 11 September 2014 and listed the Estonian branch's responses to the Estonian FSA. In general, the branch was critical towards the Estonian FSA's observations. The branch stated that it agreed with only one observation, partially agreed with six observations and rejected 28 observations. Another meeting with the Estonian branch took place on 20 October 2014 with participation from Group Compliance & AML. On 31 October 2014, the Estonian branch sent an action plan to the Estonian FSA describing how the branch would comply with the Estonian FSA's observations.

9.4.13 *Reporting to Group management in October 2014*

Leaving aside the Baltic strategy process, the Executive Board and the Audit Committee were updated on the Non-Resident Portfolio in the Estonian branch again in October 2014.

For its meeting on 7 October 2014, the Executive Board had received a draft status report from Group Internal Audit for Q3 2014, according to which the "series of actions" agreed by branch management would "be completed during the course of 2014". It was also in this report that Group Internal Audit confirmed that "[t]he allegations made by the whistleblower have all been investigated". For its meeting, the Executive Board had also received the annual Group AML report for 2014 (covering the period October 2013 to September 2014). According to the Group AML report, the Estonian FSA's draft inspection report was "very critical", and the Estonian FSA had pointed out "significant challenges regarding non-resident customers". It was added that "[t]he inspection is based on the facts as per 31 December 2013 and therefore do not take into account the work performed in 2014". The draft inspection report in itself was not provided to the Executive Board. The minutes of the meeting on 7 October 2014 briefly mentioned the following:

"The Bank has recently received a drafted report from the Estonian FSA where they point out significant challenges regarding non-resident customers. According to [name] there was no cause for panic as the findings have been addressed in the ongoing process improvement. [Name] will travel to Estonia and assist the Estonian organisation."

At its meeting on 24 October 2014, the Audit Committee had before it Group Internal Audit's status report for Q3 2014 as well as the annual Group AML report for 2014, which had also been shared in draft with the Executive Board, and also Group Legal's FSA report for Q3 2014. Both the Group AML report and the Group FSA report mentioned the draft inspection report from the Estonian FSA. It was stated in the Group FSA report that the draft inspection report included "rather harsh language from the Estonian FSA" and that "[a]ll observations have been thoroughly reviewed by the local compliance and legal teams in Estonia as well as by Group Legal together with external Estonian legal counsel".

The Audit Committee and the Board of Directors also did not receive a copy of the draft inspection report of 11 September 2014 from the Estonian FSA.

9.4.14 *Final inspection report from the Estonian FSA, December 2014*

On 12 December 2014, the Estonian FSA issued the final inspection report (the draft of which had been issued on 11 September 2014). The draft version and the final report were overall very similar and contained the same introductory paragraphs. The Estonian FSA's overall conclusion involved was further developed, as the three original concluding points had been deleted and replaced by more specific findings.

A few days later, it was agreed within Group Legal to provide the Danish FSA with information about the inspection report from the Estonian FSA. As from January 2015, the Estonian branch prepared an action plan together with Group Compliance & AML and Group Legal in response to the inspection report from the Estonian FSA. On 20 January 2015, the Estonian branch shared a draft, which outlined measures that the Estonian branch had taken or planned to take to address the Estonian FSA's observations in the inspection report. A discussion between the branch and Group resulted in a neutrally worded action plan without the legal criticism against the inspection report found in the draft. The Estonian branch sent the final action plan to the Estonian FSA on 30 January 2015. According to the action plan, the 17 critical gaps identified by the external consultancy "have all been eliminated and/or corrected by today".

9.4.15 *Concluding the customer review*

Following another postponement of the implementation date, the customer review would seem to actually have been ended by end of January 2015. In the action plan sent by the Estonian branch to the Estonian FSA on 30 January 2015, it was stated that "[a] review of the non-resident customer segment of DBEE was carried out at the same time, which resulted in the termination of business relationships with 853 non-residents customers, i.e. 23% of the non-resident customer segment". On 2 February 2015, the Estonian branch submitted to Group Internal Audit its recommendation for closure with regard to the material observation on "Documentation of due diligence on non-resident customers structured with LLPs" back from the audit report of 10 March 2014. On 9 February 2015, the Estonian FSA asked the branch about an increase in deposits from non-residents in the last quarter of 2014. In its reply of 17 February 2015, the branch referred to "the nature, capacity and seasonability of clients' businesses" and added, inter alia, that "[i]n 2014 the Bank terminated its business relations with 853 non-resident clients, 315 non-resident client business relationships out of 853 were terminated in the 4th quarter of 2014".

9.4.16 *Overview of escalation in 2014 of certain key information*

The schedule below illustrates how certain key information about the Estonian branch was escalated within Group in Copenhagen in 2014. It is non-exhaustive, but provides an overview of the escalation of five key sources of information:

Group, including some members of the Executive Board	Executive Board	Audit Committee	Board of Directors
Reports by the whistleblower in emails from December 2013 to April 2014			
All reports filed by the whistleblower were shared with employees at Group level [Section 9.4.1]	Did not receive any of the whistleblower reports In January 2014, informed about the whistleblower, including Group Internal Audit's investigation into the allegations. Informed that there was no reason for reporting to authorities [Section 9.4.1] In April 2014, given status and provided with long-form audit report dated 29 April 2014 and Group Internal Audit status report for Q1 2014. Informed of actions to address the issues to be completed in 2014 [Section 9.4.7] Informed in October 2014 that "[t]he allegations made by the whistleblower have all been investigated" [Section 9.4.13] <u>CEO</u> received same information as the Executive Board	Did not receive any of the whistleblower reports In January 2014, informed of investigation in Estonia (although not that the investigation resulted from a whistleblower report) [Section 9.4.1] In April 2014, given status and provided with long-form audit report dated 29 April 2014 and Group Internal Audit status report for Q1 2014. Informed of actions to address the issues to be completed in 2014 [Section 9.4.7] Informed in October 2014 that "[t]he allegations made by the whistleblower have all been investigated" [Section 9.4.13]	Did not receive any of the whistleblower reports No information provided at meeting in January 2014 In April 2014, given status and provided with long-form audit report dated 29 April 2014. Informed of actions to address the issues to be completed in 2014. According to minutes, orally provided with general information of "steps taken to investigate the matter [the whistleblower case] as well as the initiatives taken and planned to strengthen processes and controls with respect to AML and KYC in the Baltics" [Section 9.4.7]
Critical findings by Group Internal Audit from investigation into whistleblower allegations in January to March 2014			
Received Group Internal Audit's audit letters of 13 January and 7 February 2014 (as well as draft conclusions by email of 5 February 2014 from Group Internal Audit), and audit report of 10	Received detailed summary in Group Internal Audit's status report for Q1 2014 for meeting in April 2014 and also a summary in long-form audit report dated 29 April 2014. Informed at meeting in April that	Received detailed summary in Group Internal Audit's status report for Q1 2014 for meeting in April 2014 and also a summary in long-form audit report dated 29 April 2014. Also described in semi-annual	Received summary from Group Internal Audit in long-form audit report dated 29 April 2014 for meeting in April 2014. According to minutes, orally provided with general information of

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Group, including some members of the Executive Board	Executive Board	Audit Committee	Board of Directors
March 2014 [Sections 9.4.2 and 9.4.4]	"the appropriate steps were being taken to continue dealing with the matter in accordance with the Group's whistle blowing policy, as well as all the applicable local regulations and supervisory rules". Also described in semi-annual AML report that the Estonian branch had "initiated activities to deal with the specific findings from Group Internal Audit and [external consultancy]" [Section 9.4.7] <u>CEO</u> received email of 5 February 2014 from Group Internal Audit with draft conclusions in addition to the information received by the Executive Board [Sections 9.4.2 and 9.4.7]	AML report that the Estonian branch had "initiated activities to deal with the specific findings from Group Internal Audit and [external consultancuy]". Orally also informed by Group Internal Audit about criticism of local auditors [Section 9.4.7]	"the steps taken to investigate the matter [the whistleblower case] as well as the initiatives taken and planned to strengthen processes and controls with respect to AML and KYC in the Baltics" [Section 9.4.7]
Report by external consultancy in March and April 2014 identifying 17 critical gaps			
Received draft report of 31 March 2014 and final report of 16 April 2014 [Section 9.4.5]	Did not receive neither draft nor final report. At meeting in April 2014, informed of some of the findings [Section 9.4.7] <u>CEO</u> received same information as the Executive Board	Did not receive neither draft nor final report. Summary in semi-annual AML report for meeting in April 2014, including that, according to the external consultancy, the Estonian branch "do not have as many low impact issues as some of the peers", but "the critical gaps … are greater". It was also stated that the Estonian branch had "initiated activities to deal with the specific findings from Group Internal Audit and [external consultancy]" [Section 9.4.7]	Did not receive neither draft nor final report. According to minutes of meeting in April 2014, orally provided with general information of "the steps taken to investigate the matter [the whistleblower case] as well as the initiatives taken and planned to strengthen processes and controls with respect to AML and KYC in the Baltics" [Section 9.4.7]

Group, including some members of the Executive Board	Executive Board	Audit Committee	Board of Directors
Customer review at the Estonian Branch throughout 2014			
Received recommendations from Group Internal Audit and external consultancy about customer review in March and April 2014 as well as audit letter of 1 July 2014 and audit report of 19 June 2015 [Sections 9.4.7, 9.4.9 and 9.4.20] Customer review was overseen by members of Group [Section 9.4.6] Received audit letter of 1 July 2014 with critical comments on the ongoing customer review [Section 9.4.9]	Informed about existence of customer review at a meeting in April 2014 [Section 9.4.7] Received summary of 1 July 2014 audit letter by way of status report for Q2 2014 at meeting in July 2014 [Section 9.4.9] Informed that outstanding actions were on track by way of status report for Q3 2014 from Group Internal Audit at meeting in October 2014 [Section 9.4.13] Received long-form audit report dated 22 July 2015 at meeting in July 2015. In relation to a new audit point to be closed shortly, Group Internal Audit stated that "[t]he procedures and memos prepared for the periodical reassessment will be updated" [Section 9.4.20] <u>CEO</u> received the audit report of 19 June 2015 on 30 June 2015 in addition to the information received by the Executive Board [Section 9.4.20]	Received summary of 1 July 2014 audit letter by way of status report for Q2 2014 at meeting in July 2014 [Section 9.4.9] Informed that outstanding actions were on track by way of status report for Q3 2014 from Group Internal Audit at meeting in October 2014 [Section 9.4.13] Received long-form audit report dated 22 July 2015 at meeting in July 2015. In relation to a new audit point to be closed shortly, Group Internal Audit stated that "[t]he procedures and memos prepared for the periodical reassessment will be updated" [Section 9.4.20]	According to minutes of meeting in April 2014, orally provided with general information of "the steps taken to investigate the matter [the whistleblower case] as well as the initiatives taken and planned to strengthen processes and controls with respect to AML and KYC in the Baltics" [Section 9.4.7] No information provided at meeting in October 2014 [Section 9.4.13] Received long-form audit report dated 22 July 2015 at meeting in July 2015. In relation to a new audit point to be closed shortly, Group Internal Audit stated that "[t]he procedures and memos prepared for the periodical reassessment will be updated" [Section 9.4.20]
Estonian FSA inspection reports in September and December 2014 pointing to AML deficiencies			
Received English translation of draft report of 11 September 2014 and final report of 12 December 2014 [Sections 9.4.12 and 9.4.14]	Did not receive neither draft nor final report, but informed in October 2014, inter alia, that the Estonian FSA pointed to "significant challenges" and was "very critical". Orally told there was "no cause for panic" [Section 9.4.13]	Did not receive neither draft nor final report, but informed in October 2014, inter alia, that the draft report contained "rather harsh language from the Estonian FSA" and also informed of ongoing dialogue with the Estonian FSA [Section 9.4.13]	No information provided at meeting in October 2014 [Section 9.4.13] In January 2015, informed in Group Internal Audit's annual long-form report for 2014 that the final inspection report from December 2014 "contained critical observations" largely in

Group, including some members of the Executive Board	Executive Board	Audit Committee	Board of Directors
	In January 2015, informed in Group Internal Audit's annual long-form report for 2014 and status report for Q4 2014 that the final inspection report "contained critical observations" largely in line with issues identified by Group Internal Audit in March 2014 [Section 9.4.17] In April 2015, informed in a Group semi-annual compliance report that inspection by the Estonian FSA had led to "significant criticism", but also that Group had performed "several mitigating activities, including a significant reduction in the non-resident customer portfolio" [Section 9.4.19] CEO received same information as the Executive Board	In January 2015, informed in Group Internal Audit's annual long-form report for 2014 and status report for Q4 2014 that the final inspection report "contained critical observations" largely in line with issues identified by Group Internal Audit in March 2014 [Section 9.4.17] In April 2015, informed in a Group semi-annual compliance report that inspection by the Estonian FSA had led to "significant criticism", but also that Group had performed "several mitigating activities, including a significant reduction in the non-resident customer portfolio" [Section 9.4.19]	line with issues identified by Group Internal Audit in March 2014 [Section 9.4.17]

9.4.17 ***Reporting to Group management in January 2015***

At its meeting on 20 January 2015, the Executive Board was presented with the last report on the AML programme referred to as "Best in Class", which had been concluded at the end of 2014. Group Compliance & AML explained that all outstanding issues from the project would feed into an ongoing general AML programme. For its meeting, the Executive Board had also received Group Internal Audit's status report for Q4 2014 in draft, which would also be submitted to the Audit Committee on 26 January 2015 in a shorter version. The status report mentioned the inspection by the Estonian FSA and that the final inspection report from December 2014 "contained critical observations". At the same time, it was noted that "the largest part of the observations" were in line with the issues identified by Group Internal Audit in March 2014. The same information was included in Group Internal Audit long-form audit report on the annual report for 2014 submitted to the Audit Committee for its meeting on 26 January 2015 and to the Board of Directors for its meeting on 29 January 2015. Neither the Executive Board nor the Audit Committee or the Board of Directors received the final inspection report from the Estonian FSA.

9.4.18 *Implementation of policy to serve non-resident customers, 2015*

Implementation of the new policy to serve non-resident customers in the Non-Resident Portfolio approved in December 2014 was in operation at the beginning of 2015. It resulted in the exit of some non-resident customers. At the same time, it was clear that the new policy to serve non-resident customers was found at the branch to accommodate a sizeable Non-Resident Portfolio. According to a chart that the Estonian branch shared on 9 June 2015 with International Banking and Baltic Banking, in 2015 the number of customers had been reduced from 2,890 to 2,569 (that is, by 321). Those defined by the branch as "Run off noncore customers" were down from 508 at the beginning of 2015 to 395 by April 2015 and 358 by May 2015. At its meeting on 14 July 2015, the Executive Board was also informed by a member of the Executive Board that "[B]usiness Banking customers within the policy (customers with legitimate business reason in Estonia) have been transferred to Business Banking and the remaining 395 costumers have received a letter of termination".

9.4.19 *Regulatory sanctions in Estonia and Denmark in 2015 and 2016*

Danske Bank was met with regulatory sanctions with respect to its Estonian branch from both the Estonian FSA and the Danish FSA in 2015 and 2016, respectively.

On 18 February and 19 February 2015, the Danish FSA conducted an inspection at Danske Bank involving AML. Material relating to the Estonian branch, in the form of the inspection report from the Estonian FSA from December 2014 and also the report from the external consultancy from April 2014, had been added to the inspection after an introductory meeting on 16 January 2015, at which Group Compliance & AML had provided a "[t]imeline of critical events 2014" in the Estonian branch.

In April 2015, the Executive Board and the Audit Committee were provided with a semi-annual report from Group Compliance & AML noting that the Estonian FSA's inspection back in June and July 2014 had led to "significant criticism". The report also mentioned that Group had performed "several mitigating activities, including a significant reduction in the non-resident customer portfolio".

On 14 May 2015, the Estonian branch received a draft precept from the Estonian FSA as a result of the inspection carried out in June and July 2014. When Group was informed about the draft by branch management and received the branch's reply, Group Compliance & AML and Business Banking reacted negatively because the draft was "quite aggressive". The Estonian branch replied on 29 May 2015. According to this reply, the draft precept "primarily focused on normative process matters together with our already taken actions".

In Denmark, Danske Bank received on 19 June 2015 the first draft inspection report from the Danish FSA. Regarding Group Internal Audit's report of 10 March 2014, it was noted that (translation) "[i]t is not evident that the report was presented to the Board of Directors of the bank". Also, in the draft inspection report, the Danish FSA wrote about the Estonian branch that (translation) "the bank's risk-mitigating measures … have been totally insufficient and in violation of the local AML-rules".

At a meeting with the Estonian FSA on 19 June 2015, Danske Bank was represented by International Banking, Baltic Banking and Group Legal. At the meeting, it was agreed that Danske Bank would send a letter to the Estonian FSA, as well as the main points to be addressed in the letter, including the bank's acceptance of the conclusions of the Estonian FSA, an overview of actions taken and implementation of Group culture. In this letter, which was dated 7 July 2015, it was stated that "[t]he actions the Estonian branch has undertaken have resulted in enhanced compliance and AML processes, an upgraded organisation and has lowered the AML risk of the customer base". Also, the Estonian FSA was informed that "the Estonian branch entails exiting what internally has been referred to as non-resident business" as "all customers need to have a clear connection to the Baltics either as a business or as a resident". Moreover, the Estonian FSA was informed about a change in branch management.

For its meeting on 20 July 2015, the Audit Committee had received a memorandum of 15 July 2015 from Group Compliance & AML. The memorandum stated that the Estonian FSA's inspection was "coming to an end" and that "[t]he DFSA has been kept informed by both the Estonian FSA and the Bank around the issues and the DFSA has chosen to approach this issue from a governance point of view, questioning if the Board of Directors of Danske Bank A/S has been sufficiently informed around the situation in Estonia". With regard to the latter point, the memorandum stated that "[t]he bank believes that the Board of Directors has been kept sufficiently informed through the Audit Committee and will illustrate this on the meeting planned for in late August, in an attempt to have this last part of the inspection letter removed". According to the minutes of the meeting of the Audit Committee, a member of the committee asked management to consider "if the Audit Committee and/or the Board of Directors should receive more detailed information on the Estonia Branch's material risks in the AML area and the actions taken or contemplated in respect hereof in order to have an informed discussion".

In Estonia, the final precept was issued by the Estonian FSA on 15 July 2015. It ordered the Estonian branch to make a number of changes to its AML framework to ensure compliance. Employees at Group level prepared a neutrally worded reply of 29 September 2015.

In Denmark, there were meetings with the Danish FSA in August 2015 with discussions of the Estonian branch. For a second meeting, Group Compliance & AML had prepared a presentation titled "AML in Estonia". The presentation included a timeline of critical events in 2014 and 2015 and listed the actions taken. It was stated in the presentation that "[t]he Bank agrees that it would have been prudent to share the information from the internal audit report [of 10 March 2014] earlier than January 2015 in order to ensure the right flow of information". The Danish FSA provided a new draft report on 16 September 2015, in which the risk information was deleted, and the order was changed into a reprimand (with nearly identical wording). Describing the reprimand, the Danish FSA found (translation) "cause to reprimand the bank's board of directors for not having identified the Estonian branch's risk in the AML area, including not having determined the nature and size of the risks that the branch may assume, and for not having taken sufficiently risk-mitigating measures in this relation in accordance with local legislation". This reprimand was maintained in the final inspection report issued by the Danish FSA on 15 March 2016.

9.4.20 *Group Internal Audit in June 2015*

An audit report of 19 June 2015 addressed to the Estonian branch as well as Group was again rated "Action needed" (the worst rating out of three). In the report, Group Internal Audit acknowledged "the efforts made by the Branch's management" and noted "significant improvements in documentation as well as a real desire for management to take on board the issues raised in 2014". However, the audit report still included audit observations concerning the Non-Resident Portfolio, including the customer review which had been completed at that point in time. Among the priority 1 issues was "On-boarding process for new non-resident customers needs strengthening". Group Internal Audit found that more had to be done in implementing the policy adopted in December 2014 to serve non-resident customers, notably "the customer's areas of activity and its transactions profile". Another observation, "Periodical reassessment for high-risk non-residents needs to be improved" (priority 1), was based on a review of memos from the customer review ("clean-up process of high risk non-resident customers"). Group Internal Audit concluded that the memos did "not always include sufficiently detailed information on the scope of the activities for the customers or for identification of the underlying trading activities". In this respect, it was also noted that "[i]dentification of ultimate beneficial owners (and 'controlling interests') remains in some cases unclear". At the same time, Group Internal Audit stated that "[t]he issue raised by us regarding clean-up in 2014 has been partially addressed by the general increase in quality of documentation" and that for this reason Group Internal Audit "closed that recommendation and incorporated rest of the issue not yet resolved in a new issue in this report". Group Internal Audit was hereby referring to an audit observation in the audit report of 10 March 2014, "Documentation of due diligence on non-resident customers structured with LLPs". It was expected that the new audit observation, "Periodical reassessment for high-risk non-residents needs to be improved", would be mitigated by changing the business procedures in place. The CEO received the audit report of 19 June 2015 by email of 30 June 2015.

A long-form audit report dated 22 July 2015, which was submitted to the Executive Board, the Audit Committee and the Board of Directors for meetings in July 2015, mentioned the 19 June 2015 audit report. In relation to a new audit point to be closed shortly, Group Internal Audit stated that "[t]he procedures and memos prepared for the periodical reassessment will be updated".

9.4.21 *Termination of remaining correspondent banking relationships for clearing USD in 2015*

On 6 May 2015, Danske Bank was contacted at Group level by a correspondent bank clearing USD transactions for the Estonian branch. The correspondent bank requested that "all payments on behalf any Shell Company does not get routed" via the correspondent bank. Internally, this led Group Compliance & AML to draft a memorandum of 18 June 2015. It would seem that the matter was not processed within Danske Bank for some time and that the Estonian branch was not informed until August 2015.

On 16 July 2015, Danske Bank at Group level was approached by another correspondent bank, which cleared most USD transactions out of the Estonian branch. Internally at Danske Bank, it was stated that the correspondent bank "did not want to go into detail, but made it clear that they had found some payments that they were not comfortable with". It was voiced within Group that the correspondent bank was late in time, but Group Compliance & AML also stressed that "we should be mindful that we have a really bad case in Estonia, where … all lines of defence failed. (1st line: too much risk and not being in control, 2nd line: lack of robust monitoring and overview of SARs [suspicious activity reports]; 3rd: Green audit reports all the time until a new auditor from Group stopped by)".

Minutes of a meeting with the correspondent bank on 18 August 2015 mentioned "Moldova … as an area where we should probably look if we had clients or had clients sending money to". It seems that the Estonian branch actually did look into this after the meeting. Prior to a follow-up meeting on 2 September 2015, Danske Bank had shared with the correspondent bank a list of 30 customers that had significant USD payments in the Estonian branch. At the meeting, the correspondent bank informed Danske Bank that it had reviewed only 10 of the customers. Out of these 10 customers, the correspondent bank was not comfortable with four; another five of the customers did business with customers with which the correspondent bank was not comfortable; and one customer was "okay".

The Board of Directors was not informed about the questions asked by one of the correspondent banks in May 2015 nor about the other correspondent bank having declined to clear USD transactions out of the Non-Resident Portfolio in July 2015, which led to a termination of the correspondent banking relationship with the Estonian branch.

9.4.22 *Termination of the Non-Resident Portfolio, 2015-2016*

In the middle of 2015, the approach to the run-off of the Non-Resident Portfolio was changed. For example, in a local semi-annual compliance report covering the period March to August 2015, it was written that "by August 2015 there has been closed the accounts of approx 700 customers (~ 25 % of all non-resident customers in the International Banking Division), there is an estimation that by October 2015 approximately 2100 customer accounts shall be closed (~ 77% of all non-resident customers in the International Banking Division) and the closing of accounts will thereafter continue".

At the same time, on 17 August 2015, Group Compliance & AML produced "Short term action plan for AML review of Baltic Banking" with a view to finding out "whether the run-off of non-resident customers and adjusted business procedures are sufficient". Five focus areas were defined: "1) test of existing customers including run-off of non-residents, 2) on boarding processes, 3) monitoring setup and MI review, 4) all areas mentioned in the EFSA [Estonian FSA] precept and 5) review of other Baltic areas". Upon conclusion, Group Compliance & AML wrote that "Danske Bank Estonia has done a huge work in the AML area" and that "[m]ost notable gaps are to be found in the area of monitoring while the run-off seems well underway". According to an accompanying presentation, "[t]he run-off process is going according to plan, but the closing schedule for the coming months is quite challenging". It was noted that "[a]ccounts of 590 non-resident private persons and 1,591 non-resident companies were open as at 31 July 2015" and that "[i]t is estimated that around 120 non-resident private persons and around 70 non-resident companies will remain according to the new core customer criteria".

In its reply of 29 September 2015 to the Estonian FSA's precept, the Estonian branch compared the number of customers at the beginning of 2014 (3,743) with the number of customers end of July 2015 (2,169). It was also stated that "[d]uring the year 2015, the Branch has issued to 2261 such customers notices of terminating the business relationship with them" and that "[p]roviding that the business relationships are terminated by the deadlines specified in the notices, the serving of high-risk customers will be diminished to a significant extent by the end of 2015".

On 18 January 2016, a compliance officer with the Estonian branch had noted that "International & Private Banking Division was closed on 23.12.2015 and most of their customers relationships were ended".

At the meeting in the Board of Directors on 26 May 2016, a member of the Executive Board explained that "a thorough compliance clean-up had been performed by the Bank with respect to the former non-resident business in Estonia". Prior to the meeting, the Board of Directors had received a document of 18 May 2015 titled "Baltic banking overview and repositioning update", in which it was stated that "[t]he non-resident customer business was fully closed at the end of 2015, addressing a significant compliance and reputational risk for the Group".

9.4.23 *Group Internal Audit in October 2015 and March 2016*

The Executive Board on 20 October 2015 and the Audit Committee on 26 October 2015 had before them Group Internal Audit's status report for Q3 2015. It gave an update following the audit report of 19 June 2015. It was stated that "3 of the Priority 1 Audit Issues from the audit of AML in Estonia, reported in June 2015, have been closed by BB [Business Banking] end August or start September" and that "[i]t has been agreed with BB that GIA [Group Internal Audit] will test the implementation January 2016 to allow the actions implemented to demonstrate during Q4 that they are sustainable". According to an appendix, the observations were "[c]losed by Business Unit but not yet verified by GIA". The same information was contained in Group Internal Audit's draft status report for Q4 2015 presented to the Executive Board for its meeting on 19 January 2016 and to the Audit Committee for its meeting on 26 January 2016.

In audit letter of 16 March 2016, Group Internal Audit listed the work performed on the audit observations issued during the AML audit in Estonia reported on 19 June

2015 (including four priority 1 issues, three priority 2 issues, and one open priority 1 issue from the audit report of 10 March 2014). It was noted that "[t]he Branch has decided to exit the high-risk non-resident customers. We have been informed that very few customers still on-board will leave the Branch by 15 April 2016" and that "[w]e reviewed the sample of new customers on-boarded by the Branch in the period 1 October 2015 - 31 January 2016, including new non-resident customers and resident corporate customers. Following inspection of cases on a sample basis we are of the opinion that the Branch has improved the on-boarding process appropriately". In the conclusion, Group Internal Audit confirmed the closure of all audit observations issued as part of the audit report of 19 June 2015. The Executive Board and the Audit Committee were informed through Group Internal Audit's draft status report for Q1 2016 presented for meetings on 19 April 2016 and 26 April 2016, respectively, and information was also included in the long-form audit report dated 31 January 2017.

9.5 **Investigation**

The fourth and last phase concerns investigation into the Non-Resident Portfolio undertaken in 2017.

9.5.1 *Media coverage of the Volontè case in June 2016 and January 2017*

In June 2016, there had been news reports about a former Italian member of the Parliamentary Assembly of the Council of Europe, Luca Volontè, allegedly taking EUR 2.4 million in bribe from Azerbaijani officials in exchange for orchestrating in 2013 the defeat of a resolution on political prisoners in Azerbaijan. According to the news reports, there had been eighteen transfers on behalf of UK incorporated companies via the Estonian branch, involving four customers at the branch. These news reports, which came out of Azerbaijan, did not give rise to action within the Estonian branch, and we cannot see that they were noticed at Group level at the time. On 27 January 2017 and the following days, news reports, also in Estonia, informed that the public prosecutor in Milan had initiated a criminal case against Luca Volontè. This was then passed on to Group, including Group Compliance & AML and Group Legal and, subsequently, two members of the Executive Board.

Around this time, an informal task force involving Group Compliance & AML, Group Legal and Group Communications & Relations was established, and the task force kept the bank's CEO updated.

9.5.2 *"Russian Laundromat" and other news stories in March 2017*

The term "Russian Laundromat" had been coined in August 2014 by the Organized Crime and Corruption Reporting Project ("OCCRP"), an NGO, when first reporting on this alleged money laundering scheme. News reports back in 2014 had not been noted by Danske Bank. Three years later, on 20 March 2017, the OCCRP, together with a journalist network, which in Denmark included Berlingske, reported on the scheme. This was again based on new leaks, including banking records for the two main banks believed to be involved in the scheme. Danske Bank was informed of the upcoming news reports in advance, and information was shared with the above-mentioned task force and the CEO. On 15 March 2017, the CEO informed the Chairman of the Board, and on 16 March 2017 the full Board of Directors was informed. According to an internal memo produced on 17 March 2017, "[a]uthorities in Moldova are currently investigating allegations that 20 billion USD have been laundered and transferred from Russia into the European financial system through a complex scheme, known as the "Russian Laundromat" between 2011 and 2014". It was further noted that Danske Bank featured prominently with 1,567 transactions and a flow of approximately USD 1.2 billion.

According to minutes of the Baltic Executive Committee on 21 March 2017, the branch expressed that "[o]ur position in this case is that we acknowledge that our AML controls were insufficient in the period of 2011-2014, when the transactions took place". The "Russian Laundromat" was discussed at the meeting in the Executive Board on 28 March 2017. According to Group Legal, "at this point, no final conclusions could be drawn as data and information on the case were still being gathered", but "the Estonian branch seemed to have been misused for money laundering between 2011 and 2014".

On 24 March 2017, Berlingske contacted Group about the Estonian branch's link to allegations made by Hermitage Capital Management regarding a US civil forfeiture complaint that described payments from customers with the Estonian branch.

On 29 March 2017, the Estonian branch passed on information to Group about interest locally in matters pertaining to Azerbaijan, including dialogue with the Estonian FIU. At the same time, the Estonian branch prepared a memorandum on the "Volonte and Azerbaijan case", which on 6 April 2017 was shared with Group, including Group Legal and Group Compliance & AML. The memorandum contained an analysis of the four companies which had been mentioned in news reports. It was stated that they all had the same registered ultimate beneficial owner from Azerbaijan and that they had made transactions through the Estonian branch for a total of EUR 3 billion.

9.5.3 *Contact with the Danish FSA in April 2017*

On 21 March 2017, Danske Bank was asked by the Danish FSA to provide further information regarding the Estonian branch in relation to the "Russian Laundromat". At a meeting on 27 March 2017, Danske Bank gave a presentation on the "Russian Laundromat" and also the Non-Resident Portfolio. On 6 April 2017, the bank shared a timeline of events from 2011 to 2015 together with 121 exhibits with the Danish FSA. According to the cover letter of 6 April 2017, the timeline provided information about "Danske Bank Estonia branch's AML or KYC procedures for non-resident customers". It was explained that "a subjective assessment has been carried out to determine which materials to include as relevant" and that "the bank will provide further documentation upon Finanstilsynet's request to the extent such documentation is available".

9.5.4 *Reporting to Group management in April 2017*

At the meeting in the Executive Board on 18 April 2017, there were continued discussions about the ”Russian Laundromat". Reporting to the Executive Board mentioned “the Estonian case". Group Compliance & AML wrote that ”[i]n countries where the bank operates on separate IT systems not connected to the central IT platform, this [that is, strong AML controls] becomes a challenge, as development of transaction monitoring scenarios needs to be done locally".

For its meeting on 27 April 2017, the Board of Directors was updated on “the Estonian AML case", including “next steps" in the case.

9.5.5 *Examination of bond loop, April-August 2017*

Between April and August 2017, the task force established by Danske Bank examined the past scheme in the Estonian branch involving customers in the Non-Resident Portfolio, not least the so-called intermediaries. The scheme was referred to as the “solution" or the “bond loop". No conclusions were reached at this time.

9.5.6 *Root-cause analysis by Promontory, March-April and June-August 2017*

On 20 March 2017, the same day as media coverage on the ”Russian Laundromat" broke, Group Compliance & AML informed a member of the Executive Board that it had realised that a small number of the Estonian customers accounted for a significant part of the volume of transactions. This led to the engagement of Promontory, who was, following discussions between Group Compliance & AML and the CEO, tasked with conducting a “root-cause analysis" through a Danish law firm (not Bruun & Hjejle).

The results of the root-cause analysis were presented by Promontory to Group Compliance & AML on 7 June 2017 and to the CEO on 9 June 2017. The same presentation was shared with the Executive Board for its meeting on 20 June 2017. The Board of Directors was presented with a shorter version of Promontory's report at its meeting on 31 August 2017.

In a press release of 21 September 2017, Danske Bank informed the public about the findings by Promontory concluding that “several major deficiencies led to the branch not being sufficiently effective in preventing it from potentially being used for money laundering in the period from 2007 to 2015".

9.5.7 *French proceedings, June and October 2017*

On 19 June 2017, Danske Bank was informed by a French investigating judge that he envisaged to place the bank under formal investigation, and the bank later appeared before the High Court of Paris. This was in connection with allegations made by Hermitage Capital Management. On 11 October 2017, Danske Bank was placed under investigation in France in relation to suspicions of money laundering concerning transactions carried out by customers of Danske Bank Estonia from 2008 to 2011. However, in January 2018, the status of Danske Bank was changed to that of an “assisted witness", whereby Danske Bank was no longer under formal investigation.

9.5.8 *"Azerbaijani laundromat", September 2017*

The minutes of the meeting in the Board of Directors on 31 August 2017 recorded that, when going through the presentation on Promontory's root-cause analysis, Group Compliance & AML informed the Board of Directors that "a new set of stories relating to the Azerbaijan part of the portfolio was expected to hit the media next week". The Executive Board had received similar information at its meeting on 29 August 2017.

This scheme was named the "Azerbaijani Laundromat" by the media and was subject to global media attention in the beginning of September 2017. The scheme was, similar to the "Russian Laundromat", uncovered by the joint investigation, including both the OCCRP and Berlingske, through leaked banking records. The scheme was active in the period from 2012 through to 2014. Allegedly, USD 2.9 billion were laundered by four shell companies which were customers of Danske Bank's Estonian branch and registered in the UK.

9.5.9 *Communication with the Danish FSA in the second half of 2017*

On 25 September 2017, following renewed interest after media coverage of the "Azerbaijani Laundromat", the Danish FSA presented Danske Bank with a number of questions. The questions regarded, among other things, Danske Bank's lack of notification to the Danish FSA, the transactions initiated from Azerbaijan, Danske Bank's review of the activities and general risk managing. In its reply of 16 October 2017, the bank provided an overview of the course of events throughout 2017, previous correspondence with not least the Estonian FSA and the expanded investigation. The bank also shared Promontory's presentation from June 2017. The reply contained a section titled "[t]he bank is requested to account for cases currently known or under suspicion that may involve money laundering or other incriminating activities". Here, the reply mentioned, among other things, "The Russian Laundromat Case and Azerbaijan Matter". The bond loop was not mentioned. As for the "Azerbaijan Matter", or the "Azerbaijani Laundromat", the Danish FSA had not previously been informed. In the reply, it was stated that "[w]e recognise that we should have informed the DFSA of the information in relation to the Azerbaijan Matter earlier, in order to maintain a high degree of transparency and ensure sufficient time for the DFSA to react and respond".

In early November 2017, Danske Bank was made aware that the bond loop, not least involving the so-called intermediaries, would become subject to media coverage. At this point in time, the memorandum prepared by the Finnish law firm was shared with the CEO and with the Chairman of the Board of Directors and, subsequently, with the Danish FSA, which had not previously been informed about the bond loop.

10. Individual accountability

10.1 Introduction

In legal terminology, accountability translates into breach of or non-compliance with legal obligations and responsibilities. Our assessments of individual accountability are legal assessments under Danish law and, where relevant, also Estonian law. In consequence, each assessment is based on legal rules and standards and, more specifically, the legal obligations and responsibilities to which the individual in question was subject at the relevant time. Legal assessments in an investigation report are neither judgments rendered by a court of law nor decisions from a financial supervisory authority. Also, they are to be distinguished from discretionary decisions by management, which might involve other and possibly also more elements than is the case for legal assessments.

Generally, employment contracts and employment law form the lowest threshold for accountability in law, and we have used employment contracts and employment law as the basis for our assessment (with the exception of members of the Board of Directors). When in our assessments we find that an employee, including a member of the Executive Board, has not complied with legal obligations, this should be understood, unless otherwise stated, as a reference to the employee's obligations and responsibilities forming part of his or her employment with Danske Bank at the relevant time. Whether such non-compliance may result in employment-related sanctions depends on the specific circumstances of the non-compliance and other relevant circumstances, including any aggravating or mitigating circumstances as well as possible acquiescence.

Being a member of the Board of Directors does not constitute an employer/employee relationship. Board members' duties are laid down in statutory law and the internal procedures of the financial institution.

With regard to both the Board of Directors and the Executive Board, we note that in its decision of 3 May 2018 concerning this matter, the Danish FSA wrote (translation):

"The Board of Directors and the Executive Board have stated that when assessing the Board of Directors' and the Executive Board's work and the volume of written material that the members of the two boards receive, it should be taken into consideration that the branch in Estonia accounts for only a small part of the total business and total risks. They have argued that because of this, management must to a large degree rely on the defence systems in place to function. When information about the business and the effectiveness of defence systems of a worrying nature comes to light, management attention must, however, increase."

10.2 Overview

We have found that a number of former and current employees in leading positions have not complied with their legal obligations under their employment terms and contracts with Danske Bank.

It is clear that AML procedures at the Estonian branch had been manifestly insufficient and inadequate, including, inter alia, lack of identification of "controlling interests" of customers, lack of screening of customers, and lack of independence and possible internal collusion in the Estonian branch. The main responsibility for these shortcomings lies with the first line of defence at the Estonian branch. Accordingly, we have found numerous breaches of legal obligations in the Estonian branch. Elsewhere in Group, we have found breaches of legal obligations with respect to a number of more specific matters as listed below.

In 2007, 2012 and 2013, the Danish FSA requested information from Group about the Non-Resident Portfolio at the Estonian branch. In response, Group provided comforting information also including AML procedures at the Estonian branch. The reply from 2007 in response to information from the Russian Central Bank gives rise to particular criticism as, in its reply in 2007, Danske Bank stated that a recent inspection by the Estonian FSA had not given rise to "any material observations". It would have been more correct to conclude the opposite. Danske Bank's replies to the Danish FSA in 2012 and 2013 were based on information from branch management, which in 2014 proved to be incorrect. Both in 2012 and 2013, Group did not question or verify whether the information provided by branch was in fact correct, even though it was clear that the Estonian FSA had its concerns.

In 2011, 2012 and 2013, Group Internal Audit produced positive audit reports on the AML area at the Estonian branch. At the same time, and only partly with reference to the audit reports, different departments at Group level forwarded positive statements regarding the Non-Resident Portfolio. As a whole, there was a complete break-down in all three lines of defence. The lack of involvement from Group meant that the Estonian branch was left on its own, and that Group did not have sufficient oversight of the activities at the branch. This was further impaired by the lack of migration of the Baltics branches onto the Group IT platform.

Following the whistleblower report of 27 December 2013 and Group Internal Audit's audit letters of 13 January and 7 February 2014, it was clear that actions were needed, and certain initiatives were taken through the working group set up by Group. Many of the action points defined by the working group were sound, but actions taken turned out to be insufficient with a number of processes not brought to an end.

For one thing, the whistleblower allegations were not properly investigated, concluded and reported upon.

Moreover, the Danish FSA was not informed until January 2015 about the fact that information provided to the Danish FSA in 2012 and 2013 (leaving aside 2007) had proven to be incorrect.

Branch management had provided information about "resilient" AML procedures prior to 2014, which turned out to be flatly wrong. Yet, in 2014 no steps were taken against the branch management.

The customer review within the Estonian branch in 2014 was organised in an inadequate and inefficient manner with insufficient oversight from Group, and it did not include the look-back into past customer activity that the situation called for.

The Non-Resident Portfolio was terminated only at the end of 2015 (with the last accounts being closed in early 2016), and, for the first half of 2015, the Estonian branch actually planned to maintain the majority of the customers in the Non-Resident Portfolio.

We note that the presence of a severe AML risk had been acknowledged by one department at Group level, but no appropriate steps were taken to assess and mitigate the risk. We also note that, irrespective of a legal obligation to look back into past customers and their transactions and trading activities, this had neither been explored by Group nor advised upon.

In early 2017, Group was gathering information following media reports on the "Russian Laundromat", but no reporting was made until later in 2017 on what was subsequently referred to as the "Azerbaijani Laundromat" nor on the bond loop.

The above findings have given rise to criticism of Baltic Banking, Group Legal, Group Compliance & AML, Group Internal Audit, Business Banking and International Banking (established in April 2014). Not all assessments contain criticism, and, for those which do, the criticism varies in degree. At the same time, we note that the individual assessments point out mitigating factors where any such have been found.

We are not in a position to share individual assessments unless requested by the individual in question. We have been requested by the Board of Directors, the Chairman and the CEO to share their assessments.

10.3 **Board of Directors**

The Board of Directors is entrusted with the overall and strategic management of Danske Bank. The Board of Directors must ensure proper governance, which includes determining the bank's risk profile, laying down policies for how the bank must control its significant activities and risks related thereto and assessing whether the Executive Board performs its duties appropriately, pursuant to sections 70 and 71 of the Financial Business Act and the Executive Order on Management and Control of Banks, etc. Further, the Board of Directors and its Audit Committee have governance and supervisory duties, which include compliance and AML. These duties are also reflected in the Rules of Procedure of Danske Bank's Board of Directors, which include responsibility for monitoring compliance and risk management. The Board of Directors is dependent on adequate reporting from the Executive Board and others, including Group Compliance & AML and Group Internal Audit, although obviously the Board of Directors may and sometimes must request information. The Board of Directors is expected to scrutinise reporting and to challenge, where appropriate.

Our assessment of the Board of Directors is based on all information available to us taken as a whole.

At its meeting on 7 August 2007, the Board of Directors was informed about the Russian Central Bank's letter of 8 June 2007 to the Danish FSA, which had been forwarded to the bank for comments. According to our information, the Board of Directors did not subsequently receive any update, and the Board of Directors was not given a copy of the bank's reply of 27 August 2007 to the Danish FSA. This took place eleven years ago and must be assessed on the basis of standards then applicable. We do not find any basis for criticising the 2007 Board of Directors for leaving it with the Executive Board and Group Internal Audit to come back if there were any negative findings.

We cannot see that the Board of Directors received information about the inspection reports from the Estonian FSA from 2007 and 2009 or the terminations of correspondent banking relationships with the Estonian branch in 2013 and 2015.

In 2011 to 2013, the Board of Directors received scattered information about the Estonian branch, including, through a presentation given at its meeting on 5 May 2011, information about high profitability, including that the return on equity ("ROE") before loan losses for the Estonian branch had increased from 45 % in 2007 to 58 % in 2010. In 2012, the Board of Directors received information, through Group Compliance & AML's report for 2012, about the Danish FSA's inquiry into the Estonian branch and about the bank's reply in which it was stated that "the due diligence and monitoring procedures are adjusted to mitigate the risk involved". In 2013, the Board of Directors was, through Group Compliance & AML's report on AML for 2013, informed about the Danish FSA's renewed inquiry into the Estonian branch, including that it was stated in the report that "the CDD [Customer Due Diligence] and monitoring procedures have been prepared to mitigate the risk involved" and that "[t]he Estonian FSA has confirmed that the CDD and monitoring procedures are appropriate". Group Compliance & AML gave the Board of Directors the same comfort as it had given the Danish FSA. There were also pieces of information that were not comforting, in particular about lack of monitoring of incoming payments, but Group Compliance & AML was not disturbed. Having regard to the full picture before the Board of Directors and the Audit Committee and also to other AML matters on the agenda, we find no basis for criticism of the Board of Directors in relation to events before 2014.

In 2014, the Board of Directors and notably the Audit Committee were presented with a completely different picture of AML risks in the Estonian branch. It was made clear that previous reporting had been insufficient and incorrect.

The whistleblower reports were not shared with the Board of Directors, but information about the existence of a whistleblower from within the Estonian branch was shared with the Audit Committee and the Board of Directors at meetings on 28 April and 29 April 2014, respectively. At its meeting on 24 October 2014, the Audit Committee had before it Group Internal Audit's status report for Q3 2014, according to which "the allegations made by the whistleblower have all been investigated".

The Audit Committee received some information about the external consultancy report from April 2014 through reporting from Group Compliance & AML. For its meeting on 28 April 2014, the Audit Committee had received a brief summary in the semi-annual AML report, according to which the Estonian branch did "not have as many low impact issues as some of the peers", but that "the critical gaps … are greater than is seen in other banks in the region". In the next AML report submitted to the Audit Committee for its meeting on 24 October 2014, it was noted in relation to the external consultancy report that "[t]he recommendations are expected to be closed before the end of 2014".

As to the customer review in the Estonian branch initiated in April 2014, the Audit Committee was briefly informed by Group Internal Audit at its meeting on 21 July 2014. Group Internal Audit also made the Audit Committee aware that it was following the review with a view to securing quality.

The Board of Directors and the Audit Committee did not receive the 2014 inspection report from the Estonian FSA, but some information was provided. At its meeting on 24 October 2014, the Audit Committee was briefly informed about the draft inspection report received in September 2014, as it was mentioned in both the FSA Report for Q3 2014 from Group Legal and the annual AML report from Group Compliance & AML. According to Group Legal's FSA report for Q3 2014, the observations had been "thoroughly reviewed by the local compliance and legal teams in Estonia as well as by Group Legal together with external Estonian legal counsel". Also, Group Compliance & AML wrote in its annual Group AML report for 2014 that "[t]he inspection is based on the facts as per 31 December 2013 and therefore do not take into account the work performed in 2014". At its meeting on 23 April 2015, the Audit Committee had before it the semi-annual report from Group Compliance & AML, according to which "[t]he investigation has led to significant criticism from the Estonian FSA", and there was mentioning of "several mitigating activities, including a significant reduction in the non-resident customer portfolio".

In sum, it is clear that problems were reported to the Board of Directors and the Audit Committee, and it is equally clear that such reporting was accompanied by assurances that problems were being dealt with and mitigation was ongoing. This information came from within the bank where the severity of the situation and the risks facing the bank had not been comprehended, and this affected the reporting. In hindsight, the question may be raised whether the Board of Directors or the Audit Committee could reasonably have done more. This, however, would not, in our view, form sufficient basis for legal criticism when taking into account the information available combined with the nature and extent of the responsibilities of the Board of Directors.

The Baltic banking strategy process in the second half of 2014 stands out as an important occasion for the Board of Directors to discuss the Baltic banking activities. The discussions concerned fundamental business issues and were not limited to the Non-Resident Portfolio. The Non-Resident Portfolio made a significant contribution to profits in the Baltics and, although this accounted only for an insignificant part of Danske Bank's earnings, one could have expected this to be of note in a business discussion confined to the Baltics. On the other hand, the discussions were premised on what was referred to as "limited future appetite for non-resident business", and there was no suggestion throughout the strategy process that the Non-Resident Portfolio should stay with the bank. There was a suggestion by management to sell the portfolio, rather than just terminating it, and two specific potential buyers were mentioned; something that confirms that the severity of the situation had not been realised. During the eight months the strategy process lasted, the bank continued reviewing and reducing the Non-Resident Portfolio through implementation of a new branch policy.

Leaving aside supervision, we have considered whether Danske Bank's governance model suffered from defects which constitute a breach of legal obligations on the part of the Board of Directors, also having regard to the Danish FSA's decisions of 15 March 2016 and 3 May 2018. As set out in the Financial Business Act, it is for the Board of Directors to ensure that there is, inter alia, a clear organisational structure with a well-defined, transparent and consistent division of responsibilities, effective procedures to identify, manage, monitor and report risks, and sufficient resources. We find that, in general terms, the responsibilities have been adequately reflected in the Rules of Procedure of the Board of Directors and the Rules of Procedure of the Executive Board (as approved by the Board of Directors). Further, we find that Danske Bank's failings in connection with the Non-Resident Portfolio cannot be attributed to failings in governance at the level of the Board of Directors.

In conclusion, we find that neither the Board of Directors nor the Audit Committee breached any legal obligations due to actions or inactions relating to the Estonian branch. In light of this, we have not found it necessary to make any separate assessments of the members of the Board of Directors other than the Chairman. We further note that we have not become aware of facts which raise questions as to the fitness and propriety of members of Danske Bank's Board of Directors.

10.4 Chairman of the Board of Directors

Given the special role of the Chairman of the Board of Directors, we have separately assessed Ole Andersen, who joined the Board of Directors on 23 March 2010 and was appointed Chairman in December 2011.

Our assessment of Ole Andersen is based on all information available to us taken as a whole.

On 18 and 19 August 2014, Ole Andersen visited the Baltics together with International Banking. They paid visits to both the Lithuanian and the Estonian branches. A presentation of 12 slides prepared by the Estonian branch included a slide providing information about the Non-Resident Portfolio. While the portfolio was described as "highly profitable", there was no mentioning of AML issues.

Ole Andersen was informed by Thomas Borgen of the "Russian Laundromat" on 15 March 2017, and the Board of Directors was informed on 16 March 2017. According to the bank's reply to the Danish FSA on 16 October 2017, Ole Andersen was subsequently updated by Thomas Borgen on a weekly basis.

On 25 September 2017, the Danish FSA requested information in connection with the media coverage on the "Azerbaijani Laundromat". Previously, on 6 April 2017, the Danish FSA had received a timeline from Danske Bank together with a large number of exhibits. The bank replied on 16 October 2017. Ole Andersen had provided comments on a final draft of the reply.

In early November 2017, Ole Andersen became aware that the Board of Directors and the Executive Board had not been informed about the fact that the bank had engaged a Finnish law firm or about the underlying concern in respect of a past scheme in the Estonian branch involving non-resident customers (intermediaries), referred to as the bond loop. Ole Andersen took the initiative to call for an extraordinary meeting of the Audit Committee on 12 November 2017, at which he expressed criticism. At the same meeting, it was decided to initiate the planning of the investigation later referred to as the Accountability Investigation.

In conclusion, and taking into account what has also been stated in our assessment of the Board of Directors, we find that Ole Andersen has not breached his legal obligations as Chairman of Danske Bank's Board of Directors. Nor have we become aware of facts which raise questions as to his fitness and propriety as Chairman.

10.5 Chief Executive Officer

In September 2009, Thomas Borgen joined Danske Bank's Executive Board. His areas of responsibility included the Baltic banking activities until June 2012. From June 2012 to September 2013, Thomas Borgen was Head of Corporates & Institutions. On 16 September 2013, Thomas Borgen was appointed CEO, which includes supervisory obligations over day-to-day management at the bank. Each member of the Executive Board is responsible for his or her areas of responsibility, subject to the CEO's oversight. According to its Rules of Procedure (October 2013 version), the Executive Board shall ensure "that the organizational structure … is robust and transparent and has effective lines of communication and reporting" and "that Danske Bank complies with all applicable governance requirements and that Danske Bank satisfies all local governance standards, including relevant reporting requirements". Also, "[t]he Executive Board is responsible for ensuring that Danske Bank has adequate procedures ensuring compliance with applicable anti-money laundering and similar requirements".

Our assessment of Thomas Borgen is based on all information available to us taken as a whole.

From September 2009 until June 2012, Thomas Borgen had the ultimate executive responsibility for the Estonian branch. We do not have as much information from this period as for later periods. According to an email from February 2010 between other employees with the bank, Thomas Borgen took an interest in the Non-Resident Portfolio and its profitability. According to the email, Thomas Borgen had pointed to the possibility of expanding slowly, but it had also been clear that such expansion should not be at the cost of AML.

In March 2010, concern was raised at a meeting in the Executive Board about the many Russian transactions to which Thomas Borgen said that he had not (translation) "come across anything that could give rise to concern". We do not have information about Thomas Borgen's basis for this statement. At the meeting of the Executive Board on 21 September 2010, Thomas Borgen himself brought up the Non-Resident Portfolio again. According to the minutes, other relevant employees replied to Thomas Borgen that they were "comfortable with the situation in Estonia with substantial Russian deposits".

From September 2009 until June 2012, when ultimate executive responsibility for the Estonian branch was transferred to the Head of Business Banking, discussions at Group level involving Thomas Borgen included both the profitability of the Non-Resident Portfolio and the importance of AML. In this period, there were no red flags shared with Thomas Borgen, and we do not find that Thomas Borgen breached his legal obligations as member of the Executive Board with ultimate responsibility for the Estonian branch.

When Thomas Borgen was appointed CEO, Danske Bank was about to encounter a complex challenge for which it was not sufficiently prepared and staffed, namely the manifestly insufficient and inadequate AML failings surrounding the Estonian branch. We find that there was little Thomas Borgen could have done during his early tenure as CEO to change the bank's readiness in any way that could have impacted the situation.

In October 2013, another member of the Executive Board provided information about the business review of the Non-Resident Portfolio and said that "the proportion of business needed to be reviewed and potentially reduced". Thomas Borgen referred to "the need for a middle ground". Thomas Borgen has explained that he does not recall which "middle ground" he was referring to, and we have found no further information about this. The business review was not concluded before it was overtaken by events arising out of the whistleblower report in late December 2013 and the subsequent findings made by Group Internal Audit. On 5 February 2014, following Group Internal Audit's initial findings, Thomas Borgen recommended an immediate stop of all new business and a controlled close-down of existing transactions. In April 2014, Thomas Borgen asked for an AML action plan for the Baltics, which was later produced and implemented.

It is in line with the division of responsibilities that, as CEO, Thomas Borgen was only to a limited extent directly involved in investigations and discussions about the handling of the whistleblower and the Non-Resident Portfolio. The information provided to Thomas Borgen suggested that Business Banking was gaining control of the Non-Resident Portfolio and that the risks were handled appropriately.

While, in the second half of 2014, the Baltic banking strategy process was ongoing in the Board of Directors, the Executive Board was aware that the process of exiting non-resident business in the Estonian branch continued in accordance with a new policy for serving non-resident customers. Moreover, the whole Baltic banking strategy process was premised on what was referred to as "limited future appetite for non-resident business", and there was no suggestion throughout the strategy process that the Non-Resident Portfolio should stay with the bank. At the meeting of the Board of Directors on 26 June 2014, Thomas Borgen recommended not "to speed up an exit strategy as this might significantly impact any sales price". Context suggests that this was related to the Baltic banking activities in general.

Information sharing with the Board of Directors forms a separate issue of particular interest to the CEO. We have reviewed a number of incidents without finding basis for concluding that insufficient information was shared due to the Board of Directors' conduct. While it is well-documented what the Board of Directors received in written form, we have found that minutes of meetings in the Board of Directors and also the Executive Board do not provide sufficient basis for concluding what additional information was actually shared orally. An incident that stands out is the alarming draft conclusions from Group Internal Audit, which were shared with Thomas Borgen on 5 February 2014. These were not shared verbatim with the Board of Directors. We note that in time for meetings of the Audit Committee on 28 April 2014 and of the Board of Directors on 29 April 2014, Group Internal Audit itself shared a rather detailed written summary of findings. Group Internal Audit reported directly to the Board of Directors and was generally in the best position to assess the relevancy of its own findings.

In our view, Thomas Borgen could have taken a more active role in setting the overall standard and direction by making sure that relevant issues were thoroughly debated, that investigation results were properly documented, that presentations and materials were adequately reflected in minutes, etc. To a large extent, a CEO is entitled to assume that those reporting to him have proper basis for their reporting, and also that they direct him to matters for his attention.

Taken as a whole and for the reasons stated above, we find that Thomas Borgen did not breach the legal obligations forming part of his employment with the bank as CEO from September 2013 until 2017.

We note that when, in 2017, critical information about the Non-Resident Portfolio was made subject to public scrutiny, Thomas Borgen as CEO assumed a leading role. Thomas Borgen was in regular contact with Group Compliance & AML and the internal task force formed in relation to the media reports concerning the Estonian branch. There is little written material about what information Thomas Borgen received from the internal task force reporting directly to him. Ultimately, Thomas Borgen was instrumental in the decision to initiate the full investigations into the Estonian branch and the involvement of people at Group level. In conclusion, we find that Thomas Borgen did not breach the legal obligations forming part of his employment with the bank as CEO in 2017 either.

We do not find that the facts summarised above raise questions as to Thomas Borgen's fitness and propriety as CEO of Danske Bank. In its decision of 3 May 2018, the Danish FSA stated that based on the information available it had not found sufficient basis for launching cases against members of the current management in accordance with the fitness and propriety regulation.

11. Definitions and abbreviations

Definition or abbreviation	Meaning
AML	Anti-Money Laundering
Bruun & Hjejle	Bruun & Hjejle Advokatpartnerselskab
CDD	Customer Due Diligence
CERTA	CERTA Intelligence & Security A/S
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIS	Commonwealth of Independent States
Danske Bank	Danske Bank A/S
FIU	Financial Intelligence Unit
FSA	Financial Supervisory Authority
FX lines	Foreign exchange lines
Group	Danske Bank Group (as distinct from the Estonian branch)
Group Internal Audit	Danske Bank's third line of defence, until 2015 referred to as "Internal Audit"
KYC	Know Your Customer
LLP	Limited Liability Partnership
LP	Limited Partnership
MLTFPA	Money Laundering and Terrorist Financing Prevention Act
OCCRP	Organized Crime and Corruption Reporting Project (an NGO)
Palantir	Palantir Technologies Inc.
Promontory	Promontory Financial Group, LLC
Non-Resident Portfolio	The portfolio of non-resident customers in Danske Bank's Estonian branch
ROE	Return on Equity
SAR	Suspicious activity report
Third AML Directive	EU Directive 2005/60

Bilaga - Skäligen misstänkt

Myndighet
Ekobrottsmyndigheten

Enhet	Diarienr
Stockholm FMK	9000-K822-19

Skäligen misstänkt person	Identifierad	Anledning	Personnr
Bonnesen, Birgitte	Nej		19560518-1824

Personalia och dagsbotsuppgift

Utskriftsdatum
2021-12-16

Namn	Personnummer
Bonnesen, Birgitte	19560518-1824

Tilltalsnamn	Kallas för	Öknamn	Kön
			Kvinna

Födelseförsamling	Födelselän	Födelseort utland
		Odder

Medborgarskap	Hemvistland	Telefonnr
Danmark		0708150490: Mobiltelefon

Adress
Lyngsåsa 11 LGH 1001
137 70 Dalarö

Folkbokföringsort	Senast kontrollerad mot folkbokföring
Dalarö	2021-12-16

Föräldrars/Vårdnadshavares namn och adress (beträffande den som inte fyllt 20 år)

Utbildning

Yrke / Titel

Arbetsgivare

Telefonnr

Anställning (nuvarande och tidigare)

Arbetsförhet och hälsotillstånd

Kompletterande uppgifter

Uppgiven inkomst

Bidrag

Hemmavarande barn under 18 år

Försörjningsplikt

Skulder

Förmögenhet

Kontroll utförd

Taxerad inkomst	Taxeringsår
13114400	2020

Taxeringskontroll utförd av	Datum
Insp Ann-Christin Sandén	2021-01-28

Underrättelse/Delgivning jml RB 23:18a

Myndighet
Ekobrottsmyndigheten

Enhet
Stockholm FMK

Ärende

Diarienr	Handläggare
9000-K822-19	Sandén, Ann-Christin

Gärning
Grovt svindleri alt Grov marknadsmanipulation

Berörd person

Personnr	Efternamn		Förnamn
19560518-1824	Bonnesen		Birgitte
Underrättelse utsänd	**Yttrande senast**	**Underrättelse slutförd**	**Delgiven info. om ev. förenklad delgivning**
2021-01-29	2021-12-03	2021-02-01	

Underrättelsesätt
Skickad per mejl och post samt överlämnad hos advokatbyrån.

Notering
2021-01-29 Underrättelse skickad per post och mejl.
2021-02-01 Huvudprot och protokollbil överl enl ök hos advokatbyrån, papperskopior och digitalt (usb). Yttrande senast 2021-03-31.
2021-03-31 Begäran om förlängt rådrum till 2021-05-31.

Datum
2021-12-03

Erinran
2021-05-31 Begäran om komplettering inkom. Se tilläggsprotokoll A med begärda handlingar.
Yttrande senast 2021-11-01. Yttrandet förlängt tom 2021-12-03.
Yttrande över förundersökningen inkom 2021-12-03.

Försvarare

Namn
Per E Samuelson

Underrättelse utsänd	Yttrande senast	Underrättelse slutförd
2021-01-29	2021-12-03	2021-02-01

Underrättelsesätt
Skickad per mejl och post samt överlämnad hos advokatbyrån.

Notering
2021-01-29 Underrättelse skickad per post och mejl.
2021-02-01 Huvudprot och protokollbil överl enl ök hos advokatbyrån, papperskopior och digitalt (usb). Yttrande senast 2021-03-31.
2021-03-31 Begäran om förlängt rådrum till 2021-05-31.

Datum
2021-12-03

Erinran
2021-05-31 Begäran om komplettering inkom. Se tilläggsprotokoll A med begärda handlingar.
Yttrande senast 2021-11-01. Yttrandet förlängt tom 2021-12-03.
Yttrande över förundersökningen inkom 2021-12-03.

Involverade personer i protokoll

Upprättad enligt bestämmelserna i 21§ 3st och 21a§ förundersökningskungörelsen (1947:948)