
5. LIQUIDITY RISK

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5.1 Definition

Liquidity risk is defined as the risk of losses because

- the Group's funding costs increase disproportionately
- lack of funding prevents the Group from establishing new business
- lack of funding will ultimately prevent the Group from meeting its obligations

5.2 Control and management

Taking on liquidity risks is an integral part of the Group's business strategy.

Policies define the amount of liquidity risk that the Group wishes to accept. The All Risk Committee has set limits for liquidity risks which are calculated separately for Danish kroner and other currencies. Danske Markets is responsible for ensuring that the Group observes the operational liquidity risk limits. The Group has implemented contingency plans to ensure that it is ready to respond to unfavourable liquidity situations.

In calculating liquidity risks, the Group excludes Realkredit Danmark and Danica. At Realkredit Danmark, the financing of mortgage loans by listed mortgage bonds with identical conditions has, in all material respects, eliminated the liquidity risk. Danica's balance sheet contains long-term contributions and assets of which a large part is invested in liquid listed bonds and easily marketable shares. As both companies are subject to statutory limits for exposures to and from Danske Bank A/S, their liquidity is not included in Group level liquidity management.

At the Group level, liquidity management is based on monitoring and management of the Group's short-term and long-term liquidity risks and builds on the following themes:

Operational liquidity risk	Liquidity stress testing	12-month liquidity	Structural liquidity risk
Ensuring that the short-term liquidity position is positive	Calculating potential liquidity gaps in various scenarios and identifying the means to close such gaps	Monitoring the liquidity position over 12 months in case of lack of access to capital markets	Input for long-term liquidity planning; ensuring diversification of funding

5.2.1 Operational liquidity risk

The management of the Group's operational liquidity risk aims primarily at ensuring that the Group always has a liquidity buffer that is able, in the short term, to absorb the net effects of current transactions and expected changes in liquidity. For liquidity management purposes, the Group distinguishes between liquidity in Danish kroner and liquidity in other currencies.

Liquidity is calculated on the basis of known future receipts and payments under current transactions. The Group's holdings of liquid bonds are taken into account. In addition, the calculation includes estimated effects on the Danish kroner liquidity of the Danish Government's receipts and payments. The effect of irrevocable loan commitments is also included to ensure that the current liquidity management takes account of the potential risk of drawings under such commitments.

The Group uses limits to manage operational liquidity risk. Separate limits are set for liquidity in foreign currencies.

Danske Bank's strong position on the Danish market results in a large deposit surplus that is a valuable and stable source of funding. To track the trend in the Group's liquidity position on the Danish market, the Asset/Liability Committee has defined a number of targets to be monitored as part of the management of the operational liquidity risk.

5.2.2 Liquidity stress testing

The Group conducts stress tests to measure its immediate liquidity risk and to ensure that it has a certain amount of time to respond to potential crises. The tests estimate liquidity risk in various scenarios.

The Group's scenario analyses involve both Group-specific and general market crises.

The analyses are based on the assumption that the Group's lending activities are not reduced. This means that existing lending activities are maintained and require funding. The unattached part of the bond portfolio is considered liquid.

The degree of possible refinancing will vary depending on the scenario in question. For example, the Group's opportunities for issuing commercial paper will be more limited in a scenario where Danske Bank's short-term rating is downgraded than in a scenario with a mild recession.

Liquidity stress testing should be seen in the context of the Group's overall liquidity preparedness. Its considerable holdings of liquid bonds are a key element. Most of the Group's bond holdings (91% at the end of 2007) may be used as collateral for loan facilities with central banks.

The Group monitors the distribution of funding sources by product, currency, maturity and counterparty to ensure that it has the funding base that provides the best possible protection if markets come under pressure.

5.2.3 12-month liquidity

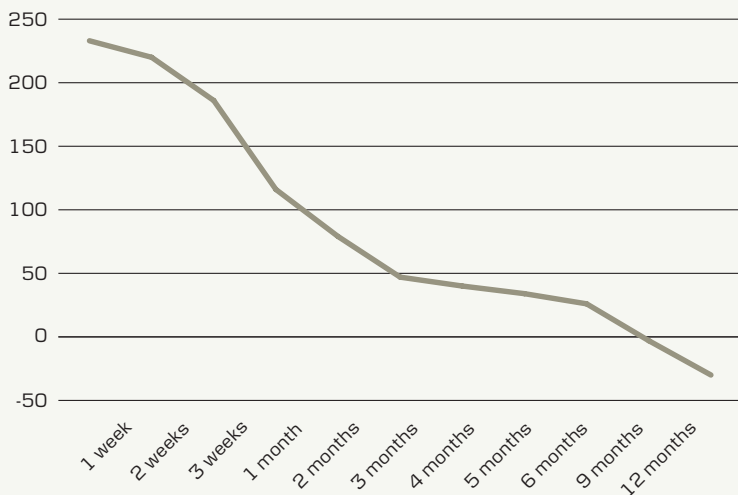
In its "Bank Financial Strength Ratings: Global Methodology", Moody's has set various classification requirements for banks' liquidity management. One requirement is that the 12-month liquidity curve must generally be positive. Liquidity calculations must assume, among other factors, that the Group is cut off from capital markets. Against this background, the Group's liquidity calculations result in a positive liquidity curve until the fourth quarter of 2008. After the implementation of the Group's covered bond programme at the end of 2007 the first bonds were issued in December. The Group's access to the covered bond market will raise the liquidity curve.

Liquidity calculations are based on the assumption that the Group is cut off from capital markets and that refinancing in those markets is impossible. The Group monitors its liquidity reserves to ensure that it is robust in case of lack of access to capital markets.

The Group monitors its 12-month liquidity and liquidity reports are submitted to the Asset/Liability Committee and the All Risk Committee on a regular basis.

12-MONTH LIQUIDITY CURVE, END OF YEAR, 2007

DKr bn



5.2.4 Structural liquidity risk

Structural liquidity risk is managed on the basis of considerations of the Group's long-term liquidity mismatch. The aim is to ensure that the Group does not create an unnecessarily large need for funding in the future. Quantifying the structural liquidity risk is important when the Group plans its funding activities, and it forms the basis of intra-group transaction pricing.

The structural liquidity risk is based on a breakdown by maturity of the Group's assets, liabilities and off-balance-sheet items. The Group bases these calculations on the contractual due dates of individual products but takes into account that some balance sheet items have maturities that make their actual due dates deviate materially from their contractual due dates. The maturities of such items are therefore modified to provide a more accurate view of the actual behaviour.

Take, for example, demand deposits from the private sector: Contractually, such deposits are very short-term funding, but they are considered a relatively stable source of funding.

Another example is the Group's large bond holdings, which have varying terms to maturity. Most of the portfolio is ultra-liquid and can be used as collateral for loans or in repo transactions. The portfolio is therefore included in the calculation as immediate liquidity. The bond holdings that are used as collateral for the settlement of the Group's current transactions, for instance clearing, are classified as illiquid bonds, however.

As part of the management of the structural liquidity risk, the liquidity position is broken down by a number of variables such as currency, product, business area and organisational unit. The calculations show, among other things, that the Group has a structural liquidity surplus in Danish kroner in the form of surplus deposits and a large liquid bond portfolio, and has structural funding needs in foreign currencies.

The Group monitors its funding mix to make sure that it is well diversified in terms of financing sources and currencies.

The Group's liquidity position at the end of 2007 and 2006 (excluding Realkredit Danmark and Danica) is shown in the table below.

NET LIQUIDITY POSITION						
At December 31 (DKr bn)	Up to 1 month	0-3 months	3-12 months	1-5 years	5-10 years	> 10 years
2007	25	8	15	17	83	90
2006	64	36	5	31	93	81

In November 2007, the Group was licensed to issue covered bonds. Consequently, the Group has set up an international programme under which it can issue covered bonds for the equivalent of up to €15bn.

The covered bond programme gives the Group access to a wider circle of investors with a longer investment horizon than that which typically applies to bank financing. The Group's first covered bond issue was made in December 2007 for a total amount of DKr7bn and was based on lending in Denmark.

Combined with the centralised funding management at the head office, the Group's balance sheet composition forms the basis for funding the Group's activities at the lowest possible costs, both at present and in future. Like the Group's substantial deposits from the retail market, its comprehensive and well-established funding programmes in Europe and the US play an essential role.

The tables below present the Group's financial assets and liabilities broken down by contractual maturity.

FINANCIAL ASSETS (DKr m)	0-3 months	3-12 months	1-5 years	> 5 years	Total
2007					
Cash in hand and demand deposits with central banks	13,861	-	-	-	13,861
Due from credit institutions and central banks	324,466	17,240	3,408	845	345,959
Bonds	14,837	38,241	201,543	170,478	425,099
Derivatives with positive fair value	32,989	26,403	72,076	93,148	224,616
Bank loans and advances	641,713	185,055	201,103	332,542	1,360,413
Mortgage loans	13,845	10,414	57,856	545,694	627,809
Total	1,041,711	277,353	535,986	1,142,707	2,997,757
2006					
Cash in hand and demand deposits with central banks	12,319	-	-	-	12,319
Due from credit institutions and central banks	252,291	19,449	2,721	807	275,268
Bonds	71,781	36,513	145,790	85,756	339,840
Derivatives with positive fair value	25,408	26,570	46,628	50,923	149,529
Bank loans and advances	540,184	170,793	129,907	213,438	1,054,322
Mortgage loans	15,879	10,991	59,442	516,272	602,584
Total	917,862	264,316	384,488	867,196	2,433,862
FINANCIAL LIABILITIES (DKr m)					
	0-3 months	3-12 months	1-5 years	> 5 years	Total
2007					
Due to credit institutions and central banks	648,241	19,579	5,817	3,718	677,355
Deposits	833,752	30,011	8,438	51,794	923,995
Trading portfolio liabilities	51,886	40,376	104,740	134,545	331,547
Issued mortgage bonds	56,286	123,047	183,361	155,999	518,693
Other liabilities	131,519	63,522	158,925	48,425	402,391
Subordinated debt	1,936	11	17,695	39,383	59,025
Total	1,723,620	276,546	478,976	433,864	2,913,006
2006					
Due to credit institutions and central banks	542,866	21,550	133	-	564,549
Deposits	661,410	30,101	3,756	7,676	702,943
Trading portfolio liabilities	45,496	36,689	75,732	78,607	236,524
Issued mortgage bonds	58,201	129,833	178,193	117,990	484,217
Other liabilities	52,713	65,880	159,953	15,190	293,736
Subordinated debt	-	-	8,525	40,426	48,951
Total	1,360,686	284,053	426,292	259,889	2,330,920

5.3 Collateral provided by the Group

At the end of 2007, the Group had deposited securities worth Dkr331,673m with Danish and international clearing centres, etc., as collateral (2006: Dkr230,436m).

In connection with repo transactions, which consist of a sale of securities to be repurchased at a later date, the securities remain on the balance sheet and the amounts received are carried as deposits. Securities in repo transactions are treated as assets provided as collateral for liabilities. At the end of 2007, the carrying amount of such securities totalled Dkr277,379m (2006: Dkr231,873m). The counterparty is entitled to sell the securities or deposit them as collateral for other loans.

At the end of 2007, assets under insurance contracts worth Dkr212,017m had been registered as collateral for policyholders' savings (2006: Dkr212,189m).

At the end of 2007, mortgage loans worth Dkr627,809m and other assets worth Dkr3,035m had been registered as collateral for issued mortgage bonds, including mortgage covered bonds (2006: Dkr602,584m and Dkr8,177m, respectively).

At the end of 2007, loans and advances worth Dkr23,886m had been registered as collateral for covered bonds issued under Danish and Finnish law.

Through a number of mutually binding agreements, the Group has undertaken to provide collateral if the fair value of current transactions changes unfavourably for the Group.

The Group has entered into other agreements in which the counterparty has made it a condition that the Group maintains its present rating. A downgrade could mean that the contracts in question must be fulfilled or that securities must be provided as collateral. At December 31, 2007, the Group would be obliged to provide the following amounts in collateral or supplementary collateral or to fulfil the contracts:

SUPPLEMENTARY COLLATERAL AT DOWNGRADE At December 31, 2007 (Dkr bn)	Supplementary collateral
Downgrade to a rating below A-1 +	25
Downgrade to a rating below A-1	76
Downgrade to a rating below A-2	76
Downgrade to a rating below A-3	76

The ratings above are from Standard & Poor's. The bond issues of the Group's subsidiary Realkredit Danmark have AAA and Aaa ratings from Moody's and Standard & Poor's, respectively. A downgrade of these ratings could potentially affect Realkredit Danmark's position in the market but would not directly require the immediate provision of collateral.