

Executive Order on Large Exposures ¹⁾

Executive Order no. 1487 of 13 December 2004 **EXCLUDING MINOR AMENDMENTS**

The following shall be laid down pursuant to sections 148 and 373(2) of the Financial Business Act, cf. Consolidated Act no. 686 of 25 June 2004 as amended by Act no. 1383 of 20 December 2004:

Scope and definitions

1.-(1) This Executive Order shall apply to:

- 1) Banks, mortgage-credit institutions, investment companies and investment management companies.
- 2) Branches of banks, mortgage-credit institutions, investment companies and investment management companies which have been licensed in a country outside the European Union with which the Community has not entered into an agreement for the financial area.
- 3) Groups of undertakings where one of the undertakings mentioned in no. 1 or a financial holding company, cf. section 5(1), no. 10 of the Financial Business Act, is a parent company, and where an undertaking is required under sections 171-174 of the Financial Business Act to prepare a consolidated statement.

(2) The banks, institutions and companies mentioned in subsection (1) shall hereinafter be referred to as "undertakings".

2. For the purposes of this Executive Order:

- 1) "*Parent companies*" shall mean:
Undertakings as defined by section 5(1), no. 7 of the Financial Business Act.
- 2) "*Financial holding companies*" shall mean:
Undertakings as defined by section 5(1), no. 10 of the Financial Business Act.
- 3) "*Market capitalisation of a derivative financial instrument*" shall mean:
A calculation of the value shall be carried out in accordance with the regulations laid down in part 3 of the "bekendtgørelse om finansielle rapporter for kreditinstitutter og fondsmæglerselskaber m.fl" (executive order on financial reports for credit institutions and investment companies, etc.).
- 4) "*Zone A*" shall mean:
The group of countries as defined by section 5(1), no. 18 of the Financial Business Act.
- 5) "*Zero-weighting*" shall mean:
A weighting of claims on debtors that the competent authorities of the individual Member States of the European Union, or of the countries with which the Community has entered into an agreement for the financial area, have assessed to be given the weight 0.
- 6) "*Debt securities*" shall mean:
Debt securities defined by Article 22(4) of Council Directive of 20 December 1985 on investment undertakings (85/611/EEC as amended by Council Directive 88/220/EEC of

22 March 1988 and by Directive of the European Parliament and the Council 2001/108/EC).

- 7) *"Multilateral development banks"* shall mean:
Banks as defined by section 6 of the executive orders on capital adequacy.
- 8) *"Listed securities"* shall mean:
Securities listed on a market which is officially recognised, operates regularly and is open to the public.

Statement

3.-(1) The exposure shall be calculated before deductions for any write-downs, cf. annex 2, schedule 3.

(2) Items related to interest rates, foreign-exchange rates and assets as well as items related to commodities, etc. shall be included at the market value plus an addition for the potential future exposure. This addition shall be calculated in accordance with annex 1.

(3) In the calculation of the exposure under subsections (1) and (2), deductions may be made in accordance with section 4.

4.-(1) In the calculation of an exposure in relation to the limits laid down in section 145(1) and (2) of the Financial Business Act, amounts may be subtracted for the following:

- 1) Claims on or other exposures to or guaranteed by central governments or central banks within Zone A.
- 2) Claims on or other exposures to central governments or central banks in countries outside Zone A in their national currency if the undertaking has been funded in the same currency.
- 3) Claims on or other exposures to or guaranteed by Danish counties, Danish municipalities, Greenland's Home Rule, or the Government of the Faeroe Islands, or by regional and local authorities in other countries which are members of the European Union or countries with which the Community has entered into an agreement for the financial area, and where the competent authorities have given said exposures a zero-weighting.
- 4) Exposures secured by collateral in the form of deposits in the lending undertaking or in a credit institution which is the parent company or subsidiary of the lender.
- 5) Exposures of investment companies and investment management companies secured by collateral in the form of margin deposits.
- 6) Exposures secured by collateral in the form of certificates of deposit issued by the lending undertaking or a credit institution which is the parent company or subsidiary of the lender, and deposited with one of these undertakings.
- 7) Exposures secured by collateral in the form of listed securities issued by a central government or a central bank in Zone A or by EU institutions, within 90 per cent of the officially listed price of the relevant security.
- 8) Exposures secured by means of a charge on listed securities issued by the authorities mentioned in no. 3, within 90 per cent of the officially listed price of the relevant security.
- 9) 90 per cent of mortgage-credit institutions' exposures with credit institutions in countries within Zone A, in the form of registered mortgage guarantees, cf. section 8(1)-(4) of the Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act, with a maturity of no more than one year, and where the release of the guarantee is solely dependent on the credit institution.

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- 10) Claims on a mortgage-credit institution, consisting of the undertaking's own portfolio of mortgage-credit bonds within 90 per cent of the officially listed price. The same shall apply to other bonds, cf. section 2(1), no. 6.
- 11) 80 per cent of claims on and other exposures with credit institutions, investment companies, investment management companies, stock exchanges, authorised market places and clearing centres in Zone A, excluding however subordinated amounts receivable and holdings.
- 12) Exposures secured by collateral in the form of listed securities issued by credit institutions in Zone A, including mortgage-credit bonds, within two-thirds of the officially listed price of the relevant security. Securities subordinated other receivables and holdings shall, however, not give rise to deductions.
- 13) Exposures secured by collateral in the form of bonds issued by the European Investment Bank or multilateral development banks within two-thirds of the officially listed price of the relevant security.
- 14) 50 per cent of exposures consisting of guarantees made to Danmarks Nationalbank (Denmark's central bank) or a clearing centre in connection with settlement of payments in the settlement of securities transactions.
- 15) 50 per cent of issue underwritings with an original maturity of less than one year, and this shall include all obligations that the undertaking has to buy securities.
- 16) 50 per cent of guarantees made for the capital basis of VP Securities Services.
- 17) The share of mortgage-credit and reserve fund loans secured by means of mortgages in residential properties, cf. section 5 of the Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act, including farmsteads on agricultural properties, within 50 per cent of the value of the relevant real property. Measurement shall be carried out in accordance with the provisions of the Danish FSA's "bekendtgørelse om realkreditinstitutter's værdiansættelse og låneudmåling" (executive order on valuation and basis for fixing lending limits by mortgage-credit institutions). Said measurement shall be carried out no less than once a year. However, the mortgage-credit institutions may, as an alternative, apply the most recent public property valuation.
- 18) Loans secured by means of a mortgage on the borrower's residential property within one-half of the most recent public property valuation.

Reporting

- 5.-(1)** Exposures which, before deductions, exceed the limit in section 145(3) of the Financial Business Act shall be reported to the Danish FSA every three months.
- (2)** Parent companies shall report exposures which, at group level, exceed the limit mentioned in subsection (1).
- (3)** Reporting shall be carried out on form SE for the undertaking and on form SV for the group in the format indicated in annexes 3 and 4.
- (4)** Reporting shall be made once at the end of each three-month period and the Danish FSA shall receive such report no later than 20 working days after the end of the three-month period. The Danish FSA shall, however, receive reporting for the end of the year before 30 working days after the year-end.
- (5)** Reporting shall take place on a machine-readable medium.
- (6)** Reports shall be approved by the board of management of the undertaking.

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Penalties, entry into force and transitional provisions

6.-(1) Any person violating sections 3(1) and (2) and section 5 shall be liable to a fine.

(2) Companies etc. (legal persons) may be subject to criminal liability in pursuance of the regulations in Chapter 5 of the Criminal Code.

7.-(1) This Executive Order shall enter into force on 1 January 2005.

(2) At the same time, Executive Order no. 1122 of 13 December 2003 on Large Exposures shall be repealed.

The Danish Financial Supervisory Authority, 13 December 2004

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Annex 1

Addition for potential future exposure in relation to items concerning interest and foreign-exchange rates as well as items related to shares and commodities (items with a counterparty risk)

In the calculation of exposures, the individual contract is included at the positive market value of the contract plus the addition indicated in the table below. This figure is shown as a percentage of the principal amount of the contract. The potential future exposure is to be included even in the event that the market value is negative. The contracts are to be included in accordance with the guidelines laid down in annex 2, schedule 3.4.

Spot transactions are not included in the calculation of exposures.

Items	Addition (percentage of principal amount)
Items related to interest rates, remaining term up to and including one year	0.5
Items related to interest rates, remaining term more than one year but less than five years	1.0
Items related to interest rates, remaining term more than five years	1.5
Items related to shares, remaining term up to and including one year	6.0
Items related to shares, remaining term more than one year but less than five years	8.0
Items related to shares, remaining term more than five years	10.0
Items related to foreign-exchange rates, remaining term up to and including one year	1.0
Items related to foreign-exchange rates, remaining term more than one year but less than five years	5.0
Items related to foreign-exchange rates, remaining term more than five years	7.5
Items related to commodities, remaining term up to and including one year	10.0
Items related to commodities, remaining term more than one year but less than five years	12.0
Items related to commodities, remaining term more than five years	15.0
Repo and reverse repo transactions based on bonds, remaining term up to and including one year	0.5
Repo and reverse repo transactions based on bonds, remaining term more than one year	1.0
Repo and reverse repo transactions based on shares, remaining term up to and including one year	6.0
Repo and reverse repo transactions based on shares, remaining term more than one year	8.0

Completion of reporting forms

1. Business sector

For banks and mortgage-credit institutions, the exposures are allocated to business sectors according to the categories below:

1. Public authorities
2. Trade and industry:
 - 2.1. Agriculture, hunting and forestry
 - 2.2. Fisheries.
 - 2.3. Manufacturing; extraction of raw materials; power, gas, water and heat plants
 - 2.4. Building and construction activities.
 - 2.5. Retailers, restaurants and hotels
 - 2.6. Transport, post and telephone
 - 2.7. Credit and finance business as well as insurance business
 - 2.8. Property administration, estate agency and business services
 - 2.9. Other trades and industries.
3. Private individuals

2. Client

For the purposes of this annex "a client" means any natural or legal person that the undertaking has an exposure to. Private individuals, companies, the state, counties, municipalities, associations, etc. are examples of clients.

In the Credit Institutions Directive (2000/12/EC), the concept of "connected clients" ("interdependent") is described as either

- a. two or more natural or legal persons who, unless it is shown otherwise, constitute a single risk because one of them, directly or indirectly, has control over the other or others or
- b. two or more natural or legal persons between whom there is no relationship of control as defined in the first indent but who are to be regarded as constituting a single risk because they are so interconnected that, if one of them were to experience financial problems, the other or all of the others would be likely to encounter repayment difficulties.

In its practice so far, the Danish FSA has, however, also applied emphasis to other aspects when determining whether interdependence existed, eg. in the form of joint management.

The following are examples of groups of connected ("interdependent") clients:

1. Companies of the same group.
2. Cohabiting persons, irrespective of whether they are married or not.
3. A partnership and the individual partners.
4. A principal shareholder in a limited company or a limited liability company, and the shareholder's company.
5. The individual entities of a housing association and the housing association, and the entities mutually.

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In the calculation of the size of the exposure in relation to section 145 of the Financial Business Act, the exposure may be reduced using the deductions indicated in this Executive Order.

The exposure limits of the Act both apply in relation to an individual client and to a group of connected clients.

Companies which are fully consolidated with the undertaking (parent company and fellow subsidiaries as well as subsidiaries) are exempt from the exposure limits. The exposures must, however, still be reported. Note that exposures with the parent company and fellow subsidiaries are covered by section 182 of the Financial Business Act.

If only a pro rata consolidation is carried out, the exposure limits still apply to the relevant company, and the exposure (ownership interests plus any amounts receivable, etc.) is to be reported if the exposure constitutes no less than ten per cent of the base capital.

3. Exposure

An "exposure with a client or a group of connected clients" means the sum of the credit risks the undertaking has with the relevant client or group of connected clients.

The exposure is calculated as the sum of the following items:

1. Loans, other amounts receivable and the customer's unutilised drawing rights.
2. Guarantees and other contingent liabilities.
3. Shares and other securities.
4. Items related to interest and foreign-exchange rates.
5. Items related to shares and commodities.
6. Other accounts which constitute a credit risk to the undertaking.

Note, there is an exposure, irrespective of whether the total outstanding account with the customer only comprises one of the items mentioned above.

When an investment company or an investment management company is to calculate an exposure with a bank, the time of final acquisition of the right determines the time from which said investment company or investment management company is to include the amount transferred to the undertaking's account in a bank (as an exposure).

A loan commitment is to be included in the exposure from the time when the commitment is communicated to the customer. Therefore, a mortgage-credit loan offer shall be considered as an exposure from the time when said offer is communicated to the customer.

A conditional loan commitment is not to be included in the exposure until the condition has been met. For example, this applies if the loan commitment is conditional upon the client obtaining a more detailed collateralisation, but not a mortgage on real property in accordance with section 2 of the Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act. This also applies if the said condition is conditional upon the undertaking granting the loan commitment, but it does not apply if the loan commitment has been made conditional upon matters upon which the undertaking granting the loan commitment has no direct influence.

Loan offers issued by the undertaking to replace existing loans in the undertaking is not, however, to be included in the exposure. In the event that there are several alternative loan offers, only the largest loan offer is to be included in the calculation of the exposure.

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Items related to interest and foreign-exchange rates as well as shares and commodities, etc. are not to be included in the exposure until the facility has been utilised in whole or in part.

If a client has its exposure fully or partly guaranteed by a credit institution within Zone A, said client's exposure is to be reduced by the guaranteed part of said exposure. The guaranteed part of the exposure is to be added to the undertaking's other exposures with the credit institution, cf. section 145(6) of the Financial Business Act.

Guarantees made to the undertaking by other undertakings, including insurance companies, on behalf of a customer do not entail a reduction of said customer's exposure in relation to the limits mentioned in section 145 of the Financial Business Act.

For mortgage-credit institutions in particular, note that only the compulsory guarantees received and required under section 155 of the Financial Business Act, ie. guarantees replacing the statutory mortgage, are to be added to the remaining exposure with the credit institution. This includes

1. prefinancing loan guarantees,
2. mortgage or registration guarantees,
3. conveyance guarantees, and
4. guarantees made to secure that the price assumed or rent assumed is obtained for the mortgage.

Re item 1:

Prefinancing loan guarantees are required under section 8(5) of the Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act in the cases where loans are granted on the basis of the expected value of the property (prefinancing loans). This guarantee is intended to ensure that the loan is repaid in part or in full if, at the end of the time limit for completion of the building, the loan could not have been granted at the amount agreed.

Re item 2:

Mortgage or registration guarantees, including conversion guarantees, are required under section 8(1)-(4) of the Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act in the cases where loans are granted without a registered mortgage or where the mortgage is encumbered with endorsements barring registration as requested, but where the conditions for the disbursement of the loan are otherwise met.

Re item 3:

Conveyance guarantees are required under section 11(1) of the Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act in the cases where a mortgage-credit institution disburses loans to a debtor that does not yet have a finally registered conveyance on the property. This guarantee is intended to ensure that the loan is repaid if, at the end of a certain time limit, the debtor does not obtain title to the property within a certain time limit.

Re item 4:

Guarantees that, in accordance with mortgage-credit legislation, are made to secure that the price assumed or rent is obtained for the mortgage, cf. section 30(3) of the "bekendtgørelse om realkreditinstitutters værdiansættelse og låneudmåling" (executive order on mortgage-credit institutions' measurement and valuation). Such guarantees should ensure the possibility of disbursing loans in the cases covered by section 30(1) and (2) of the "bekendtgørelse om realkreditinstitutters værdiansættelse og låneudmåling" (executive order on mortgage-credit institutions' measurement and valuation), either through the establishment of a safe custody account for the entire proceeds or through assumption of primary liability.

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The exposure is calculated before deductions for any accounting write-downs, amortisation and depreciation. If, apart from having written down part of an amount receivable, an undertaking has also reduced its claim against the debtor in civil law, the exposure in relation to section 145 of the Financial Business Act may only be reduced by the amount by which the amount receivable has been reduced under civil law.

3.1. Loans, other amounts receivable and the customer's unutilised drawing rights

All loans and amounts receivable are to be included in the calculation of the exposure. The exposure is also to include the unutilised credit line for credits with fluctuating utilisation.

Examples of loans and amounts receivable:

- a) All types of loans, including mortgages, reserve fund loans and the amortisation account pertaining to cash loans.
- b) Deposit accounts showing a debit balance.
- c) Lease contracts. With regard to lease contracts, it should be noted that they are to be included in the exposure applying the debt outstanding under the contract. If a third party is liable for part of the residual risk, cf. section 149(3) of the Financial Business Act, such part may be deducted in the calculation of the residual risk. The liability of the third party must be added to said third party's exposure with the institution under section 145 of the Financial Business Act. If the institution has decided not to reduce the residual risk by the liability of the third party, said third party's liability must, in certain cases still be included in the exposure of the third party. This situation could be compared with a guarantee where a guarantee obligation is included in the guarantor's exposure if said guarantee has had significant importance to the institution's granting of a loan.
- d) Acceptance credits.
- e) Amounts receivable in connection with trade in securities and derivative financial instruments. Note that this includes only amounts receivable from the counterparties of the transactions (eg. the counterparty of forward contracts in bonds). Amounts receivable include interest, commission, margins, etc.
- f) Amounts receivable for portfolio management.
- g) Amounts receivable from banks. Amounts receivable from banks are calculated as the current amounts receivable. If the amount receivable relates to a cash commitment approved to a bank, the maximum is to be included in the exposure.

Guarantees for the debt of a third party to the undertaking are only to be included in the exposure of the guarantor if at least one of the following three conditions has been met:

1. the guarantee has been made effective,
2. the credit/loan actually finances the guarantor, or
3. the credit/loan has only been granted on the basis of the guarantee.

3.2. Guarantees and other contingent liabilities

Examples of guarantees and other contingent liabilities:

- a) Issue underwriting.
- b) Finance guarantees.
- c) Work guarantees.

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As a main rule, guarantees and warranties made are to be included in the exposure at the full nominal amount before deduction for any accounting write-downs, amortisation or depreciation. This applies irrespective of whether the risk of the guarantee is deemed to be low.

The following deviations apply to this main rule:

- 1) Warranties for deletion of an endorsement by the court are not to be included in the exposure with the client if the warranties only depend on the issuing undertaking removing barriers to the registration with the required ranking and if said barriers can be removed easily.
- 2) Conversion guarantees may be fixed at DKK 1 in the following cases:
 - a. The guarantee is also a redemption guarantee, ie. a guarantee that a loan which is to be converted will be redeemed.
 - b. The guarantee is also a margin guarantee, ie. a guarantee covering the difference between the debt outstanding on the old loan and the principal amount of the new loan as well as the costs of re-establishing the original mortgage rank within the framework of sections 40-41 of the "tinglysningsloven" (land registration act).

It is always a precondition that the completion of the case and thus a possible release from the conversion guarantee solely depends on the undertaking.

3.3. Shares and other securities

The following are examples of shares and other securities:

1. Shares in limited companies and limited liability companies and investment certificates.
2. Holdings in associated companies, etc.
3. Holdings in group companies.
4. Bonds and mortgages.

Shares and other securities, including geared holdings and other securities, are to be included in the calculation of the undertaking's exposure with the issuer of said holdings and securities. This also applies when said securities form part of a collective investment scheme.

For shares and holdings note the following:

The items are to be included at their carrying amount according to the quarterly financial statements or the annual report for the quarter or year to which the calculation of exposures pertains. Unlisted shares are to be adjusted at fair value. If this value cannot be measured reliably, the adjustment is to be made at cost price, cf. the "bekendtgørelse om finansielle rapporter for kreditinstitutter og fondsmæglerselskaber m.fl" (executive order on financial reports for credit institutions and investment companies, etc.).

It does not affect the calculation of the exposure whether the undertaking controls the voting rights related to the shares.

When shares and other securities are geared, said shares and other securities are to be included at their carrying amount, subject however to a maximum of the amount at which they have been made subject to a charge.

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If the owner of a company has deposited shares in the company as collateral for the company's exposure, said shares are not to be included in the bank's exposure with said owner or company.

For bonds note the following:

Bonds are to be included in the calculation of exposures at nominal value. The reason for this is that the claim on the undertaking in a bankruptcy situation will be the nominal value of the bonds.

For forward contracts, futures contracts and option contracts note the following:

The underlying securities of forward contracts, futures contracts and option contracts are to be included in the calculation of the undertaking's exposure with the issuer of such securities. If an undertaking has purchased forward mortgage-credit bonds, the bonds purchased are thus to be included at the market price current at the time of calculation of the exposure with the relevant mortgage-credit institution. When the bonds are included in the undertaking's own portfolio, they are to be included in the exposure at nominal value, cf. above.

The securities are to be included in the exposure in accordance with the "principle of disposal", ie. they are to be included from the time they are purchased - either in a spot transaction or a forward contract - or from the time a position has been taken in the securities through futures or option contracts. The securities are to be excluded from the exposure at the time an agreement on sale has been made. Apart from the exposure with the issuer of the security, the undertaking also has an exposure with the contract counterparty. This exposure is to be calculated as stated below under 3.4. no. III.

3.4. Items related to interest and foreign-exchange rates as well as shares and commodities

The main principle is that if a contract is not subject to a capital adequacy requirement, cf. the Executive Order on Capital Adequacy, it is not to be included in the calculation of exposures either.

I. The following items are to be included in the exposure:

1. Derivative financial instruments based on bonds and interest rates (items related to interest rates). This includes swaps, FRAs, swaptions, and options on FRAs, and forward transactions, futures and options based on bonds, other debt instruments and interest rates.
2. Derivative financial instruments based on shares and share indexes (items related to shares). This includes forward transactions, futures and options based on shares and share indexes as well as warrants.
3. Derivative financial instruments based on foreign-exchange rates (items related to foreign-exchange rates). This includes forward transactions, futures and options based on foreign-exchange rates and gold.
4. Derivative financial instruments based on commodities (items related to commodities). This includes forward transactions, futures and options based on eg. metals (except gold), agricultural commodities and energy.
5. Repo transactions (genuine sale and repurchase transactions) with bonds or shares as the underlying asset, and which have either been concluded with a market participant, cf. the definition in section 8(5) of the Executive Order on Capital Adequacy, or which meet the following conditions:

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- a. the outstanding accounts are measured daily at market value,
 - b. the collateral is adjusted when there are material changes in the value of the relevant securities,
 - c. the claims of the undertaking may be set off against the claims of the counterparty if the counterparty breaches the agreement, and
 - d. the conditions mentioned under points a and b must appear in the contract with the relevant counterparty.
6. Reverse repo transactions (genuine purchase and resale transactions) with bonds or shares as the underlying asset, and which have either been concluded with a market participant, cf. the definition in section 8(5) of the Executive Order on Capital Adequacy, or which meet the following conditions:
- a. the outstanding accounts are measured daily at market value,
 - b. the collateral is adjusted when there are material changes in the value of the relevant securities,
 - c. the claims of the undertaking may be set off against the claims of the counterparty if the counterparty breaches the agreement, and
 - d. the conditions mentioned under points a and b must appear in the contract with the relevant counterparty.

Repo transactions that do not meet the requirements of no. 5 are to be considered as gearing of securities.

Reverse repo transactions that do not meet the requirements of no. 6 are to be considered as loans against collateral.

For mortgage-credit institutions derivative financial instruments are to be included in the exposure irrespective of whether they hedge differences between priority of payment, cf. the "obligationsbekendtgørelsen" (executive order on bonds), or if they hedge fixed-rate agreements.

The transactions mentioned above must always be included in the exposure.

II. The following items are not to be included in the exposure:

1. Spot transactions.
2. The following contracts which are exempted in accordance with annex 6, XI, no. 3 of the Executive Order on Capital Adequacy:
 - a. Guaranteed contracts related to interest rates, shares, commodities and foreign-exchange rates, cf. section 10 of the Executive Order on Capital Adequacy.
 - b. Contracts entered into solely for the purpose of settling a previously established contract (concluding the transaction). Both contracts may be omitted if they have been made with the same counterparty, the same principal amount, in the same currency and with the same expiration date. If the principal amounts are not identical, but the other conditions have been met, the part of the contracts that fully cover each other may be omitted.
 - c. Options written which are related to interest rates, shares, commodities and foreign-exchange rates.
 - d. Foreign-exchange contracts (except contracts related to gold) with an original maturity of 14 days or less.

III. The calculation of the exposure

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When calculating an exposure, all the items mentioned under no. 1 which have been entered into with the relevant counterparty are to be included. Each contract is to be included at the sum of the market value of the contract plus an addition for the potential future exposure.

The market value of each individual contract is to be calculated in accordance with the regulations of part 3 of the "bekendtgørelse om finansielle rapporter for kreditinstitutter og fondsmæglerselskaber m.fl" (executive order on financial reports for credit institutions and investment companies, etc.). However, the market value is only to be included in the exposure if it is positive.

The addition for the potential future exposure is to be calculated as a percentage of the principal amount of the contract. The addition depends on the underlying instrument and the remaining term of the contract. The additions appear from annex 1 for each of the contracts mentioned above. The addition is also to be calculated in instances where the market value of the contract is negative. In such instances, the exposure only consists of the addition.

Repo transactions are to be treated as spot sales and forward purchases. This entails that the securities in the repo transaction remain in the transferring undertaking and must therefore be included in the exposure with the issuer of the security in the same manner as if the securities had remained in the own portfolio. The exposure with the counterparty is to be calculated in the same manner as if it had been forward transactions.

The reverse repo transactions are to be calculated as spot purchases and forward sales. This entails that the securities are not included in the undertaking's exposure with the issuer of the securities. The exposure with the counterparty is calculated as if it had been forward transactions.

Share loans on standard terms prepared by the Danish Bankers' Association, the Danish Securities Dealers Association and the Copenhagen Stock Exchange are to be treated as repo or reverse repo transactions depending on whether the undertaking lends or borrows shares. For investment companies and investment management companies this only applies if full collateral is provided.

If the undertaking has entered into an agreement on netting with a counterparty and if said agreement meets the conditions for agreements on netting laid down in annex 6 XI 4.2 of the Executive Order on Capital Adequacy, said undertaking may carry out netting of contracts with a counterparty risk in accordance with the regulations of annex 6 XI 4.1 of the Executive Order on Capital Adequacy. Netting may only be carried out for those contracts with a counterparty risk which are covered by the agreement.

3.5. Other outstanding accounts which constitute a credit risk to the undertaking

This includes outstanding accounts not covered by the categories above. It depends on the details of the outstanding accounts how a specific outstanding account is to be included in the exposure.

4. Deductions

4.1 Definitions

Zone A

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"Countries within Zone A" mean, cf. section 5(1), no. 18 of the Financial Business Act, EU Member States, other countries with full membership of the Organisation for Economic Cooperation and Development (OECD), and other countries that have entered into special loan agreements with the International Monetary Fund (IMF) and are affiliated with the General Agreement on Borrowing (GAB). A country that restructures its foreign national debt due to inability to pay is barred from Zone A for a period of five years.

Annex 1 of the Executive Order on Capital Adequacy contains a list of the countries within Zone A.

Zero-weighting

Article 44 of the Credit Institutions Directive allows Member States to fix a weighting of 0 for their own regional and local authorities if there is no difference in risk between claims on said authorities and claims on the central government.

In Denmark, other Member States' zero-weighting of their own regional and local authorities is recognised. Similarly, competent authorities' notification of zero-weighting in countries with which the European Union has entered into an agreement for the financial area (EEA countries) is also recognised.

Other covered bonds.

They include bonds subject to special regulation with a view to protecting the owners of such bonds. All Danish mortgage-credit bonds and bonds issued by KommuneKredit and Danish Ship Finance are covered by the provision in the Directive. In addition, bonds from a number of German and Italian bond issuers are included, cf. the full list on the Commission website (www.europa.eu.int/comm/internal_market/securities/ucits/index_en.htm).

Multilateral development banks

"Multilateral development banks" means the World Bank (the International Bank for Reconstruction and Development), the International Finance Corporation, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the Council of Europe Resettlement Fund, the Nordic Investment Bank, the Caribbean Development Bank, the European Bank for Reconstruction and Development, the European Investment Fund, the Inter-American Investment Corporation and the Multilateral Investment Guarantee Agency.

Listed securities

"Listed securities" means securities which are either listed on a stock exchange or which are effectively negotiable and regularly listed on other regulated markets, cf. article 16 of the Investment Services Directive (93/22/EEC).

4.2. Deductions

The deductions listed in section 4 of this Executive Order are based on provisions in the Credit Institutions Directive and may be regarded as a risk-related correction of the exposures.

There is no obligation to make use of said deductions. Omission to use the deductions does not, however, entail any limitation of the exposure limits or of the duty to report.

Before deductions are made, the total exposure with the relevant debtor is to be made as described in schedule 3.

The deductions are divided as follows:

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1. Deductions in the exposure with the client as a consequence of said client's standing and integrity.
2. Deductions in the exposure with the customer as a consequence of the collateralisation giving a deduction (the quality of the collateral).
3. When the exposure is calculated, deductions are to be made in accordance with no. 1 and/or no. 2. If both the customer's standing and the quality of the collateralisation give deductions, the exposure is to be calculated in accordance with the following guidelines: Firstly, the exposure is reduced by the deduction for the collateralisation. Any remaining exposure is subsequently reduced by the percentage allowed for by the customer's standing.

1. Deductions in the exposure with the customer as a consequence of said customer's standing

I. 100 per cent deductions:

1. Claims on and other exposures to the European Union.
2. Claims on and other exposures to central governments or central banks within Zone A.
3. Claims on and other exposures to regional and local authorities in the Member States of the European Union or countries with which the Community has entered into an agreement for the financial area. A precondition for the deduction is that the debtors have been assigned zero-weighting status.
4. Claims on and other exposures to central governments and/or central banks in countries outside Zone A result in a deduction of 100 per cent if said claim/exposure is in the their national currency and if the undertaking has funded said assets in the same currency.

II. 90 per cent deductions:

1. The part of the exposure with a mortgage-credit institution which consists of the undertaking's own portfolio of mortgage-credit bonds issued by the relevant mortgage-credit institution.
2. The part of the exposure with other bond issuers (cf. section 2(1), no. 6 of this Executive Order) which consists of the undertaking's own portfolio of bonds issued by the relevant issuer.

In both cases, the starting point of the calculation of exposures is that the bonds have been calculated at nominal value. The deduction is to be calculated on the basis of the officially listed market price of the bonds.

As regards mortgage-credit institutions, the following also applies:

3. The part of the exposure with other credit institutions in Zone A which consists of registration guarantees with a maturity of no more than one year and where the release from the guarantee solely depends on said credit institution.

The third 90 per cent deduction covers the cases where release from registration guarantees solely depends on the credit institutions. This may include formal circumstances which have not yet fallen into place, eg. cancellation of an old mortgage or deletion of other endorsements, but where the credit institution has obtained the required endorsements respecting the priority of said guarantees and where it can be documented that the old loan(s) have been redeemed. Such registration guarantees may be recognised at DKK 1 by the guarantor.

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In addition, it is a condition that the guarantees have an original maturity of no more than one year, cf. article 49(7) I) of the Credit Institutions Directive. This entails that the guarantees must be worded in such a manner that the credit institution is obliged to redeem the loan if a registered mortgage without endorsements has not been obtained within one year. If this is estimated to take more than one year, said guarantee must have a longer maturity and the deduction will then only be 80 per cent.

Finally, it is a condition that the mortgage-credit institution has received a declaration from the credit institution stating that the guarantees in question are for DKK 1. Not until this time, may the mortgage-credit institution deduct 90 per cent of the exposure.

III. 80 per cent deductions:

Claims on and other exposures to credit institutions, investment companies, investment management companies, stock exchanges, authorised market places and clearing centres in Zone A may be reduced by 80 per cent.

This does not apply, however, to the part of the exposure which

1. consists of shares and subordinated amounts receivable (no deduction), or
2. is covered by no. II above (90 per cent deduction).

IV. 50 per cent deductions:

1. Exposures consisting of guarantees made to Danmarks Nationalbank (Denmark's central bank) or a clearing centre in connection with payments in securities transactions.
2. Exposures consisting of contingent liabilities with medium/low risk, cf. the categorisation in annex 6, schedule V of the Executive Order on Capital Adequacy. This includes:
 - a. Issue underwriting. This includes all obligations that the undertaking has to buy securities irrespective of whether the securities will be included in the trading portfolio. Long-term issue underwritings and Note Issuance Facilities (NIFs) and Revolving Underwriting Facilities (RUFs) and similar, which entail an obligation on the part of the undertaking to buy securities are not covered by the deduction.
 - b. Other items with medium/low risk. This includes guarantees made to Danmarks Nationalbank (Denmark's central bank) in connection with settlement of payments in VP Securities Services. Guarantees made for the capital basis of VP Securities Services are also to be included.

2. Deductions in the exposure with the customer as a consequence of the collateralisation giving a deduction

1. 100 per cent deductions:

1. Claims and other exposures guaranteed by the European Union.
2. Claims and other exposures guaranteed by central governments or central banks within Zone A.
3. Claim and other exposures guaranteed by regional and local authorities in the Member States of the European Union or countries with which the Community has entered into an agreement for the financial area. A precondition for the deduction is that the relevant authorities have been assigned zero-weighting status in their home country.

4. Exposures secured by collateral in the form of
 - deposits in the lending undertaking or in a credit institution which is the parent company or subsidiary of the lender.
 - certificates of deposit issued by the lending undertaking or a credit institution which is the parent company or subsidiary of the lender, and deposited with one of these undertakings.
5. Exposures of investment companies and investment management companies secured by means of a charge on a margin deposit.

As regards mortgage-credit institutions, the following also applies:

6. Exposures secured by means of a mortgage on residential properties, including farmsteads on agricultural properties, may be reduced by the proportion of the collateral lying within 50 per cent of the value of the relevant real property.

The value must always be calculated in relation to the value at the time of calculation and not the time of payment. The value at the time of payment may, however, be applied if this is lower than the value at the time of calculation.

As regards the proportion of all residential agricultural properties, this is to be amended on the basis of information from property valuations and annual adjustments from the Central Customs and Tax Administration.

With regard to such adjustments or amended ordinary property valuations, these values are to be applied from the end of the quarter in which they become effective.

If the borrower's part (the part of the loan which is not secured by means of a guarantee, cf. annex 2.3) is mortgaged within 50 per cent of the value of the relevant property, said borrower's part may be reduced to zero. If a proportion of the borrower's part is mortgaged beyond 50 per cent of the property value, this proportion must be included in full. When making deductions for the proportion of the exposure mortgaged within 50 per cent of the property value, preferential claims must be respected.

As regards banks, the following also applies:

6. Loans secured by means of a mortgage on the borrower's residential property may be reduced by the proportion of the charge lying within 50 per cent of the public property valuation. A property may be included as residential property if no less than 80 per cent of the property's total gross area is used for residential purposes. This deduction requires that the borrower and the property owner are the same person. However, it is not necessary for the owner to occupy the property. Mortgages on holiday houses are not covered by this deduction.

As regards foreign residential properties, the measurement must be prudent and regulated by law or administrative provisions. Only mortgages on residential properties situated in Member States applying this provision in the Directive (article 49(7) p) of 2000/12/EC).

II. 90 per cent deductions:

1. Exposures secured by collateral in the form of listed securities issued by a central government or a central bank in Zone A.
2. Exposures secured by collateral in the form of listed securities issued by EU institutions.

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3. Exposures secured by collateral in the form of listed securities issued by regional and local authorities of the Member States of the European Union or countries with which the Community has entered into an agreement for the financial area. A precondition for the deduction is that the debtors have been assigned zero-weighting status in their home country.

In these cases, the deduction constitutes 90 per cent of the officially listed price of the security.

Collateral in the form of listed securities guaranteed by the institutions mentioned above but not issued by said institutions do not result in a deduction unless the issuer is covered by no. III below. In this case, the deduction constitutes two-thirds of the officially listed price of the security.

III. Two-thirds deductions:

1. Exposures secured by collateral in the form of listed securities issued by credit institutions in Zone A, including mortgage-credit bonds. However, this does not apply to securities which are subordinated other amounts receivable (no deduction) and holdings in the credit institution (no deduction).
2. Exposures secured by means of a charge on bonds issued by the European Investment Bank or multilateral development banks.

In both cases, the exposure may be reduced by two-thirds of the officially listed price of the security.

5. Reporting

All undertakings must, on a quarterly basis, report exposures which constitute 10 per cent or more of the undertaking's base capital before deductions. This also applies to exposures with group companies.

The base capital is to be calculated in accordance with the provisions of part 128 of the Financial Business Act and corresponds to the base capital after deductions at the end of the quarter in the solvency calculation.

The current profit is not to be included in the base capital at the end of the quarter. Any profit for the year is not to be included in the base capital until the audited financial statements have approved by the board of directors. Any loss for year is to be set off against the base capital on an ongoing basis.

Reporting is to be made on form SE (undertakings) and form SV (groups). The following is to be indicated on the form: serial number of the exposure, business sector, name of the client, total exposure before deductions, any deductions and total exposure after deductions as a percentage of the base capital.

Exposures must be reported so that they are included in descending order. Thus, the exposure which is largest after deductions is listed as number 1, etc.

Exposures with companies which participate fully in consolidation pursuant to sections 171-175 of the Financial Business Act must be reported with a deduction corresponding to the size of the exposure. Such exposures are to be reported at the bottom of the form.

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In the calculation of the exposure with subsidiaries carrying out insurance business, the sum of holdings and subordinated debt after deduction of the group's share of the insurance company's capital requirements is to be included (cf. the deduction from the base capital under section 139 of the Financial Business Act).

For all exposures, if the total exposure after deductions constitutes less than 10 per cent of the base capital, no percentage is to be indicated in column 6.

The total percentage for those exposures which constitute no less than 10 per cent of the undertaking's (the group's) base capital after deductions is to be indicated in column 6 under the most recently reported exposure.

EXCLUDING MINOR AMENDMENTS

Annex 4

Statement of large exposures - Group					SV
Group				Date:	Ch.reg.no.
Exposures which, before deductions in accordance with the "bekendtgørelse om opgørelse af store engagementer" (executive order on the calculation of large exposures), constitute 10 per cent or more of the group's base capital, cf. section 145 of the Financial Business Act. Ranked by descending level of exposure (after deductions) as percentage of base capital, cf. section 128 of the Financial Business Act. Exposures with companies which participate fully in the consolidation are to be listed at the bottom					
No.	Business sector ¹⁾	Client	Exposure before deductions DKK '000	Deductions DKK '000	Exposure after deductions as a percentage of the base capital (section 145(3) of the Financial Business Act) ²⁾ Per cent
1	2	3	4	5	6
999 9	The total percentage for those exposures which constitute 10 per cent or more of the group's base capital after deductions (cf. section 145(2) of the Financial Business Act).				

1) For business sector categories, cf. annex 2, schedule 1.
 2) In this column, percentages are only to be indicated for those exposures which constitute a minimum of 10 per cent of the base capital after deductions.

Official notes

¹⁾ This Executive Order contains provisions that implement Council Directive 93/6/EEC of 15 March 1993, Official Journal L45, p. 56, (Capital Adequacy Directive); European Parliament and Council Directive 96/10/EC of 21 March 1996, Official Journal L85, p. 17, (Contractual Netting Directive); European Parliament and Council Directive 98/33/EC of 22 June 1998, Official Journal L35, p. 52, (Matrix Directive); and European Parliament and Council Directive 2000/12/EC of 20 March 2000, Official Journal L126, p. 1.

Links to EEC and EC directives, cf. note 1

- [Directive 1993/6/EEC](#) Celex no. 31993L0006
- [Directive 1996/10/EC](#) Celex no. 31996L0010

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[Directive 1998/33/EC](#) Celex no. 31998L0033

[Directive 2000/12/EC](#) Celex no. 32000L0012

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