
4. MARKET RISK

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4.1 Definition

The Group defines market risk as follows:

- The risk of losses because the fair value of the Group's assets and liabilities varies with changes in market conditions.

Market risk consists of the following components:

- Interest rate risk – the risk of losses because of changes in interest rates
- Exchange rate risk – the risk of losses on the Group's foreign currency positions because of changes in exchange rates
- Equity market risk – the risk of losses because of changes in equity prices
- Commodity risk – the risk of losses because of changes in commodity prices
- Credit spread risk – the risk of losses because of changes in credit spreads
- Floor risk – the risk of lack of earnings on deposits because market interest rates approach zero

The CRD rules distinguish between market risk on items in the trading book and items outside the trading book, and between general and specific risk (see section 4.12).

The table below shows the Group's market risk at the end of 2007 and 2006 calculated according to conventional risk measures.

MARKET RISK, CONVENTIONAL RISK MEASURES At December 31 (DKr m)	2007	2006
Interest rate risk	2,417	946
Equity market risk, listed shares	1,105	1,611
Equity market risk, unlisted shares	3,340	3,185
Credit spread risk on corporate bonds	3	4
Commodity risk	3	-
Exchange rate risk (Value at Risk)	7	8

4.2 Policy and responsibility

The management of the Group's market risk covers all the Group's assets, liabilities and off-balance-sheet items, except for the market risk in Danica Pension and the Group's defined benefit pension plans.

The Group's overall market risk limits do not apply to the risk on the assets in which Danica Pension's equity is invested. This risk is described in section 4.11. Section 7.3 describes the market risk on assets allocated to policyholders. The market risk relating to defined benefit pension plans is shown in section 7.2.

When the Board of Directors has set the overall limits for the Group's market risk exposure, the All Risk Committee sets limits and guidelines for the main business areas that reflect the strategic priorities for risk exposure.

On the basis of the Group's overall risk policy, the Committee also defines operational policies for the business areas, including non-Danish entities and subsidiaries. Authority to take on market risk is granted only to certain business areas with expert knowledge of such risk, mainly Danske Markets in Copenhagen.

Positions for the Group's own account are taken primarily in its proprietary investment portfolio and in connection with its trading activities in Danske Markets.

Market risk in individual banking activities is transferred directly to Danske Markets or measured and managed under Danske Markets' limits as part of the ALM position. The Group measures the floor risk on banking activities, and the All Risk Committee takes this risk into account when it considers the Group's strategic interest rate risk. This means that, generally, neither the transactions nor the results from banking activities involve interest rate or exchange rate risk.

An Asset/Liability Committee has been set up to monitor and discuss issues relating to market and liquidity risk, among other things. Danske Markets and Group Finance are represented on the Committee.

4.3 Monitoring

The operational risk policies form the basis for written business procedures and reconciliation and control procedures for the relevant areas as well as for the Group's system development.

Measurement, monitoring and management reporting on market risk are carried out on a daily basis. The Group calculates current market risk using a database that is integrated with its trading systems. In addition, the Group conducts intra-day spot checks of the risks in the individual business areas.

Day-to-day risk management includes setting limits for business areas and sub-areas. These limits are monitored systematically, and procedures have been established for follow-up in the organisation.

4.4 Use of models

The Group uses both conventional risk measures and more sophisticated internal mathematical and statistical measures, such as Value at Risk (VaR), to calculate its market risk. These calculations are used in the following:

- reporting to the Group's management
- reporting to the Danish FSA
- day-to-day management in the business areas

The Group also develops in-house models. Such models are used for pricing and risk management of financial products which cannot be valued directly on the basis of quoted market prices or standardised financial models.

4.5 Interest rate risk

The Group actively takes on interest rate risk through its trading activities. Interest rate risk is measured and managed across the Group for all products involving such risk.

The Group's banking activities offer fixed rate loans, deposits and other products. Much of the resulting interest rate risk is hedged and treated under the rules of fair value hedge accounting. The interest rate risk on the following fixed rate items is not hedged but is managed on a daily basis:

- a portfolio of fixed rate mortgage loans in Denmark
- fixed rate loans and advances provided by banking activities in Finland, the Republic of Ireland, Northern Ireland and the Baltics
- operating leases
- prepayments of Realkredit Danmark loans

The Group also has a structural interest rate risk exposure in its banking activities in Northern Ireland, the Republic of Ireland and Finland. This risk derives from demand deposits whose interest rate has been stable at a very low level over a considerable period, and the portfolio has been and is expected to remain stable. The risk is included in the Group's interest rate risk calculations and thus in day-to-day risk management.

The table below shows the Group's total interest rate risk, measured as the expected loss on interest rate positions that would result from a general interest rate rise of 1 percentage point.

INTEREST RATE RISK						
At December 31 (DKr m)	< 1 year	1-3 years	3-7 years	7-11 years	> 11 years	Total
2007	1,165	-559	710	872	229	2,417
2006	1,251	56	-982	71	550	946

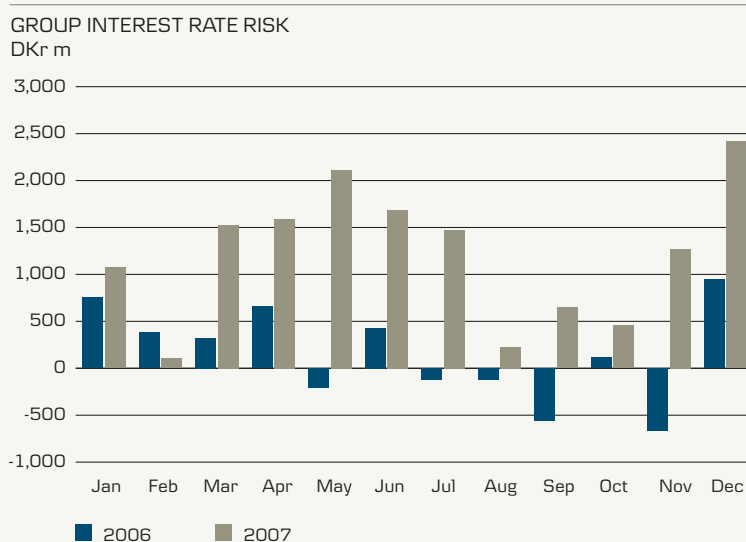
The Group also measures the yield curve risk, which expresses the risk of losses if interest rates for various terms change independently of one another. The yield curve risk is measured individually for an interest rate rise of 0.1 of a percentage point at 0, 3, 6 and 9 months and at 1, 2, 5, 10, 15 and 25 years.

Interest rate options are included in the interest rate risk measurement. For departments trading in interest rate options, the Group also measures the interest rate risk in a scenario with stressed market conditions, the maximum loss in case of interest rate changes of plus 2 percentage points and minus 2 percentage points and vega, which is the expected future volatility in interest rates priced into the options markets.

GROUP LEVEL INTEREST RATE RISK - NET CURRENCY EXPOSURE

At December 31 (DKr m)	2007	2006
DKK	-4,094	1,857
EUR	2,369	-1,278
SEK	-425	75
USD	-285	190
NOK	106	6
GBP	-47	135
JPY	-36	-5
Other	-14	-16

The interest rate risk at Group level, measured as the financial effect of a general interest rate rise of 1 percentage point, is shown in the chart below.



4.5.1 Floor risk

Floor risk is the interest rate risk on deposits whose interest rates depend on central banks' leading interest rates but whose rates the Group will not always be able to lower in step with central bank rates.

Floor risk is defined as the effect on net interest income over a 12-month period if market rates fall by 1 percentage point. Floor risk is measured and reported to the All Risk Committee but is not included in the measurement of the Group's interest rate risk.

4.6 Exchange rate risk

Generally, the exchange rate risk indicator is expressed in Danish kroner. Assuming that the Group does not change its foreign currency positions in the following ten days, there is a 5% probability that it will incur a loss that is greater than the value of the exchange rate risk indicator.

For departments trading in currency options, the Group also measures exchange rate risk as the maximum standardised loss based on a number of predefined standard scenarios with large exchange rate fluctuations.

The exchange rate risk was small throughout 2007. At the end of the year, it was DKr7m (2006: DKr7.5m).

4.7 Equity market risk

Equity market risk is calculated as the net value of long and short positions in equities and equity-based instruments. The management of equity market risk distinguishes between risk on listed and unlisted shares. Positions in individual companies are measured and monitored separately.

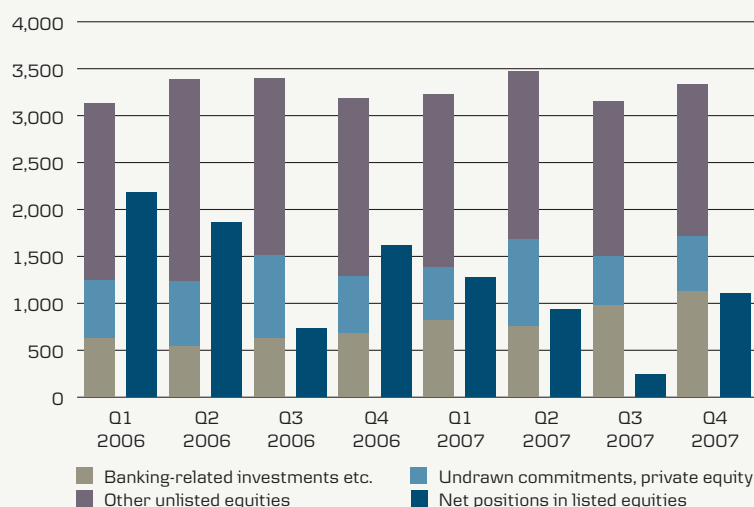
For departments trading in share options, the Group also calculates the maximum standardised loss upon equity price changes of +/- 20%.

For unlisted shares, the Group distinguishes between ordinary open positions, unutilised commitments to private equity funds and banking-related investments.

At the end of 2007, the risk on listed shares was lower than the level at the end of 2006. The average risk on unlisted shares was in line with the risk in 2006.

FAIR VALUE OF THE GROUP'S NET POSITION IN LISTED AND UNLISTED SHARES

DKr m



Banking-related investments etc. comprise shares in financial infrastructure and payment service activities.

4.8 Other market risks

Commodity risk is measured as the expected loss on positions in commodities following changes of +/-10 percentage points in individual commodity indices.

The Group has a small commodity risk on the Finnish trading activities. It has set a limit on losses in case of changes in commodity prices.

A few of the Group's products are dependent on changes in inflation. Accordingly, the Group has also set limits on losses in case of changes in inflation rates.

The Group's holdings of corporate bonds and credit default swaps are dependent on changes in credit spreads. This risk is monitored as part of the monitoring of interest rate risk by measuring the price sensitivity to changes in credit spreads.

In addition, the balance sheet carries an interest rate risk on shareholders' equity, because shareholders' equity is included in the consolidated financial statements as a non-interest-bearing liability. The derived interest rate sensitivity is symmetrical for rising and declining interest rates. The interest rate risk on shareholders' equity is not hedged and is not included in the computation of the Group's interest rate risk.

4.9 Value at Risk

The Group applies Value at Risk (VaR) in the management of its interest rate, exchange rate and equity market risk.

VaR is a statistical risk measure of the maximum loss that the Group may, under normal market conditions, incur over a certain period of time at a certain confidence level.

For example, a 95% 10-day VaR of DKr1,000 means that there is a 95% probability that the Group will not lose more than DKr1,000 within the next ten days. In other words, there is a 5% probability that the Group will incur a loss exceeding DKr 1,000.

A major strength of VaR is that it provides an aggregate measure of all risk types that factors in the correlation structure of the financial markets.

For example, equity prices often go up when bond prices fall and vice versa. In practice, this means that the VaR of a portfolio containing bonds and shares will be lower than the sum of the VaRs of comparable separate bond and share portfolios.

In mid-2007, the Group replaced its parametric VaR model with a historical simulation model. The major advantages of the historical simulation model are that it uses full revaluation and makes no assumptions regarding the loss distribution. This leads to more accurate results for non-linear products than other methods would give.

The Group's VaR model is based on two years' historical market data. Each calculation is based on 1,000 scenarios representing possible future outcomes of the risk factors. On that basis, an empirical loss distribution is calculated, and it is used to determine the VaR. A confidence level of 95% corresponds to the fiftieth-largest loss in the distribution.

The 1,000 scenarios are generated by means of a bootstrap method. To construct a 10-day scenario, 10 independent drawings are made from a dataset of two years' historical daily returns. The outcomes are generated at random and are always equally likely. Each outcome contains all risk factors in order to maintain the correlation. The risk factors applied are interest rates, equity indices and exchange rates.

To ensure that the model input for daily calculations is correct, a number of reconciliations are run. The reconciliations cover the market data used for the calculations and the scenarios generated, as well as the portfolios included.

The internal VaR model is used for both risk monitoring and for the calculation of capital requirements. The former employs a confidence level of 95%, and the latter, a level of 99%.

The table below shows the VaR used in internal risk monitoring. The table is broken down by risk type and also shows the diversification benefit from using VaR as a total risk measure rather than looking at each risk type separately. The figures cover all the Group's risk portfolios. The 2006 VaR was calculated with the previous model.

At December 31 (DKr m) By risk category	VALUE AT RISK (10-DAY HORIZON, CONFIDENCE LEVEL OF 95%)							
	2007				2006			
	Avg. VaR	Minimum VaR	Maximum VaR	Dec. 31	Avg. VaR	Minimum VaR	Maximum VaR	Dec. 31
Interest rate	239	68	694	584	121	66	238	66
Exchange rate	10	3	20	4	10	4	28	7
Equity market	73	47	138	84	93	45	181	65
Diversification benefit	-74			-107	-66			-46
Total VaR	248	90	655	565	158	92	247	92

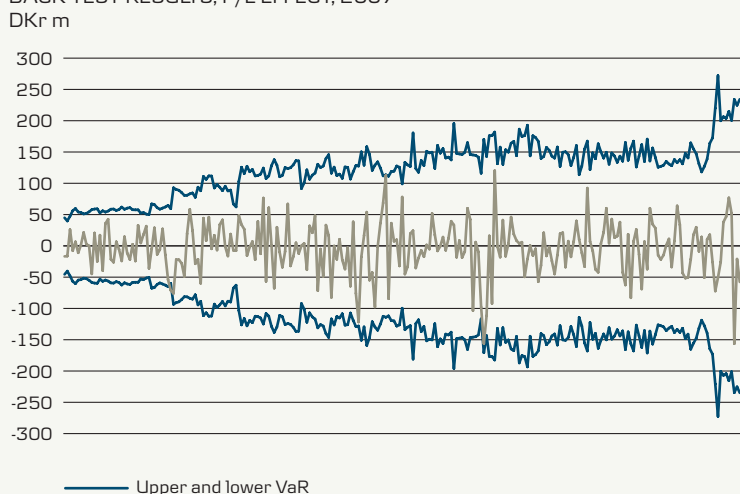
As the minimum and maximum for the risk types do not occur on the same days, these values are not shown under the diversification benefit.

4.9.1 Back testing

The Group conducts back testing on a daily basis to document that the internal VaR model used to measure market risk is sufficiently reliable. Back tests compare the losses calculated by the model with hypothetical losses assuming unchanged exposure and changes in market prices. The calculation of hypothetical losses does not include intra-day trading gains and losses.

For the first quarter of 2007, back test results are based on a parametric VaR model.

BACK TEST RESULTS, P/L EFFECT, 2007



4.9.2 Stress testing

The Group conducts stress tests for market risk on a regular basis. The results are submitted to Danske Markets' Asset/Liability Committee.

On a daily basis, the Group tests the effect on the total market value of its positions if they are subjected to interest rate shocks of +/- 200bp combined with changes in equity prices of +/-20% and exchange rate fluctuations of +/-10%. The Group has set limits on the losses that business areas holding options positions may incur in each of these scenarios.

In addition to such general stress testing, the Group conducts tests as needed based on scenarios typically involving historical events that have caused crises in the financial markets. Current or future events expected to have an effect on the financial markets may also be used as input for the scenarios. The scenarios are regularly reviewed and modified to reflect changes in the Group's risk profile and economic events.

At the end of 2007 and 2006, the general stress tests show the following maximum losses:

STRESS TESTS, RISK TYPES (DKr m)	Change in factors	Maximum loss 2007	Maximum loss 2006
Equity market	+ 20/- 20 %	325	633
Exchange rate	+10/-10 %	-	76
Interest rate	+200/-200 bp	4,885	462

Besides the daily tests, the Group also conducts weekly stress tests of the VaR model's results on the basis of the same scenarios. The results provide an overview of how the total risk exposure responds to such shocks.

Based on the stress tests, the table below shows the maximum VaR at a confidence level of 99% and a 10-day time horizon at the end of 2007. The table also shows the corresponding VaR by risk type. For comparison, the table includes the corresponding actual VaR data.

STRESS TESTS, VALUE AT RISK (10-DAY HORIZON, CONFIDENCE LEVEL OF 99%) At December 31, 2007 (DKr m)	Actual VaR	Stress test VaR
Equity market	110	104
Exchange rate	7	47
Interest rate	640	893
Diversification benefit	-105	-183
Total VaR	652	861

The stress test VaR data shown are the result of a general interest rate change of +200bp, equity price changes of +20% and exchange rate changes of +10%.

4.10 Model validation

Certain of the Group's financial instruments cannot be valued by means of market prices. Instead, they are valued on the basis of pricing models developed in-house by Danske Markets. Risk Management conducts a validation of these internal models independently of Danske Markets to assess the models' ability to price and manage the risk on a given product. This includes a critical review of model assumptions, such as sensitivity to parameters, stability and comparison with analogous models.

This is done to ensure that no changes in products or markets have affected the correctness of the model.

In addition, the Group has established procedures to monitor and validate the market prices used to calculate market values and risk on an ongoing basis.

4.11 Market risk at Danica Pension

As described above, the market risk on the assets in which Danica's equity is invested is not included under the Group's overall market risk limits and management. Danica's equity is invested in the following assets with market risk:

ASSETS WITH MARKET RISK, DANICA At December 31 (DKr m)	2007	2006
Listed bonds	12,714	11,895
Listed shares	3,385	3,213
Unlisted shares	166	147
Total	16,265	15,255

The interest rate risk in Danica and the market risk on assets allocated to policyholders are described in section 7.3.

This part of the Group's market risk is included in the capital requirements that Danica is subject to as an insurance company. The capital requirement is deducted from the Group's capital base (see section 8.7). The exposure is part of the Group's ICAAP (see section 8.2).

4.12 Calculation of capital requirements

For capital requirement calculations, a distinction is made between general and specific risks, and between items in the trading book and items outside the trading book.

Definition of general and specific risks

- General risk is the Group's risk of losses on its positions because of general changes in market prices, including interest rates, exchange rates, share prices and commodity prices. It applies to all positions in the trading book. Exchange rate risk and commodity risk also apply to positions outside the trading book.
- Specific risk is the risk of losses on the Group's assets in the trading book (excluding derivatives) as a result of circumstances related to the specific issuer

Counterparty risk on derivatives is treated in section 3.5.2.

Items in the trading book and outside the trading book

Since January 1, 2007, the Group has applied an intention-based definition of its trading book. As stated above, this definition is used in connection with general risk, which is calculated on the basis of internal models.

All the Group's positions with market risk are considered to be part of the trading book, with the following exceptions:

- unlisted shares
- holdings in associated companies
- strategic fixed income and equity positions taken at the request of the All Risk Committee and Danske Markets' Asset/Liability Committee
- interest rate risk in the banking activities

Calculation of capital requirements

VaR is used for the calculation of capital requirements for general risk for items in the trading book and also for exchange rate risk for items outside the trading book. Commodity risk is also included in capital requirement calculations. This risk is not covered by the internal VaR model but is quantified in accordance with the standardised approach described in the Danish executive order on capital requirements.

In April, 2007, the VaR model was approved by the Danish FSA as the Group's new internal model, replacing the parametric model. To comply with the requirements for the use of the internal model, the Group calculates VaR daily on the basis of a historical observation period of at least 12 months. In addition, it conducts back testing on a daily basis and stress testing on a weekly basis, as described in section 4.9.

The capital requirements for market risk correspond to the average estimated VaR for the preceding 60 days multiplied by a scaling factor. The precise scaling factor, which must be three as a minimum, is determined by the supervisory authorities on the basis of an assessment of the model's quality. The Group currently applies a scaling factor of 3.25.

The table below shows the VaR figures used for calculating capital requirements for the trading book. The 2006 figures were calculated in accordance with the parametric model used at the time:

At December 31 (DKr m) By risk category	2007				2006			
	Avg. VaR	Minimum VaR	Maximum VaR	Dec. 31	Avg. VaR	Minimum VaR	Maximum VaR	Dec. 31
	Interest rate	330	84	799	640	170	84	352
Exchange rate	14	4	29	7	14	5	44	10
Equity market	77	41	210	110	199	100	446	167
Diversification benefit	-82			-105	-116			-80
Total VaR	339	120	778	652	267	145	531	181

As the minimum and maximum for the risk types do not occur on the same days, these values are not shown under the diversification benefit.

Commodity risk is treated in accordance with the standardised approach.

Shares outside the trading book are valued at fair value with value adjustment in the income statement. However, associated undertakings are recognised in accordance with the equity method. None of the associated undertakings is listed on a stock exchange. Section 4.7 provides a breakdown by type of share.

In 2007, shares outside the trading book generated gains of Dkr136m (2006: Dkr345m). Unrealised gains amounted to Dkr443m (2006: Dkr370m). When calculating the capital base, the Group does not distinguish between realised and unrealised gains and losses on shares outside the trading book.

The capital requirements for the Group's risk on shares outside the trading book are calculated in accordance with the standardised approach.

The table below shows the interest rate risk outside the trading book broken down by country in case of an interest rate change of 1 percentage point.

INTEREST RATE RISK, OUTSIDE THE TRADING BOOK								
At December 31, 2007								
(DKr m)	Denmark	Sweden	Finland	Norway	Ireland	Northern Ireland	Baltics	Total
Interest rate risk	251	-	170	-	-31	31	77	498

The interest rate risk outside the trading book is incorporated in the assessment of the Group's total capital requirements (see section 8.2 on the ICAAP).