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Executive Order on Management and Control of Banks, etc.¹⁾

The following shall be laid down pursuant to section 65(2), section 70(6), section 71(2), section 152(2) and section 373(4) of the Financial Business Act; cf. Consolidation Act no. 1447 of 11 September 2020, as amended by Act no. 2110 of 22 December 2020 and Act no. 1155 of 8 June 2021, section 67(5), section 68(2), section 94(2) and section 270(1) of Act no. 1155 of 8 June 2021 on stockbroking companies and investment services and activities and section 21(5) and section 39(3) in the Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act, cf. Consolidation Act no. 1188 of 19 September 2018, as amended by Act no. 1166 of 8 June 2021.

Part 1

Scope

1. This Executive Order shall apply to the following undertakings, cf. however, subsections 4-9:

- 1) Banks.
- 2) Mortgage credit institutions.
- 3) Danish Ship Finance A/S (Danmarks Skibskredit A/S).
- 4) Investment firms, cf. however, subsection 7.
- 5) Investment management companies, with the exception, however, of management of Danish UCITS by investment management companies.
- 6) Financial holding companies with the adaptations necessitated by consolidation.
- 7) Branches in Denmark of credit institutions, investment companies and management companies authorised in a country outside the European Union with which the Union has not entered into an agreement for the financial area, with the exceptions necessitated by the nature of the branch, or laid down in, or pursuant to international agreement.

(2) Undertakings covered by subsection (1) which are solely authorised to provide certain specified services shall comply with the regulations of this Executive Order on the areas in which the undertaking is authorised.

(3) Section 2(1), section 3(1) nos. 5-7, 10 and 12, and subsection 2, section 4(2), nos. 6 and 8, section 16, annexes 5 and 7, nos. 1-9, 11, 12, 14, 16-19, 22 and 24 shall apply for shared data centres.

(4) Section 4(2), no. 7, section 5(3), no. 4 and annex 8 do not apply to undertakings covered by subsection 1, nos. 5-7.

(5) Annex 5 no. 70 shall apply to branches of financial institutions designated as operators of essential services pursuant to section 307a(1) 2nd sentence of the Financial Business Act.

(6) Section 16 does not apply to financial holding companies.

(7) Sections 16 and 17 do not apply to undertakings which are only authorised as a stockbroking company.

(8) Sections 25 shall apply only to undertakings covered by subsections 1, nos. 1, 2, 4, 6 and 7 and special purpose securitisation units, cf. article 2(1) no. 2 of Regulation (EU) no. 2017/2402/EU of the European Parliament and of the Council of 12 December 2017.

(9) Section 5(3), no. 5 does not apply to undertakings covered by section 1(1), nos. 5 and 6.

Chapter 2

Preventative measures

2. The board of directors or the board of management of a corporate group covered by section 1(1), nos. 1-6 with subsidiaries shall take the steps necessary to ensure that the corporate group is operated appropriately. The board of directors or the board of management, respectively, shall also determine which steps are adequate to ensure compliance with the executive order. The adequacy of such steps shall depend on the business model of the undertaking, and:

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- 1) the size of the undertaking,
- 2) the structure of the undertaking, as well as the structure of the group to which the undertaking belongs,
- 3) the business-related and geographical areas in which the undertaking operates,
- 4) the financial services offered by the undertaking, and
- 5) the financial products traded by the undertaking.

(2) The board of directors or the board of management, respectively, of the undertakings covered by section 1(1), nos. 1-6 shall take the steps necessary to ensure that the undertaking is operated appropriately.

(3) The board of directors or the board of management, respectively, of the undertakings covered by section 1(1), nos. 1 and 2 which, pursuant to section 308 or 310 of the Financial Business Act have been appointed as systemically important financial institutions (SIFIs) or globally systemically important financial institutions (G-SIFIs), shall, in the assessment pursuant to subsection (1), include consideration for maintenance of a stable financial sector in the assessment of the risk management area and consideration of maintenance of a stable financial infrastructure in assessment of the IT security area.

Chapter 3

Tasks and responsibilities of the board of directors

3 As part of the overall and strategic management of the undertaking, the board of directors shall:

- 1) make decisions regarding the business model of the undertaking, including objectives for the conditions mentioned under section 2(1), nos. 1-5,
- 2) on the basis of the business model, make decisions regarding the policies of the undertaking, cf. section 4,
- 3) regularly, though at least once a year, make an assessment of the individual and overall risks taken by the undertaking, cf. section 5, including determine whether these risks are acceptable,
- 4) assess and make decisions regarding budgets, capital, liquidity, significant transactions, particular risks and overall insurance conditions,
- 5) assess whether the board of management performs its duties appropriately and in accordance with the risk profile defined, the policies adopted and the guidelines issued to the board of management,
- 6) assess whether the undertaking has a clear organizational structure with a well-defined division of responsibilities, taking the company's business model and risk profile taking into account,
- 7) make decisions regarding the frequency and scope of reports by the board of management and information provided for the board of directors to ensure that the board of directors has thorough knowledge about the undertaking and its risks, and that the reports are otherwise satisfactory for the work of the board of directors,
- 8) regularly and at least once a year make decisions regarding the individual solvency need of the undertaking, cf. sections 124(2) and 126a(1) of the Financial Business Act and section 120(2) of the Act on Stockbroking Companies and Investment Services and Activities,
- 9) organise its work such that the management of the undertaking is appropriate, cf. annex 6,
- 10) assess whether the undertaking has an appropriate publication and communication process,
- 11) approve the report which the board of management is obligated to prepare with a calculation and assessment of the liquidity position and liquidity risks of the undertaking, cf. section 8(9), and
- 12) assess and approve the undertaking's IT strategy, cf. annex 5.

(2) The board of directors shall ensure that it has the necessary information base to take decisions as referred to in subsection (1).

4. Policies of the undertaking, cf. section 3(1), no. 2 shall include the overall strategic objectives of the undertaking for the relevant risk areas, including identification and definition of the risks which the undertaking wishes to assume in the relevant areas, and instructions on how to achieve such strategic objectives.

(2) If relevant, these policies shall include:

- 1) Credit policy, cf. annex 1.

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- 2) Market-risk policy, cf. annex 2.
- 3) Policy for operational risks, cf. annex 3.
- 4) Policy for covering risks by insurance.
- 5) Liquidity policy, including a contingency plan in the event of inadequate or lack of liquidity, cf. annex 4.
- 6) IT strategy, IT security policy and IT risk management policy, cf. annex 5.
- 7) Excessive leverage risk policy, cf. annex 8.
- 8) Other risk areas which the board of directors assess to be of importance for the undertaking.

(3) The policies of the undertaking, cf. subsection (2), nos. 1-3, as well as 4-8 to a relevant extent, also other risks, shall, in addition to the overall strategic objectives of the undertaking in the relevant risk areas, include identification of, objectives for, and definition of the gearing risks which the undertaking intends to assume.

(4) The policies of the undertaking shall be adequate in relation to the revenues and own funds of the undertaking.

5. With regard to compliance with section 3(1), no. 3, the board of directors shall regularly assess whether the policies of the undertaking, cf. section 4, as well as the guidelines for the board of management, cf. sections 6 and 7, are appropriate in relation to the business-related activities, organisation and resources of the undertaking, as well as the market conditions under which the activities of the undertaking are operated.

(2) The assessment pursuant to subsection (1) shall be made taking into account the following:

- 1) the risks to which the undertaking is exposed, including the influence of the business model on risks and risk levels,
- 2) the activities to which the relevant risks are linked,
- 3) the extent of the individual risks,
- 4) the interaction between types of risk, if relevant.

(3) The assessment pursuant to subsection (1) shall, where applicable, also take in the account the following:

- 1) whether the undertaking has an adequate number of employees and competencies in risk-encumbered activities,
- 2) whether the undertaking has adequate IT systems,
- 3) whether the undertaking has adequate procedures for quick and effective communication across the undertaking and group,
- 4) whether the undertaking has adequate processes for identification, management and monitoring of excessive gearing risk, cf. annex 8, and
- 5) whether the undertaking has an adequate number of employees, competences, policies, guidelines and processes for managing non-performing exposures and forborne exposures, cf. article 47a and article 47b of Regulation (EU) no. 2019/630 of the European Parliament and the Council of 17 April on requirements for minimums coverage of losses for non-performing exposures, including whether the company is adequately prepared to handle any significant deterioration in the quality of the credit portfolio.

(4) The risk controller's report, as set out in annex 7, shall be included in the board's overall assessment basis in accordance with subsection (1).

6. On the basis of the risk assessment, cf. section 5, and according to the policies adopted pursuant to section 4, the board of directors shall issue written guidelines to the board of management.

(2) The guidelines according to subsection (1) shall specify the transactions that the board of management may perform as part of its position and which decisions the board of management may make, subsequently informing the board of directors.

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(3) The board of directors may not delegate powers to the board of management that belong to the board of directors' overall management tasks, cf. sections 3-5, or are otherwise of an unusual nature or of great importance to the undertaking, including the following powers:

- 1) Decision on frameworks and conditions for outsourcing critical and important processes, services or activities.
- 2) Granting unusual or significant exposures, cf., however, section 117, (1), 3rd and 4th sentence, of the Danish Act on Public and Private Limited Companies (the Companies Act), and exposures covered by section 78 of the Financial Business Act and section 88 of the Act on Stockbroking Companies and Investment Services and Activities.
- 3) The annual review of major assets and liabilities, cf. the principles in section 115, no. 1, of the Companies Act.
- 4) Appointment of the board of management and head of audit.
- 5) Decision on principles for calculation of risks, cf. section 7(1), no. 2, including the use of internal models not covered by no. 6.
- 6) Decision applying for approval of IRB, VaR, AMA and EPE models and other internal models for the calculation of the undertaking's solvency, in accordance with Regulation (EU) no. 575/2013 of the European Parliament and the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and Regulation (EU) no. 2019/2033 of the European Parliament and of the Council of 27 November 2019 on prudential requirements for investment companies.
- 7) Decision on the company's individual solvency needs, cf. section 124(2), and section 126 a(1) of the Financial Business Act and section 120(2), of the Act on Stockbroking Companies and Investment Services and activities.

7. The guidelines pursuant to section 6 shall

- 1) include controllable limits for the size of the risks that the board of management is authorised to take on behalf of the undertaking, and
- 2) lay down the principles for how utilisation of the limits for each type of risk is calculated, including how the risks originating from financial instruments and funds managed on behalf of the undertaking by external portfolio managers are incorporated in the overall risk calculations.

(2) The limits in the guidelines on credit risk, market risk and liquidity risk, cf. annexes 1, 2 and 4, shall state unambiguously the size of the individual limit stipulated for risk, for example as absolute figures or by relating the risk to the own funds of the undertaking.

(3) Only in exceptional circumstances may the guidelines allow for the board of management to manage risks of a size outside those stipulated in the risk profile determined and the limits laid down in the guidelines, and only if the preconditions for this are stated in the guidelines. If these preconditions cannot be stipulated, prior authorities to exceed the limits in the guidelines may not be granted to the board of management.

(4) When drawing up the guidelines for the board of management, the board of directors shall be confident that the chief executive officer or the members of the board of management together possess the knowledge and experience necessary to exercise the authorities stated in the guidelines in a manner appropriate for the undertaking.

(5) The guidelines shall state the manner and frequency of reporting to the board of directors. This includes stating the manner and frequency of reporting by the board of management in areas for which the board of directors has stipulated limits for the board of management, or for which limits have been laid down in legislation.

Part 4

Tasks and responsibilities of the board of management

8. The board of management shall be responsible for the day-to-day management of the undertaking in accordance with provisions in legislation, including the Companies Act and the Financial Business Act or the Act on Stockbroking Companies and Investment Services and Activities, and the policies and guidelines adopted and issued by the board of directors, cf. sections 4, 6 and 7, and any other oral or written decisions and instructions from the board of directors.

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(2) The board of management shall ensure that the policies and guidelines adopted by the board of directors are implemented in the day-to-day operations of the undertaking.

(3) The board of management shall, upon request from the board of directors, disclose information to the board of directors, as well as information assessed by the board of management to be of significance to the work of the board of directors.

(4) The board of management shall disclose information to the chief risk officer and the person responsible for compliance assessed by the board of management to be of significance to the work of the chief risk officer and the person responsible for compliance.

(5) The board of management shall have day-to-day managerial responsibility for ensuring that the undertaking only makes transactions for which the board of management and employees, where appropriate, are able to assess the risks and consequences.

(6) The board of management shall ensure that there are business procedures for documenting significant decisions in the organisation, including information about who made a given decision, when it was made, and under what authority and on what basis it was made.

(7) The board of management shall approve the procedures of the undertaking, cf. section 13(1), or appoint one or more persons or organisational entities with the necessary specialist knowledge to do so.

(8) The board of management shall ensure that instructions are laid down for the initiatives to be implemented in the event of serious operational problems, IT breakdown, other operational problems, as well as the resignation of key employees.

(9) The board of management shall approve the guidelines of the undertaking for development and approval of new services and products that may impose significant risks on the undertaking, counterparties or customers, including changes to existing products by which the risk profile of the product is changed significantly.

(10) The board of management in undertakings covered by section 1(1), nos. 1-3 shall, at least once a year, prepare a report with a calculation and assessment of the undertaking's liquidity position and liquidity risks.

(11) The board of management shall at least once a year assess the quality of data which are essential for the management of the undertaking and take the necessary action if the board of management considers the quality inadequate.

(12) The board of management shall continuously monitor, challenge and supervise that the work of senior executives in the organisation is carried out in accordance with the guidelines given, including adequate reporting, cf. sections 20 and 21.

(13) The board of management shall carry out an adequate investigation of the situation if it suspects employees' co-operation with customers, suppliers or other external parties on participation in crime or suspects employee knowledge of the criminality of customers, suppliers or other external parties. In this situation, the board of management shall assess the assignment of tasks to the employees concerned.

Chapter 5

Organisation and allocation of responsibilities

Tasks and resources

9 The undertaking shall be organised in organisational entities with clearly defined tasks, and all employees shall have clear authorities, responsibilities and lines of reference. It shall be clear to the individual entities and employees which tasks are to be performed and the manner in which to perform these tasks.

(2) The organisational entities shall be staffed in terms of resources and competencies such that the entities are able to carry out appropriately the tasks for which said entities are responsible.

(3) The company shall have measures in place to ensure that any non-compliance with policies and business procedures is included in the management's assessment of the organisational entities' and employees' handling of their respective tasks.

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Informing the board of directors and other management levels, etc.

10. The undertaking shall be organised so that the information required to reach the board of directors, the board of management and management at other organisational levels, as well as the chief risk officer and the person responsible for compliance can reach such parties within timeframes in a fair and complete form and in a form which ensures that any measures can be initiated without undue delay.

Conflicts of interest and segregation of duty

11. The undertaking shall ensure that

- 1) there are procedures to prevent, identify and manage conflicts of interest
- 2) the undertaking is organised such that there is appropriate segregation of duties, including that planning employees, executing employees and employees who prepare income and risk statements, as well as control and reporting, each refer to their own manager, and
- 3) the undertaking is organised such that there are clearly defined reporting lines.

(2) Execution of an activity, preparation of return and risk calculations, as well as control and reporting may be carried out in the same entity if this is deemed adequate, cf. section 2, and taking into consideration the nature of the entity's other tasks.

(3) In undertakings where no segregation of duties is maintained in accordance with subsections (1), no. 2, cf. section 2, appropriate compensatory measures shall be introduced to ensure that the undertaking is not subjected to unnecessary risks or losses.

Part 6

Administrative and accounting practices

Administrative practices

12. The undertaking shall be organised such that individual entities and employees have at their disposal the procedures, manuals, contingency plans, systems and other tools necessary to carry out their duties.

13. The undertaking shall have procedures for all significant areas of activity. Activities relating to the undertaking in its capacity as financial undertaking shall, in general, be regarded as significant.

(2) The procedures shall, as a minimum,

- 1) be accessible and clear
- 2) describe satisfactorily the activities to be carried out, including ensuring that legislation and other relevant regulations, as well as policies and guidelines decided by the management of the undertaking are complied with and followed,
- 3) state which organisational entity, persons or groups of persons are to carry out the individual tasks and sub-tasks, and
- 4) be updated regularly for changes in internal conditions or in relevant regulations.

(3) The procedures may be made available electronically. However, the board of management shall ensure that they are accessible in the event of a systems breakdown in the undertaking.

14. The board of management shall ensure that the documentation required for the activities of the undertaking is made available, including that there are procedures for

- 1) the extent to which decisions, authorities, completed tasks and transactions, as well as events arisen are to be documented,
- 2) the form of such documentation,
- 3) the manner to which accessibility to documentation is ensured,
- 4) how long such documentation is to be stored, and

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- 5) to whom documentation is to be forwarded, if relevant.
(2) Documentation, cf. subsection (1), shall be made available either in writing or electronically.

Accounting practices

15. The undertaking shall have good accounting practices. This includes that

- 1) the undertaking, cf. section 14, can document that published annual and interim financial reports, including all individual items and notes, have been prepared in accordance with the regulations applicable for the relevant reports, and
- 2) the undertaking obtains necessary information for use in the preparation of annual and interim financial reports, including all relevant information necessary to determine items based on accounting estimates.

Part 7

Risk management and compliance

Chief risk officer and risk management function

16. The board of management shall ensure that the undertaking has a risk management function and a chief risk officer, cf. annex 7. The board of management shall ensure that the risk management function, to the extent necessary, is able to contact and report directly to the board of directors independently of the board of management, and that the risk management function is able to express reservations and warn the board of directors if specific risk developments impact or may impact the undertaking, without prejudice to the responsibilities of the board of directors.

(2) Dismissal of the chief risk officer shall be subject to prior approval from the board of directors.

(3) The board of management shall follow up the conclusions and recommendations of the risk officer and, where appropriate, implement corrective measures. The undertaking shall have guidelines for following up on the risk officer's conclusions.

(4) Warnings and concerns raised by the risk management shall be documented and the undertaking shall have procedures in place to ensure this.

Compliance

17. The undertaking shall have methods and procedures that are suitable to identify and reduce the risk of non-compliance with current legislation applying to the undertaking, market standards and internal regulations (compliance risks).

(2) The undertaking shall have an independent compliance function which is to check and assess whether methods and procedures pursuant to subsection (1), and the measures taken to address any deficiencies, are effective.

(3) In undertakings which are securities traders, the compliance function of the part of the entity relating to trading in financial instruments shall perform compliance and provide advice and assistance to the persons responsible for providing investment services and carrying out investment activities in accordance with Article 22(1-3) of Commission Delegated Regulation (EU) no. 2017/565 of 25 April 2016 laying down additional rules to Directive 2014/65/EU of the European Parliament and of the Council as regards the organisational requirements and conditions for the operation of investment firms and definitions of terms for the purposes of said Directive.

(4) In order to enable the compliance function to discharge its responsibilities properly and independently, the board of management shall ensure compliance with the following conditions:

- 1) The compliance function shall have the resources, competences and expertise necessary as well as access to regularly education and all relevant information.
- 2) An employee appointed by the board of management shall be responsible for the compliance function and for reporting to the board of directors and the board of management. Reports to the board of directors and the board of management shall be made at least once a year. The person responsible for compliance shall also be in a position to speak directly to the board of directors if the person responsible

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for compliance deems this to be necessary.

- 3) Employees involved in the compliance function shall not be involved in the performance of the services or activities they monitor.
- 4) The method used to determine the remuneration of the employees in the compliance function shall not jeopardise their independence.

(5) Subsection (4), nos. 3 and 4 shall not apply if it is established that such requirements are not in reasonable proportion to the nature, scope and composition of the activities of the undertaking.

(6) If the board of management assesses that the size or composition of the activities of the undertaking so justifies, the same person may be appointed as the person responsible for compliance and the chief risk officer. However, it shall always be ensured that employees are not involved in the performance of the tasks that they control as part of their compliance duties.

(7) The board of management shall follow up the conclusions and recommendations of the compliance officer and, where appropriate, implement corrective measures. The undertaking shall have guidelines for following up on the person responsible for compliance's conclusions.

(8) Warnings and concerns raised by the compliance function shall be documented and the undertaking shall have procedures in place to ensure this.

Delegation of authorities

18. Delegation of authorities from the board of directors, the board of management and other management levels shall be documented, cf. section 14, and the practices for this shall be stated in the procedures, cf. section 13.

(2) Authorities may only be delegated to employees who have the necessary knowledge, insight and experience to exercise the authorities received appropriately.

(3) Authorities delegated shall, as a minimum, state

- 1) the nature and scope of the authorities delegated,
- 2) the principles for determining exercise of the authorities,
- 3) the products or transactions covered by the authority
- 4) any supplementary limits for the risk as well as principles for determining the authorities meeting the requirements of section 7(1), and
- 5) how, how often and by which person or organisational entity reporting is to be made to, the person who has delegated authorities and any other persons.

(4) No one may delegate authorities that exceed the authorities the person in question has received himself. Total authorities granted, including authorities granted to groups of employees, may not exceed the powers contained in the guidelines issued by the board of directors to the board of management.

(5) If supplementary risk measurements have been set in connection with delegated authorities, the person who delegates the authorities shall ensure that the supplementary risk measurements are applied in a manner that ensures that other authorities granted are not exceeded.

Controls

19. The board of management shall control all material risk-encumbered tasks, including:

- 1) Compliance with all limits laid down by the board of management pursuant to section 7(1), no. 1, in the guidelines issued to the board of management and limits in legislation,
- 2) Compliance with delegated authorities,
- 3) Transactions, where the undertaking acts under a power of attorney from customers or counterparties, and where the undertaking has undertaken to comply with limits for risks, including placement limits,
- 4) Transactions, where the undertaking has committed itself to comply with the limits for risks by agreement with counterparties, for example in framework contracts on trading in financial instruments, and

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- 5) the collection and processing of data used by the undertaking as a basis for assessing risks and making business decisions, and
- 6) other tasks, which for some other reason may involve material financial risks or other material risks for the undertaking, including management of the accounts of the undertaking and tasks in connection with establishing or preparing the basis for financial statements, and determination of the individual solvency need of the undertaking.

(2) Control shall be carried out by another entity than the entity carrying out the task, cf. section 11(1), unless control is in the nature of reconciliation, monitoring compliance with procedures, error detection or similar, and the supervision is adequate in the specific circumstance.

(3) Control covered by subsection (1) shall be carried out at suitable intervals, depending on the size of the undertaking, the significance and size of the individual risk in relation to the business model of the undertaking, the area of activity and the complexity of the relevant risks and the capital position of the undertaking. Control shall include intra-day compliance with limits when transactions continuously take place throughout the day. Intra-day controls may, where appropriate, be on a sample basis.

(4) The undertaking shall have suitable monitoring of whether administrative tasks are carried out in an appropriate and uniform manner, and that procedures, etc. are complied with.

Internal reporting

20. The board of management shall ensure written and adequate reports are prepared regularly at all relevant management levels on compliance with and utilisation of important limits for risk assumption contained in the guidelines issued pursuant to section 6 or in the delegated authority. Reports shall also be prepared by the board of management on compliance with the limits laid down in legislation for risk in areas in which this is relevant for the undertaking in question. Reporting shall cover risks managed on behalf of the undertaking by portfolio managers.

(2) Reports shall be clear and concise and provide the board of directors, board of management and other employees who have delegated powers, cf. section 18, with information on both the current utilisation of the important limits and on utilisation over time. Notwithstanding 1st sentence and subsection (1), breaches of any of the limits shall be reported.

(3) In the event that the undertaking uses internal models to calculate risks, reporting shall also include relevant back tests as documentation of the reliability of the models.

(4) Reporting on delegated authorities, including incidents when such authorities have been exceeded, shall be to the person who has granted the authorities, at intervals which reflect such person's involvement in the daily transactions and which are stated in the authorities. Incidents when authorities have been exceeded shall normally be reported by no later than the day after the incident was ascertained.

21. The board of management shall ensure that reports are prepared on other significant aspects not covered by authorities stipulated in the guidelines or in the delegated authorities, cf. subsection (2). Reports may, for example, be prepared about reconciliation errors, losses arising from operational conditions, accounting or budgeting errors, the resignation of key persons, possible offenses, inadequate controls, inappropriate behaviour or other irregularities.

(2) The board of management shall ensure that, as far as possible, the procedures of the undertaking contain instructions on what shall or should be reported and to whom, including whether, in particular circumstances, reporting may or shall be submitted to persons other than the immediate manager of the person in question or the manager's manager.

New services and products

22. The board of management shall ensure the drawing up of guidelines for development and approval of new services and products, including changes to existing services and products whereby the risk profile of

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the services and products is changed significantly, cf. section 8(9). The guidelines shall, as a minimum:

- 1) specify, to the extent possible, when a product or service is "new",
- 2) state which organisational entity(-ties), committee(s) or ad hoc committee(s) are to manage the development process, possibly divided by risk area,
- 3) contain guidelines as to whom should, as a minimum, be involved in the development process in order to ensure that all relevant aspects are described,
- 4) contain guidelines as to what general conditions should be analysed and documented, including the nature, size and calculation of risks for the undertaking, effects on the expenses and earnings of the undertaking, the possibilities of the undertaking for operating in new markets, the effects on the solvency of the undertaking accounting practice and the risks and costs influence on the undertaking's customers,
- 5) contain requirements that the analysis shall confirm that the undertaking has sufficient expertise, systems, capital and other resources to manage the new product or service appropriately, and
- 6) contain provisions on guidelines, which establish that new products and services that may involve significant new risks for the undertaking or customers of the undertaking shall be submitted to the board of directors for its decision on whether utilisation of the new product implies changes to the policies adopted or the guidelines issued pursuant to sections 4, 6 and 7, including establishment of special principles for calculation of the risks associated with the product.

23. The chief risk officer and the person responsible for compliance shall participate, or as a minimum be consulted, in connection with development and approval of new services and products. The chief risk officer and the person responsible for compliance shall be regularly informed about the course of the approval process.

(2) The chief risk officer and the person responsible for compliance shall be consulted in connection with decisions regarding a change of existing products of such scope that the change requires compliance with the requirements for development and approval of new products. The chief risk officer and the person responsible for compliance shall always be able to demand that a change to an existing product be treated as a new product.

Gearing risk

24. In this Executive Order "gearing" shall mean gearing as defined in Article 4(1), no. 93 of Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.

(2) In this Executive Order "gearing" shall mean gearing as defined in Article 4(1), no. 94 of Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.

Risks associated with securitisation

25. Participation in securitisation activities as defined in Article 4(1) no. 61 of Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms may be achieved by

- 1) exposing the undertaking to securitisation positions, including exposures from investment in securitisation positions or provision of credit protection, or
- 2) the undertaking itself, or in cooperation with others, establishing or arranging securitisation transactions, programmes for short-term obligations or ABCP programmes, cf. Article 242, no. 9 of Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.

(2) Undertakings participating in securitisation activities shall have adequate policies and procedures for this area to ensure the undertaking's assessment and management of risks associated with securitisation activities, including reputational risks which may arise in association to participation in

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complex structures, and to ensure that the economic substance of the securitisation activities is reflected in the risk assessment and the managerial decisions.

Part 8

Penalties

26. Violation of sections 3-7, section 8(2)-(4) and (6)-(13), section 9, section 11(1) and (3), section 12, section 13(1), 1st sentence, subsections 2 and 3, 2nd sentence, sections 14 and 15, sections 16(1), (3) and (4), section 17, subsections (1)-(4), subsection 6, 2nd sentence, and subsections (7) and (8), section 18, section 19(1) and (2), subsection (3), 1st and 2nd sentence and subsection (4), section 20, section 20(1), 1st sentence and subsection (2), sections 22 and 23, section 25(2) and annexes 1-8 shall be liable to a fine. Those who fail to comply with an injunction to carry out or refrain from carrying out certain acts in order to comply with the provisions or annexes of the notice shall also be liable to a fine.

(2) Limited companies etc. (legal persons) may be subject to criminal liability according to the rules in Part 5 of the Criminal Code.

Part 9

Entry into force

27. This Executive Order enters into force on 26 July 2021.

(2) Executive Order no. 1706 of 27 June 2020 on Management and Control of Banks, etc. shall be repealed.

Danish Financial Supervisory Authority, 11 June 2021

Jesper Berg

/ Tobias Thygesen

While this translation was carried out by a professional translation agency, the text is to be regarded as an unofficial translation based on the latest official Executive Order. Only the Danish document shall have legal validity.

- 1) This Executive Order contains provisions implementing parts of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the business of credit institutions and on the supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, Official Gazette 2013, No L 176, page 338, parts of Directive 2019/878/EU of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36 / EU as regards exempt entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital preservation measures, Official Gazette 2019, No L 150, page 253, parts of the European Parliament and of the Council Directive 2016/1148 / EU of 6 July 2016 on measures to ensure a high common level of security for network and information systems throughout the Union, Official Gazette 2016, No L 194, page 1, and parts of the European Parliament and the advice Directive 2019/2034 / EU of 27 November 2019 on the supervision of investment firms and amending Directives 2002/87 / EC, 2009/65/EC, 2011/61 / EU, 2013/36/EU, 2014/59/EU and 2014/6 /EU, Official Gazette 2019, No. L 314, page 64. This executive order includes certain provisions from Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, and amending Regulation (EU) no. 648/2012, EU Official Journal 2013, L 176, page 1, Regulation (EU) no. 2019/630 of the European Parliament and of the Council of 17 April 2019 amending Regulation (EU) no. 575/2013 as regards the minimum coverage requirements for losses for non-performing exposures, Official Gazette 2019, No L 111, page 4, as well as certain provisions of Regulation (EU) no. 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) no. 575/2013 in terms of leverage ratio, net stable funding ratio, capital base requirements and impairment liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment schemes, large exposures and reporting and disclosure requirements, and regulations (EU) no. 648/2012, Official Gazette 2019, No L 150, page 1. Pursuant to Article 288 of the TFEU, a regulation shall be applicable in all Member States. The reiteration of these provisions in the executive order is therefore solely for practical purposes and does not affect the regulation's direct applicability in Denmark.

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Annex 1.

Credit area

Tasks and responsibilities of the board of directors in the credit area

Credit policy

- 1) In accordance with a precautionary principle, the board of directors shall adopt a credit policy, cf. section 4(2), no. 1 covering all types of credit risk in all corporate units and business activities. Depending on the type and size of the financial undertaking, the competencies of the board of directors, the board of management and the employees, the IT systems applied, etc., as well as the complexity of the activities exposed to credit risk of the undertaking, the credit policy shall state the credit risk profile preferred by the board of directors for the undertaking. The Board of Directors shall ensure that the desired credit risk profile is consistent with the objectives of the company's general risk profile and with its capital planning and liquidity planning. The credit policy shall be designed in such a way that it promotes an understanding and a behaviour in the organization which ensures that lending is carried out in accordance with the customer's interests and abilities to comply with committed commitments, against appropriate collateral and taking into account environmental, social and managerial conditions.
- 2) The credit policy shall include principles for the type and scope of credit risks, including principles for:
 - a) Acceptable customer types (for example corporate customers, personal customers, wealthy customers, full-service customers, etc.).
 - b) The customers' acceptable risk profile, for example,
 - i. the characteristics of a person or business etc., desired or not desired, respectively, as a new customer,
 - ii. the characteristics of existing personal customers and corporate customers, etc. for whom, increasing, maintaining, reducing or disposing of the exposure is desired.
 - c) Acceptable types of products provided by the undertaking, including acceptable interest rate profiles and repayment profiles, and loans taken out in foreign currencies.
 - d) The extent of, and the conditions under which the undertaking accepts large exposures exceeding, for example, 2% or 5% of the undertaking's own funds.
 - e) The extent of other concentration risks, including maximum total exposures within different industries and within other uniform types of risks where the undertaking's risk concentration is significant
 - f) Geographical exposure, including the undertaking's maximum exposure within the selected geographical areas, including foreign activities.
 - g) To what extent and under what conditions does the undertaking want exposure to private equity funds and similar clients, which are usually characterised

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by high debt in relation to customer earnings in the activities intended to provide liquidity for the repayment of the exposure.

- h) The interest-rate sensitivity the undertaking intends to accept for customers with home loans, other personal customers, agricultural customers and different types of other corporate customers as well as for the total portfolio for the corporate area
 - i) How to ensure that credit decisions are sufficiently based on the robustness of the customer's future earnings and liquidity, and do not rely excessively on collateral provided which may decrease in value.
 - j) How to ensure that credit decisions adequately take into account the environmental, social and managerial risks to which the customer is exposed.
 - k) The types of collateral that the undertaking will include in its credit decisions, including the maximum total exposures of the undertaking where selected types of collateral are part of the credit decision.
 - l) The acceptable earnings of the financial undertaking in relation to the selected risk profile, including price setting of products, etc.
- 3) The credit policy shall also include principles within the following areas:
- a) Classification of customers on the basis of the estimated credit risk.
 - b) Consolidation of exposures to interconnected clients in accordance with the principles for the inventory of large exposures in Regulation (EU) no. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and in Regulation (EU) no. 2019/2033 of the European Parliament and of the Council of 27 November 2019 on prudential requirements for investment firms.
 - c) Valuation of securities.
 - d) Management of non-performing exposures as well as exposures with forbearance measures and exposures with higher than the acceptable risk, including laying down action plans for the future process. The principles shall specify, inter alia, the types of credit relief the entity wishes to apply and the extent and circumstances in which the undertaking wishes to apply them.
 - e) The impartiality of the employees for appropriate management of any conflicts of interest.
 - f) The internal control system in the credit area.
 - g) Reporting to the board of directors in the credit area, cf. nos. 38-43.
 - h) Deviations and exceptions from main rules and limits set out in the credit policy, including

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- i. conditions for acceptance of derogations and exceptions as well as requirements for compensatory conditions,
 - ii. specific requirements for the approval process and criteria for requiring the approval of a higher-level decision-maker,
 - iii. criteria for how and when the board of management should be involved or informed and
 - iv. specific requirements for control and monitoring.
- i) Identification, assessment and management of the risk of the company's credit being used in connection with money laundering and terrorist financing. In establishing the principles, the undertaking shall, inter alia, consider the risks associated with specific types of customers, geographical areas, product types and distribution channels.
 - j) Continuous monitoring of credit risk, including the selection of relevant qualitative and quantitative indicators of increased credit risk.
- 4) The board of management shall assess the need to establish specific principles of credit policy applicable to business units or risk concentrations where the complexity, scope or other specific characteristics warrant it so. Among other things, the board of management will assess the need for specific principles for credit for project financing, property rental, shipping, agriculture and private equity funds, etc.
 - 5) If the actual conditions in the areas covered by the undertaking's credit policy deviate significantly from the credit policy, the board of directors shall approve a plan for necessary changes in order to implement the credit policy adopted.

The guidelines issued by the board of directors to the board of management in the credit area

- 6) Guidelines to the board of management in the credit area shall, in addition to compliance with the general requirements laid down in section 6, implement the credit policy in specific guidelines to the board of management. Exposures covered by section 6(3), no. 2 cannot be approved by other parties than the board of directors. As a rule, the same shall apply correspondingly to exposures exceeding 2% of the own funds of the undertaking, unless the board of directors has set a lower limit.

The part of the exposure approved with a charge on unconditionally good collateral, shall not be included in the calculation of the 2% limit. Unconditionally good collateral consists of deposits, guarantees and warranties set by states, regions or municipalities, on-demand guarantees from banks, government bonds and mortgage-credit bonds and shipping mortgage-credit bonds, as well as a charge on permanent all-year residences within a maximum 50% of their fair value. Increases in exposures approved by the board of directors within the past 18 months, and where the increase representing a maximum 25% of the amount approved by the board of directors is exempt from the 2% limit.

If a 2% limit means that the board of directors is not adequately informed about the total credit quality of the exposures, the board of directors shall set a lower limit.

The limit may in large undertakings permitted to use the IRB method for capital adequacy purposes be set higher, if the board of directors receives a report on the development in the credit risks of the undertaking

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exceeding the minimum requirements laid down in nos. 38-43. For other undertakings, the limit may also be set higher, if exposures exceeding 2% of the own funds of the undertaking are uncomplicated, such as personal-customer exposures, or if a 2% limit means that the board of directors has to approve a disproportionate number of exposures. Undertakings with a limit above 2% shall pay particular attention to ensuring that reporting in the areas mentioned in nos. 38-43, together with the exposures for approval by the board of directors, reports from the chief risk officer to the board of directors, as well as other information on credit risks to the board of directors, provides the board of directors with an adequate basis for making the decisions mentioned in no. 43. This includes decisions regarding the business model, the credit policy, and the guidelines to the board of management, as well as performance of tasks by the board of management in the credit area.

- 7) The guidelines to the board of management shall include provisions on:
- a) The size of the exposures approved by the board of management without participation of the board of directors.
 - b) How the exposures are calculated pursuant to the limits of the guidelines.
 - c) The authorities of the board of management to approve exposures under pressing circumstances (urgent cases which are subsequently presented to the board of directors for their consideration).
 - d) Authority to grant credit facilities including composition/moratorium, reduced interest rates, write-offs, release of collateral and authority to stipulate impairments on loans and provisions on guarantees (accounting cessation of recognition).
 - e) The limit for exposures which the board of management may approve, but which are subsequently to be presented to the board of directors for their information.

Annual review of the most significant exposures

- 8) In connection with the annual review of major assets and equity and liabilities, cf. section 6(3), no. 3, the board of directors shall review the most significant exposures of the undertaking. In its review, among other things, the board of directors shall assess the risk and the strategy laid down for the individual exposure, and take into account the need for follow-up. In its review, the board of directors shall also assess whether the impairment charges etc. are sufficient.

**Responsibilities of the board of management
following changes to credit policy**

- 9) The board of management shall ensure that, in connection with the board of directors' decision to change the credit policy, cf. nos. 1-5, an appropriate introduction of this policy is carried out in the undertaking's organisation, including in the procedures, risk management, internal controls and reporting of the undertaking.

Segregation of duties in the credit area

- 10) In the credit area, cf. section 11, as a general rule, segregation of duties shall be established between, on the one hand, a person, groups of persons and organisational entities responsible for approval and establishment of credit facilities, and on the other hand, a person, groups of persons and organisational entities responsible for control and reporting. If the undertaking is a SIFI or a G-SIFI,

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calculation of and decisions on impairments and provisions shall also, as a general rule, be carried out by a person, groups of persons or organisational entities that have not participated in the approval of the credit facility. There are no requirements for segregation of duties at board of management level.

- 11) The primary responsibility for the credit risk of an exposure shall remain with a person or organisational entity throughout the duration of the exposure.
- 12) If, cf. section 11(3), segregation of duties in the credit area is not maintained, the compensatory measures of the undertaking shall comprise independent controls carried out by a person, group of persons or organisational entity outside the credit area.
- 13) The undertaking shall ensure that the quality of independent controls as compensatory measures is adequate. This means, for example, that the independent controls shall be performed by persons with in depth experience in the credit area.
- 14) Independent controls of the credit area may be sample-based, if the undertaking is able to document that the samples are representative and add a high degree of certainty that the performance of duties is appropriate, taking into account the selected organisation of the area.
- 15) An undertaking in which, due to its limited size, it is not possible to establish adequate independent controls in the organisation of the undertaking, may establish other compensatory measures, if it can document adequate performance of duties. For example, this may include increased involvement of the board of directors of the undertaking.

Procedures in the credit area

Procedures for approval of exposures

- 16) A bank shall have procedures which lay down the principles governing approval of exposures in accordance with its credit policy, its desired risk profile and relevant regulation. The procedures shall ensure that the undertaking has appropriate knowledge about the customers' financial situation and the collateral provided. The procedures shall ensure that credit decisions are sufficiently based on the robustness of the customer's future earnings and liquidity, and they shall not over-rely on collateral provided unless the repayment of the loan under the loan agreement is based on the sale of collateral. The procedures shall, however, also ensure that, if appropriate, the risk is reduced by the undertaking taking collateral, for example in the form of charges as well as guarantees and warranties from majority shareholders.
 - a) An adequate decision-making basis in connection with approval shall usually, as a minimum, include the following elements:
 - i. Assessment of the robustness of the customer's future earnings and liquidity, as well as the customer's ability and willingness to comply with the obligations entered into, also in connection with any deterioration in the customer's financial situation.
 - ii. For personal customers, information about e.g. the customer's prudently calculated assets, debt factor/gearing, as well as disposable income under the assumption of traditional fixed interest-rate financing with repayment
 - iii. For personal customers purchasing real property, information about the customer's financial situation after the purchase.
 - iv. For corporate customers, information regarding e.g. business model, strategy, competencies within the business area, willingness to take risks, dependency

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on key personnel, customers, suppliers, etc., current and estimated future earnings and liquidity conditions as well as the real capital ratios and relevant group contexts.

- v. Description and assessment of collateral provided.
 - vi. Information on repayment of the exposure and its interest rate.
 - vii. Analysis of the possibilities of the borrower to tolerate early repayments.
 - viii. Analysis of the borrower's sensitivity to interest-rate increases, if the borrower wants a variable interest rate.
 - ix. Analysis of the borrower's sensitivity to changes in exchange rates if the customer has or wants loans taken out in foreign currency to a significant extent.
 - x. Analysis of the borrower's possible risks arising from environmental, social and managerial factors.
 - xi. Other information relevant to the undertaking's assessment of the risk and repayment of the exposure.
 - xii. Total assessment by the undertaking as well as decisions as to whether the anticipated earnings are adequate compared with the risk assumed by the undertaking in the approval.
- b) Where appropriate, a decision-making basis will, as a minimum, generally include:
- i. An overall risk assessment of real estate projects and other projects, for example, the of management, governance, access to competent consultants and contractors, obtaining relevant permits, financing, execution, completion, rental and sale.
 - ii. For real estate projects and other projects the requirements for renting or selling before the loan is disbursed.
 - iii. For real estate projects and other projects, an assessment of whether the client provides sufficient self-financing before the loan is disbursed.
 - iv. Information regarding the current and estimated future earnings and liquidity conditions of relevant guarantors, as well as the prudently calculated capital positions.
 - v. Requirements for additional risk mitigation measures, including guarantees, pledges, transports and other terms and conditions, taking into account the overall risk assessment.
- c) Documentation of any approval of credit facilities shall be available in the form of a decision-making basis, cf. points a) and b).

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- 17) In addition, the business of banks for the granting of exposures will generally entail principles governing:
 - a) In which cases the bank requires collateral, including the types of collateral required by the bank, for example, the requirement of collateral for the financing of assets and providing collateral of majority shareholders.
 - b) How collaterals should be valued cautiously in the light of prevailing market conditions, including principles of:
 - i. Choice of valuation method in the form of internal or external valuation experts or of statistical models, indexation or other standardised methodology. When choosing a method, the bank shall take into account the specific characteristics and complexity of different types of collateral.
 - ii. Appointment of internal and external assessment experts. The principles shall ensure sufficient expertise and address possible conflicts of interest in relation to the outcome of the valuation or of the credit authorisation.
 - iii. Inclusion of environmental, social and managerial conditions which are likely to affect the value of the collateral.
 - c) The extent to which the use of rating or credit scoring may reduce the requirements for the rest of the decision-making base in cases where the financial institution uses ratings or credit score models in relation to the credit rating of the customer.
 - d) See no. 3(b) and statement of exposures for how exposures are calculated, including consolidation of exposures to interconnected customers in the form of market and counterparty risks.
 - e) The extent to which confirmation of information included in the grant base must be obtained from the customer or from other available sources.
 - f) How to ensure documentation of the credit decision and the design of the contractual basis to address as far as possible potential misunderstandings and mis-interpretations within the bank and in relation to the customer or other relevant parties.
 - g) Management of deviations and exceptions to the main rules and limits of credit policy in accordance with no. 3(h).
- 18) A bank shall have procedures which lay down the principles governing approval of exposures in accordance with its credit policy, its desired risk profile and relevant regulation. The procedures shall ensure that the undertaking has appropriate knowledge about the customers' financial situation and the collateral provided. The procedures shall ensure that credit decisions are sufficiently based on the robustness of the customer's future earnings and liquidity, and they shall not over-rely on collateral unless the repayment of the loan subject to the loan agreement is based on the sale of collateral.

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- a) An adequate decision-making basis in connection with approval shall generally, as a minimum, include the following elements:
 - i. Assessment of the robustness of the customer's future earnings and liquidity, as well as the customer's ability and willingness to comply with the obligations entered into, also in connection with any deterioration in the customer's financial situation.
 - ii. For personal customers, information about e.g. the customer's prudently calculated assets, debt factor/gearing, as well as disposable income under the assumption of traditional fixed interest-rate financing with repayment.
 - iii. For personal customers purchasing real property, information about the customer's financial situation after the purchase.
 - iv. For corporate customers' information about, i.e., the customer's business model, strategy, competences in the business area, risk appetite, dependence on key people, customers, suppliers, etc., current and estimated future earnings and liquidity conditions, as well as the real capital conditions and relevant group contexts.
 - v. Description and assessment of collateral provided.
 - vi. Analysis of the borrower's potential risks arising from environmental, social and managerial factors.
 - vii. Valuation of the real property in accordance with the relevant legal provisions.
 - viii. Analysis of the borrower's sensitivity to interest-rate increases, if the borrower wants a variable interest rate.
 - ix. Analysis of the borrower's sensitivity to changes in exchange rates if the customer has or wants loans taken out in foreign currency to a significant extent.
 - x. Description of the use of rating and credit scoring, where applicable.
 - xi. How exposures are calculated, including consolidation of exposures with interconnected customers, as referred to in no.3(b).
 - xii. In which cases the undertaking requires additional collateral, including the guarantee of the majority shareholder.
 - xiii. The extent to which confirmation of information included in the grant base must be obtained from the customer or from other available sources.
 - xiv. How to ensure documentation of the credit decision and the design of the contractual basis to address as far as possible potential misunderstandings and misinterpretations within the bank and in relation to the customer or other relevant parties.

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- xv. Management of deviations and exceptions to the main rules and limits of the credit policy in accordance with no. 3(h).
 - b) Documentation of any approval of credit facilities shall be available in the form of a decision-making basis, cf. point a).
- 19) To the extent relevant to the undertaking, procedures for approval of exposures usually shall also include principles for:
- a) Construction loan financing, including requirements for a qualified building inspection, and how payments of construction instalments are made as the construction work is being completed.
 - b) Financing of private equity funds, etc., including the delimitation of the types of transactions the company wishes to participate in, requirements for the customer's financial status, collateral requirements and other terms.
 - c) How stop-loss clauses are fixed for approval of exposures which include collateralisation in securities or positions in derivative financial instruments.
 - d) How to take into account the credit risk of loans in foreign currency.
 - e) Environmentally sustainable financing, including criteria for classification as sustainable and how to ensure that the loan purpose meets the criteria and that the customer has the ability and the will to continuously comply with them.
- 20) As a rule, a bank may only mortgage property which the borrower intends primarily to rent out to parties outside the group, if the property generates positive liquidity. Traditional fixed interest and repayment must be assumed.
- a) However, in exceptional circumstances the bank may mortgage property without positive liquidity, if the bank can document that this is justifiable in terms of credit. In these situations, including financing of development and construction of this type of properties, the procedures shall include principles for compensatory requirements or arrangements to ensure that the mortgage is justifiable in terms of credit. The compensatory requirements or arrangements will usually, as a minimum, include requirements that:
 - i. the borrower has good earnings with good liquidity and a good solvency,
 - ii. the bank assesses that the borrower has experience and competences within the relevant area,
 - iii. the borrower provides appropriate own financing, and
 - iv. there is evidence that the liquidity generated by the property will be positive within a maximum of three years, or that the property will be sold with full redemption of the undertaking's financing.

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However, in a number of situations point iv will not apply for financing plots of land. The overall risk to the undertaking when financing plots of land shall be adequate.

- b) The undertaking's assessment of the property's ability to generate liquidity will typically include an assessment of the robustness of the property's cash flows, taking into account the type, size and location of the property, as well as the duration of the loan:
 - i. The composition of the tenants and rental terms and the tenants' payment behaviour.
 - ii. The possibilities for re-rental and the effect on cash flows of possible re-rental on changed terms.
 - iii. The need for maintenance and renovation of the property.

Procedures for ongoing monitoring of exposures and other credit risks

21) A bank shall have procedures which lay down the principles for ongoing monitoring of exposures and other credit risks. These procedures shall ensure that the undertaking, at customer and portfolio level, has an updated overview of the development in the credit risks assumed by the undertaking. This will provide the undertaking with an adequate basis for making decisions to minimise credit risks.

- a) Adequate monitoring of the credit risks of the undertaking will usually, as a minimum, comprise the following elements:
 - i. Correct ongoing classification on the basis of the credit risk estimated, cf. no. 25, including a test once a year to determine whether the undertaking is able to risk-classify its clients correctly.
 - ii. Identification and management of non-performing exposures, as well as exposures with forbearance measures and exposures with higher risk than acceptable, and determination of action plans for the future process for such exposures.
 - iii. Follow-up on the undertaking's concentrations of risks, including concentrations within specific sectors, concentrations within specific types of collateral and concentrations in the form of large exposures, which for example exceed 2% or 5% of the undertaking's own funds.
 - iv. Regular monitoring of the limits for interest-rate risk set by the undertaking, cf. no. 2, point h.
 - v. Continuous monitoring of the soundness of earnings at portfolio, sub-portfolio and single exposure level is reasonably in line with the risk to which the bank is exposed.

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- vi. Continuous monitoring of relevant quantitative and qualitative indicators on increased credit risk at portfolio, sub-portfolio and individual exposure levels.
- b) Adequate monitoring of the individual exposures of the undertaking will usually, as a minimum, comprise the following elements:
- i. Adequate management of overdrafts ensuring quick identification and management by the undertaking of customers where the overdrafts or arrears are due to a deterioration in the customer's financial situation.
 - ii. Guidelines for day-to-day management of overdrafts and arrears, as well as guidelines for periodical management of large or repeated overdrafts and arrears where repeated overdrafts and arrears are generally an OEI incident, cf. no. 37 in annex 10 to the Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc.
 - iii. Review of accounting material, annual statements and budgets, etc. from borrowers and guarantors, etc. including an assessment of whether internal or external conditions have significantly changed the ability to service the debt throughout the residual loan period.
 - iv. Ongoing complete, updated and prudent valuation of collateral.
 - v. Continuous follow-up on compliance with the terms and conditions of the credit and that the credit risk is in line with the credit policy of the bank.
 - vi. Identification of other matters that may have a significant impact on the customer's ability to service the debt, including managerial, market, competition and technological situations.
 - vii. Continuous monitoring of the liquidity of rental properties, as referred to in no. 20, and the risk of worsening liquidity, especially where a significant part of the financing is at variable rate or grace.
- c) Monitoring of exposures with higher risk than acceptable requires the undertaking to pay special attention and will typically, as a minimum, include the following elements:
- i. An action plan which provides specific details on future client initiatives to be taken by the undertaking for the purpose of minimising losses or reducing the undertaking's risk on its client. An action plan is based on whether the undertaking wishes to maintain or to settle the exposure with the client. Typically, the action plan will include a position on realising collateral, establish new collateral, extending or terminating the client's exposure, ongoing follow-up on the client's operations, frequency of meetings etc.
 - ii. Guidelines for when the undertaking is to collect updated and revised material regarding the client's financial situation, as well as the frequency of this reporting.

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- iii. An assessment of the client's prudently calculated capital position. This assessment includes the assets in which the undertaking has collateral, as well as other assets if these have material significance for the client's capital position.
 - iv. Guidelines for the use, recording and follow-up of credit stamps, as well as guidelines for assessing whether the use of credit facilities will lead to exposure being classified as non-performing. The use of credit facilities shall, as far as possible, seek a lasting solution to the customer's financial difficulties by combining short-term and long-term credit facilities. In the case of a customer's obvious transient financial difficulties or where it is temporarily not possible to establish a lasting solution, the undertaking shall consider applying credit reliefs with a time horizon of no more than two years, provided that the customer has demonstrated prior to the incident the ability and willingness to comply with its obligations and to cooperate with the bank.
 - v. Guidelines for the cessation of exposure classification as non-performing and for the cessation of credit facilities.
 - vi. Monitoring to ensure that credit facilities applied lead to the desired improvements and that no repeated credit facilities are applied to the same exposure.
- d) Information shall be provided on how the annual review of exposures not covered by the review of the board of directors, cf. section 6(3), no. 3, is to take place, including the exposures for review, the levels in the organisation carrying out the review, and the manner in which reporting of results is to take place.
- e) Monitoring of the undertaking's exposures will, in those situations where relevant, usually also include:
- i. Monitoring of construction-loan financing, including requirements for a qualified building inspection, and where payments of construction instalments are made as the construction work is being completed.
 - ii. Monitoring of all projects, including the risks of management, management, access to competent advisers and contractors, obtaining relevant permits, financing, execution, completion, rental and sale.
 - iii. The ongoing valuation of pledged mortgage deeds, including adjustments for defaulted mortgage deeds, monitoring of the fixed loan-to-value ratio applicable for the exposure, as well as the diversification, ranking, type, other content, and marketability of the mortgage deeds, and ongoing management of pledged mortgage deeds.
 - iv. Monitoring of customers' positions in securities, derivative financial instruments and loans in foreign currency, including compliance with stop-loss clauses.
- f) The procedures shall include requirements for the frequency of monitoring of the bank.

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- 22) A bank licensed to issue covered bonds shall also have procedures in place on ongoing monitoring of LTV and on calculation and setting of supplementary collateral in accordance with legislation.
- 23) A mortgage-credit institution shall have procedures which lay down the principles for ongoing monitoring. Adequate monitoring of the exposures of the mortgage-credit institution will usually include the following elements:
 - a) Management of arrears.
 - b) How to follow up on individual exposures, including a review of accounting material, annual statements and budgets, etc. from borrowers and guarantors, etc.
 - c) Ongoing monitoring of LTV.
 - d) Regular monitoring of the value of pledged properties in accordance with Article 208(3) of Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment companies, including principles for:
 - i. The frequency of monitoring of values, taking into account the type of property, the condition of the property, its value, the credit quality of the loan, the degree of borrowing and the development of market conditions. Collateral in residential property shall be monitored at least every three years, and commercial property security must be monitored at least once a year.
 - ii. Methods of monitoring. Method selection shall be appropriate to the type of property and its value. The methods shall include an appropriate validation of estimated values.
 - iii. Circumstances which are intended to trigger a reassessment of security on the basis of monitoring or other matters.
 - e) Use of statistical models, indexation or the standardised method of valuing and monitoring the value of collateral by the mortgage credit institution. The principles shall include adequate monitoring and management of model risks and model insecurity.
 - f) Regular monitoring of the limits for interest-rate risk set by the undertaking, cf. no. 2, point h.
 - g) Calculation and provision of additional collateral in accordance with legislation.
 - h) Correct ongoing classification on the basis of the credit risk estimated, cf. no. 25, including a test once a year to determine whether the undertaking is able to risk-classify its clients correctly.
 - i) Identification and management of non-performing exposures, as well as other exposures with higher risk than acceptable, and determination of action

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plans for the future process for such exposures. Notwithstanding the mortgage credit institution's general choice of method, the valuation of collateral for non-performing exposures above DKK 2 million shall be made by an internal or external valuation expert at least every three years for residential properties and at least once a year for commercial real property.

- j) Guidelines for the use, registration and follow-up of credit facilities, as well as guidelines for assessing whether the use of credit facilities will lead to exposure being classified as non-performing. Use of credit facilities shall, as far as possible, seek a lasting solution to the customer's financial difficulties by combining short-term and long-term credit facilities. In the case of a customer's obvious transient financial difficulties or where it is temporarily not possible to establish a lasting solution, the undertaking shall consider applying credit reliefs with a time horizon of no more than two years, provided that the customer has demonstrated prior to the incident the ability and willingness to comply with its obligations and to cooperate with the mortgage credit institution.
 - k) Guidelines for the cessation of exposure classification as non-performing and for the cessation of credit facilities.
 - l) Monitoring to ensure that credit facilities applied lead to the desired improvements and that no repeated credit facilities are applied to the same exposure.
 - m) Follow-up on the undertaking's concentrations of risks, including concentrations within specific sectors, concentrations within specific types of funded properties and concentrations in the form of large exposures, which for example exceed 2% or 5% of the undertaking's own funds.
 - n) Continuous follow-up on compliance with the terms and conditions of the credit facility and that the credit risk is in line with the credit policy of the mortgage credit institution.
 - o) Continuous monitoring of the liquidity of rental properties, as referred to in no. 20, and the risk of worsened liquidity, especially where a significant part of the financing is at variable rate or repayment freedom.
- 24) The undertaking's procedures for credit risk monitoring at portfolio, sub-portfolio and individual exposure levels shall ensure that a negative development or deviation from the undertaking's desired risk profile is reported without undue delay to the minimum level of the organisation responsible for assessing developments and deciding on appropriate measures.

Procedures for risk classification of customers

- 25) An undertaking shall have procedures which lay down principles for risk classification of the undertaking's customers using models, or in some other way for portfolios. The procedures shall ensure that the undertaking risk-classifies its customers correctly, providing the undertaking with an overview of the credit risks associated with its customers.

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For portfolios not covered by an IRB licence from the Danish FSA, procedures for risk classification of the undertaking's customers will usually, as a minimum, include the following elements:

- a) For undertakings not using models for classification of customers: Specification of the characteristics of customers with different types of credit rating. This comprises, as a minimum, a classification corresponding to the Danish FSA's rating system.
- b) For undertakings using models for classification of customers: Exact descriptions of the model, as well as the adopted sets of rules, including the scale describing the classification of customers.
- c) Guidelines ensuring that the undertaking's classification of customers does not provide an excessively favourable view of the risk.
- d) Guidelines ensuring that the undertaking's ongoing control and regular tests of the classification are thorough and well documented.

Procedures in connection with pledging of real property

26) A bank which pledges real property, including property projects and mortgage deeds, shall have procedures for this. These procedures shall take into account the reductions in values which may occur. This may be through haircuts reflecting possible future decreases in the values. This also includes taking into account experience with differences in price decreases on different types of properties, e.g. arising from differences in the robustness of the liquidity created by the properties. The procedures shall lay down principles for:

- a) Valuation of charges in real property. For mortgages on real property that are not covered by the Executive Order on the valuation of mortgages and loans on real estate, which are pledged as security for the issuance of covered mortgage bonds and specially covered bonds, the principles must strive for prudent valuation.
- b) How the prudent valuation of charges in real property is calculated, and which current information, as a minimum, shall be available in the undertaking and be included in the assessment, including in relation to:
 - i. The address, postal code, as well as property category of the property, including a brief description of the property (may be a Danish Building and Dwelling Register notification).
 - ii. Building areas (distribution between habitation, office, storage facility, shop, etc.).
 - iii. The condition and location of the property. In the case of new loans, the valuation shall be based on an internal and external inspection of the property. In the granting of new loans not covered by the Mortgage Valuation Order and loans on real property, which is used as collateral for the issuance of covered mortgage bonds and specially covered

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bonds, the procedures may, however, allow residential properties in areas where the real estate market is well-defined and transparent to be valued by an appraisal expert based on a statistical model, index adjustment or other standardized method and without inspecting the property. In the cases of the granting of new loans which are not covered by the Mortgage Valuation Order and loans made to cover the issuance of covered mortgage bonds and covered bonds and where the value of the mortgage is not material to the grant, the procedures of business may also allow internal and external inspection to be omitted. The valuation shall include appropriate deductions for the uncertainty resulting from the lack of inspection.

- iv. The continuing operations at rental properties, including gross rent, net rent, required rate of return, the risk of rental reductions, the risk of further vacant periods, as well as current and expected future operating expenses.
 - v. Costs for necessary investments.
 - vi. Most recent date of purchase and market price.
 - vii. Realised sales prices for comparable properties.
 - viii. Current and real commercial price corresponding to the price at which the property is deemed to be able to be sold by an agreement between a interested owner and an independent, willing buyer under normal commercial conditions.
 - ix. Estimated sales costs.
 - x. Senior liabilities in the form of current outstanding debt and loan terms.
- c) The bank's assessment of the risks of any future decreases in the value of the property, e.g. in light of the robustness of the liquidity created by the property.
 - d) The types of costs deductible on realisation of collateral in real property.
 - e) Ongoing monitoring of the value of pledged properties in accordance with Article 208(3) of Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment companies, including principles for:
 - i. The frequency of monitoring of values, taking into account the type of property, the condition of the property, its value, the credit quality of the loan, the degree of borrowing and the development of market conditions. The value of collateral Collateral in residential property shall be monitored at least every three years, and commercial property security must be monitored at least once a year.

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- ii. Methods of monitoring. Method selection shall be appropriate to the type of property and its value. The methods shall include an appropriate validation of estimated values.
 - iii. Circumstances which are intended to trigger a reassessment of collateral on the basis of monitoring or other matters.
- f) Use of statistical models, indexation or the standardised method of valuing and monitoring the value of collateral by the bank. The principles shall include adequate monitoring and management of model risks and model uncertainty. In addition to the requirements of Article 208(3) of Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on the prudential requirements for credit institutions and investment firms it is necessary to determine whether the valuation of exposures in distress is more than DKK 2 million be carried out by an internal or external valuation expert at least every three years for residential properties and at least once a year for commercial properties.
- g) Ongoing monitoring of the loan-to-value ratio in connection with pledging mortgage deeds in real property, requirements for the diversification, ranking, type, other content and marketability of the mortgage deeds, as well as provisions on appropriate ongoing management of pledged mortgage deeds.

Requirements for dealing with a particularly high level of non-performing exposures

- 27) No later than when an undertaking's share of non-performing loans represents 5% of total lending (measured as gross carrying values), it must adopt and implement a strategy with a timetable for reducing non-performing exposures. This requirement applies when calculating the share at an individual, sub-consolidated or consolidated level and is applied to units where the proportion of non-performing loans is 5% or more, or if the undertaking is required to do so by the Danish FSA. The implementation of the strategy shall take into account relevant rules on consumer protection. In defining the strategy, the undertaking shall deal with the following elements:
- a) Causes to the scope of non-performing exposures.
 - b) Division of non-performing exposures into homogeneous groups to promote targeted efforts.
 - c) Experience with measures applied so far, including credit facilities, and the efficiency thereof.
 - d) The resources, competences, systems, procedures, etc. needed to implement the strategy, including for
 - i. early identification of non-performing exposures,
 - ii. the use and follow-up of credit facilities,
 - iii. valuation of collateral,

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- iv. recovery, judicial proceedings and coercive realisations,
 - v. asset management taken over by the undertaking as part of the recovery process,
 - vi. calculation of write-downs and loss depreciation and
 - vii. monitoring and reporting.
- e) The financial, market, legal and other conditions which are essential for defining and implementing the strategy's objectives.
 - f) The need to divide the strategy's objectives and actions in the short term (1 year), medium term (1-3 years) and, where appropriate, also in the long term (over 3 years).
 - g) The accounting, capital and liquidity-related consequences of implementation the strategy.
- 28) The strategy, including its objectives and implementation plan, shall be approved by the board of directors. The board of directors shall reassess the strategy at least once a year on the basis of a report on the progress made in reducing the level of non-performing exposures in relation to the targets set.
- 29) If the undertaking finds that the implementation of the strategy will not result in the desired reduction of non-performing exposures within the planned time horizon, this shall be reflected, where necessary, in the applied practice of calculating write-downs and loss depreciation.
- 30) The strategy and its implementation shall be incorporated, where appropriate, into the general management, handling, controls, monitoring and reporting of the undertaking, so as to take into account the impact of the strategy in relevant contexts and to ensure the necessary focus on its implementation.
- 31) Taking into account no. 30 as well as the size and complexity of the undertaking, the undertaking shall consider the establishment of special units or other organizational measures that can promote the implementation of the strategy. Any action taken by the undertaking shall take into account provisions on controls, the response to potential conflicts of interest and the safeguarding of segregation of duties.

Risk management in the credit area

Chief risk officer and risk management function

- 32) The chief risk officer shall, in addition to the general requirements in annex 7, monitor adequate control of credit risks in the undertaking, including monitor the following:
- a) Adequate procedures for approval of exposures in accordance with the credit policy.
 - b) Ongoing assessment of whether the undertaking has sufficient resources, knowledge, IT systems, etc. to make appropriate follow-up on, and management of, the credit risks of the undertaking.

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- c) There is timely identification of non-performing exposures as well as other exposures with a higher risk than acceptable, and that action plans are laid down for the future process for such exposures.
 - d) Ascertaining objective evidence of impairment and calculating an impairment need which are both in compliance with the accounting regulations.
 - e) Timely and correct classification of the undertaking's exposures, including a test carried out at least once a year to determine whether the undertaking is able to risk-classify its clients correctly.
 - f) Ongoing adequate follow-up on individual exposures, including in particular (where relevant) the following:
 - i. Timely management of overdrafts and arrears.
 - ii. Ongoing follow-up on valuation of collateral provided.
 - iii. Timely follow-up on the investment exposures of the undertaking.
 - iv. An assessment is made of whether the use of forbearance measures will lead to the exposure being classified as non-performing.
 - v. Ongoing monitoring of construction-loan financing and property-development projects.
 - vi. Ongoing monitoring of the development in pledged mortgage deeds.
 - g) Ongoing assessment and consideration of concentration risks of the undertaking.
 - h) Ongoing monitoring of relevant qualitative and quantitative indicators of increased credit risk.
 - i) The requirements for handling a particularly high level of non-performing exposures, cf. nos. 27 to 31, have been complied with.
 - j) An ongoing assessment of whether the credit risk pricing in relation to the credit risks assumed is defensible.
- 33) The chief risk officer shall, in addition to the general requirements in annex 7, also monitor the following:
- a) The adequacy of the undertaking's internal control system in the credit area, including ensuring that the undertaking has procedures describing the undertaking's internal control system in the credit area.

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- b) That the undertaking has launched the control procedures required for the credit area, cf. section 19 and nos. 35-37 in this annex.
- c) That the reports prepared for the board of directors and at other levels, provide a true and fair presentation of the undertaking's credit risks and activities in the credit area.
- d) That annually reviews of exposures, which are not covered by the review by the board of directors pursuant to section 6(3), no. 3, are carried out within the undertaking.
- e) Adequate management of model risk, cf. annex 3, nos. 13 and 14.
- f) That documentation for the work of the chief risk officer in the credit area is made available on an ongoing basis, including documentation on:
 - i. Which tasks are solved by the chief risk officer or the risk management function, and which tasks are solved by of other persons reporting to the chief risk officer.
 - ii. All significant conclusions of the chief risk officer and the receivers the reports.

Delegation of the authority to grant loans

- 34) Delegated credit authorities shall, in addition to the general requirements in section 18, as a minimum include:
- a) Specific limits for the size of exposures and the product types which the recipient of the authority may approve.
 - b) Specification of customer categories covered by the authority to grant loans.
 - c) How the exposure is calculated pursuant to the limits of the authority.
 - d) Description of authorities to approve exposures under pressing circumstances (urgent cases which are subsequently presented to the board of directors for their consideration), including that limitation of the number of these approvals is reduced as much as possible.
 - e) Specific limitations on the granting of credit facilities, including piecemeal/credit, reduced interest rates and the rescheduling of payments, as well as the granting of loss reliefs, the release of securities, the determination of write-downs on loans and provisions on financial guarantees and loan commitments.
 - f) Regulations for approving exposures with higher risk than acceptable, cf. no. 2, point b, including loans with impairment and guarantees with provisions.
 - g) Specific limitations for which of the approved exposures, etc. are to be reported to the person issuing the authority.

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Controls in the credit area

- 35) The undertaking shall, cf. section 19, establish independent internal controls for all significant activities in the credit area and lay down procedures for these. As a minimum, regular internal control shall be carried out to ensure:
- a) Compliance with the credit policy by the employees of the undertaking.
 - b) Compliance with an authority to grant loans.
 - c) Segregation of duties or adequate compensatory measures.
 - d) The basis of approval, cf. nos. 16-20 in connection with approval of credit risks.
 - e) Correct establishment of exposures and in accordance with the credit grant, including with correct documents, observation of acts of security, etc.
 - f) Adequate follow-up on overdrafts and arrears.
 - g) There is a reassuring follow-up on overdrafts and arrears.
 - h) Adequate identification and follow-up on non-performing exposures, as well as other exposures with a higher than acceptable risk, including that action plans are laid down for the future process for such exposures.
 - i) Ongoing assessment of the effect of the undertaking's practices for using forbearance measures and the use of the individual types of forbearance measures on aggregated level and in individual cases.
 - j) Adequate assessment of whether the use of forbearance measures will lead to exposure being classified as non-performing and whether the level of non-performing exposures has been prudently assessed.
 - k) The risk rating of customers has been updated and correctly classifies customers.
 - l) Adequate follow-up on the undertaking's concentration risks, including within specific industries, concentration within specific types of collateral and concentrations in the form of large exposures, which for example exceed 2% or 5% of the undertaking's own funds.
 - m) The necessary impairments on loans and provisions on guarantees are carried out in compliance with accounting regulations.
 - n) Adequate collection and processing of data used by the undertaking as a basis for assessing risks and making credit decisions and assessments.
- 36) Internal controls of the undertaking in the credit area may be through sample-based reviews, if such give sufficient certainty that the activities are carried out appropriately in the areas controlled.
- 37) The undertaking shall document the internal controls carried out.

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Reports to the board of directors in the credit area

- 38) The board of directors shall at least every quarter receive reports on the credit area. At least two of the reports during a year shall fully comply with the requirements in nos. 39-43, whereas the other reports may be less comprehensive.
- 39) The reports to the board of directors shall clarify how the undertaking is complying with the individual elements in the credit policy, cf. nos. 2-5, as well as the guidelines from the board of directors to the board of management in the credit area, cf. no. 7.
- 40) The reports shall provide the board of directors with a full overview of the undertaking's total credit risks and relevant breakdowns hereof, as well as an overview of the development in credit risks over time. The reporting shall among other things describe the conditions that may have a significant impact on the development of the company's credit risk in the future, including macroeconomic and demographic situations.
- 41) As far as possible, the reports to the board of directors shall at least once every year provide benchmarks with comparable banks or mortgage-credit institutions. In this connection and, among other things on the basis of published statements from the Danish FSA, the extent to which such institutions seem well-operated shall be taken into account.
- 42) As far as is relevant for the board of directors' understanding of the reporting, all reports of figures shall be supplemented by supporting descriptions, analyses and assessments. In particular, this applies to indications of significantly increased credit risks.
- 43) The purpose of the reporting is to contribute to the decision-making basis of the board of directors on the credit risks of the undertaking, including changes in the business model, credit policy and guidelines for the board of management. Similarly, the reporting shall contribute to the basis for the board of directors to assess whether the board of management is performing its tasks in the credit area satisfactorily.

Accounting practices

- 44) An undertaking, which pursuant to the accounting provisions, is obligated to recognise amounts under the item "Impairments on loans and receivables, etc." in the undertaking's annual report and/or interim financial report, shall produce adequate documentation showing how the impairments have occurred. The requirements below shall be seen as a supplement to the requirements for documentation and evidence in annex 10 to the Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc.
 - a) For loans with individual objective evidence of impairment. The calculation shall lead to the impairment recognised in the financial statements, which may be an impairment of zero.
 - b) For loans with individual objective evidence of impairment, and where statistically calculated impairments are applied, descriptions shall be available on how these statistically calculated impairment charges recognised in the financial statements.
 - c) For all weak loans where the undertaking assesses that there is no objective evidence of impairment, a reason why there is no evidence shall be stated. In this connection, as a minimum, weak loans cover loans corresponding to the 2c quality category of the Danish FSA.

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- d) For each loan where there has been an indication of credit deterioration and where the company considers that the loan has not deteriorated, the reasons for the non-credit deterioration shall be stated.

 - e) For each loan which the undertaking considers to be no longer credit impaired in relation to the last financial reporting, there must be evidence that the relevant credit impairment is no longer present.
- 45) Documentation that the board of directors and board of management have related to the results calculated by using the models for collective impairment charges shall be present. This includes documentation that the board of directors and board of management have made adjustments in relation to the model-based collective impairment charges, if it is assessed that the models do not comply with, or do not fully comply with, all relevant matters in accordance with the accounting regulation.

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Annex 2.

Market risk

Scope and definitions

- 1) Market risk means interest-rate risks, currency risks, share-price risks and commodity risks, including related risks associated with derivative financial instruments, for example options risks. Interest rate risks cover, among other things, interest-rate risks on all balance sheet and off-balance-sheet items, including also fixed-interest deposits and loans and fixed-interest funding. Interest-rate risks also cover the term structure of interest rates.
- 2) The undertaking shall have procedures to identify, assess and manage the risk resulting from changes in interest rates, prices and other measurements and values in the market-risk area.
- 3) The undertaking shall have procedures in place to identify, assess, manage and mitigate the risks arising from potential changes in interest rates affecting both the economic value of an entity's capital base and the net interest income from the non-commercial activities of the undertaking.
- 4) The undertaking shall have procedures in place to identify, assess, manage and mitigate the risks arising from potential changes in interest rates affecting both the economic value of an entity's capital base and the net interest income from the non-commercial activities of the undertaking.

Tasks and responsibilities of the board of directors

Market-risk policy

- 5) In addition to the general requirement included in section 4(1), the policy in the market-risk area shall, as a minimum, include relevant overall instructions on:
 - a) the types of risks which the undertaking includes under the market-risk area,
 - b) the desired or acceptable level of risk overall and for the individual types of market risk, for example indicating whether the risk may be low, medium or high,
 - c) indication of the purposes for which the individual types of market risks may be assumed, for example, hedging, active risk-taking in connection with investment of the funds of the undertaking, including the undertaking's liquidity placement, or trading for customers, and
 - d) principles for the organisational division of responsibilities in the market-risk area, including for risk-taking, risk management, control and reporting.
- 6) The policy shall take into account the market risks consequential upon the undertaking's deposits and borrowing activities of the undertaking
- 7) The policy shall reflect the complexity of the undertaking's transactions in the market-risk area, and shall also reflect the significance of the market-risk area for the undertaking's overall earnings and risk. The policy shall in particular take into account the individual risks of significance for the undertaking's earnings and solvency. Risks which are insignificant in relation to the undertaking's solvency and earnings may be defined in a more summarised manner:
 - a) For example a large undertaking with comprehensive and/or complex transactions in the market-risk area shall have a correspondingly comprehensive policy. For the types of

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which the board of directors has decided that the undertaking may take, but which are insignificant for the undertaking, the board of directors may just decide to keep these at a minimum.

- b) A small undertaking which places liquidity in Danish government bonds and similar instruments, for example, and which has no other activities in the market-risk area, may in contrast have a relatively simple policy, only covering the interest rate risk. If the undertaking has interest rate risk outside the trading portfolio, for example fixed-interest deposits and lending, this shall be reflected in the policy, however.

Guidelines issued by the board of directors to the board of management for the market-risk area

- 8) For the market-risk area, the guidelines shall meet the general requirements of section 7 and, where relevant for the financial undertaking, include
 - a) limits for the overall interest rate risks, currency risks, share-price risks and commodity risks of the financial undertaking,
 - b) how the individual risks are calculated, and how the individual instruments are included in the calculation,
 - c) limits for the particular risks linked to complex or unusual products, including risks on structured products, or to the undertaking's other activities in the market-risk area, such as risks on options, yield curve risks, spread risks, etc. unless the scope of such risks is insignificant,
 - d) indication of the purposes for which securities, currencies and derivative financial instruments may be traded, for example hedging, active risk-taking in connection with investment of the funds of the undertaking, including the undertaking's liquidity placement, or trading for customers,
 - e) the currencies or groups of currencies that may be traded or in which positions may be taken, and the purposes for which such trading may take place and positions may be taken,
 - f) the types of derivative financial instruments that may be traded or in which positions may be taken, and
 - g) provisions on the markets or trading platforms as well as the countries or groups of countries in which trading may be conducted.
- 9) For mortgage-credit institutions and banks licensed to issue covered bonds (SDOs), the policy and guidelines in the market-risk area shall be prepared in observance of the relevant provisions in the Executive Order on the Issue of Bonds, the Balance Principle and Risk Management.

Conflicts of interest and segregation of duty in the market-risk area

- 10) In the market-risk area, in order to address conflicts of interest, as a general rule, segregation of duties shall be established in accordance with section 11(1), no. 2.
- 11) Settlement, preparation of return and risk calculations, as well as control and reporting may be carried out in the same entity, cf. section 11(2), if the undertaking can document that this can be deemed adequate, cf. section 2.

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- 12) For SIFIs, G-SIFIs and undertakings with extensive and/or complex activities in the market-risk area, segregation of duties shall be established in the market-risk area, cf. no. 8. If segregation of duties has not been established at board of management level, the undertaking shall be able to document that the segregation of duties established is adequate, cf. section 2.
- 13) In small undertakings with only modest activities in the market-risk area, and with own risk-taking limited to placing own funds, including the undertaking's liquidity placements in non-complex financial instruments, there may be reason for not establishing segregation of duties in the market-risk area, cf. no. 8. In such cases, adequate compensatory measures shall be implemented, cf. section 11(3), for example in the form of independent controls conducted outside the market-risk area. The undertaking shall be able to document ensure that the quality of compensatory measures is adequate.
- 14) Segregation of duties in the market-risk area also entails that internal models to calculate market risk capital requirements, VaR models, cf. Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 and Regulation (EU) no. 2019/2033 of the European Parliament and of the Council of 27 November 2019 on prudential requirements for credit institutions and investment firms shall be subject to independent validation and/or compensatory measures. The same shall apply for internal models to calculate market risks or to value financial instruments.

Risk calculations and calculations of gains/losses, etc.

- 15) If the undertaking itself calculates risks and gains or losses, as well as values of financial instruments and other items with market risks, the board of management shall ensure that the undertaking has adequate methods to do so, including that it is possible to control that these are performed correctly.
- 16) If the undertaking obtains calculations of risks and calculations of gains or losses as well as values of financial instruments and other items with market risks from external parties, the board of management shall ensure that the external parties perform the task appropriately. The board of management shall also ensure that the undertaking regularly evaluates whether the prices, parameters, etc. received from and applied by the external parties are correct and thereby ensure a true and fair presentation of the risks of the undertaking as well as that correctly calculated items are presented in the financial statements.

Ascertaining whether risks are within authorities granted

- 17) It shall be possible for employees carrying out transactions to ascertain whether the decisions they intend to make lie within their authority. This also applies to any collective authorities where several employees can enter into transactions within a joint authority.
- 18) No. 15 shall also apply where employees carry out transactions pursuant to authorities granted by customers under an agreement on portfolio management.

Controls in the market-risk area

- 19) Controls of the undertaking's market risk activities depend on the scope and complexity of the area. Controls shall include
 - a) Control of whether authorities are complied with, as all limits and persons with authorities shall be covered by the control; it shall also be possible to ascertain compliance with authorities within undertakings with a certain activity in the area shall the day;

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carry out intra-day control on a sample basis as a minimum, and the size and frequency of the sample shall reflect the scope of activity,

- b) whether calculation and reporting of positions and risks are correct,
 - c) whether investment limits in the portfolio management agreements with customers are complied with,
 - d) whether transactions are entered into at correct rates and prices,
 - e) whether gains or losses on market risk transactions at own and customers' account are calculated correctly,
 - f) reconciliation of holdings of securities, financial instruments and accounts, and
 - g) whether rates, parametres, etc. received and used from external parties are correct and thus ensure a true and fair presentation of the undertaking's risks.
- 20) For mortgage-credit institutions and banks licensed to issue covered bonds (SDOs), the controls in the market-risk area shall be prepared to ensure observance of the relevant provisions in the Executive Order on the Issue of Bonds, the Balance Principle and Risk Management.

Reporting in the market-risk area

Reporting on compliance with limits

- 21) For mortgage-credit institutions and banks licensed to issue covered bonds (SDOs), reporting in the market-risk area shall be designed in order to ensure that it also includes the limits stated in the Executive Order on the Issue of Bonds, the Balance Principle and Risk Management.

Reporting to the board of directors

- 22) Reporting in the market-risk area shall provide the board of directors with a comprehensive overview of the undertaking's significant market risks and support decisions by the board of directors in the market-risk area, including changes in the business model, the market-risk policy and the guidelines for the board of management. Reporting shall also contribute to the basis for the board of directors to assess whether the board of management is performing its tasks in the market-risk area satisfactorily.
- 23) The board of directors shall receive reports in the market-risk area at least every quarter. However, reporting in small undertakings that, for example, place liquidity in Danish government bonds and similar instruments and that do not have other activities in the market-risk area, may be submitted to the board of directors less frequently. Reporting on compliance with limits for risk assumption set in the guidelines from the board of directors shall be conducted as frequently as the board of directors decides, although it may be an integrated part of reporting pursuant to the 1st and 2nd sentences.
- 24) Reporting shall be made in such a way as to highlight all significant market risks and changes in these. As far as is relevant for the board of directors' understanding of the reporting, all reports of figures shall be supplemented by supporting descriptions, analyses and assessments. This applies in particular in the case of a changed risk profile in the market-risk area.
- 25) For SIFIs, G-SIFIs and undertakings with comprehensive and/or complex transactions in the market-risk area, reporting shall enable the board of directors to make an assessment of whether earnings in the market-risk area are commensurate with the market risks taken.

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- 26) For undertakings that use internal models to calculate market risk capital requirements, VaR models, cf. Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and Regulation (EU) no. 2019/2033 of the European Parliament and of the Council of 27 November 2019 on prudential requirements for investment firms and/or internal methods to calculate market risks, the reporting shall include a basis for the board of directors assessment of the reliability of the methods applied.
- 27) For undertakings that use external portfolio managers, the regular reporting to the board of directors, shall include reporting on funds and risks originating from the funds that are managed by the external portfolio manager.

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Annex 3.

Operational risks

Scopes and definitions

- 1) 'Operational risk' means the risk of a loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risks and risks following from outsourcing. Reputational risk and strategic risks are not considered operational risk in this Executive Order, but when relevant they should be treated according to the same principles as operational risk.
- 2) 'Model risk' means the risk of losses consequential upon decisions that are primarily based on results from internal models, due to errors in the development, implementation or use of such models.
- 3) Risks arising from outsourcing are risks of loss directly or indirectly attributable to the operational handling of the company or supplier in connection with the outsourcing of process, services or activities to a supplier, including intra-group outsourcing.
- 4) 'Loss events' means events which may lead to losses, have resulted in losses or which may have resulted in losses for the undertaking, cf. no. 1.

Tasks and responsibilities of the board of directors

Policy for operational risk

- 5) On the basis of the undertaking's business model, activities and organisation, the board of directors shall prepare a policy for operational risk that reflects the size and complexity of the undertaking and that, in addition to the general requirements in section 4, shall contain:
 - a) identification of which operational risks the undertaking could be exposed to, including risks that are expected to occur with low probability, but entail a large potential loss,
 - b) considerations on how the operational risks of the undertaking can be reduced to an acceptable level,
 - c) overall principles under which the undertaking shall be organised in order to maintain operational risks at a level acceptable to the board of directors,
 - d) considerations regarding
 - i. operational risks arising from outsourcing, including dependence on subcontractors,
 - ii. operational risks linked to the undertaking's products and/or customer groups,
 - iii. the extent of manual routines, for example in connection with control and settlement of transactions,
 - iv. integration and suitability of the undertaking's IT systems,

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- v. dependence on external conditions,
 - vi. operational risks linked to the undertaking's organisation, including inadequate segregation of duties, cf. section 11,
 - vii. physical safety, and
 - viii. model risk.
- e) overall principles for how the undertaking is to register and categorise loss events,
 - f) overall principles for reporting loss events to the board of directors that ensure that, at all times, the board of directors has adequate insight into the operational risks of the undertaking and changes in these.
- 6) In preparing the policy, the board of directors shall, where relevant, decide
- a) whether loss events that have occurred can repeat themselves in the future, and
 - b) whether the general level of competences of employees is adequate.

Guidelines issued by the board of directors to the board of management for the operational risk area

- 7) The guidelines from the board of directors to the board of management, cf. sections 6 and 7, shall include:
- a) guidelines on how operational loss events are identified,
 - b) specific methods to ensure that the board of management continuously assesses the loss events that have occurred or which are expected to occur with low probability but entail large losses (tail events). These methods could, for example include scenario analyses drawn up in collaboration with the relevant managers or, for example, analyses of loss records and risk indicators.
 - c) guidelines on how the board of management is to register loss events, including what information regarding the loss event is to be recorded, to what extent registration is to be made, as well as any monetary limits for registration of events that have led to losses, as well as events that could have led to losses.
 - d) guidelines on how the undertaking is to categorise loss events.
 - e) guidelines on reporting on loss events. These guidelines shall, as a minimum, include more details on
 - i. any monetary threshold values for reporting loss events to the board of directors, board of management and other relevant employees, and
 - ii. the content, scope and frequency of reporting.

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Tasks and responsibilities of the board of management

- 8) The board of management shall organise the financial undertaking so that operational risks are limited, in particular so that they are managed within the principles laid down by the board of directors, and ensure that all relevant employees are aware of the undertaking's policy for operational risks.
- 9) The board of management shall ensure that
 - a) information regarding loss events in all the business areas of the undertaking is registered in compliance with the policy of the board of directors for operational risks and the guidelines from the board of directors to the board of management,
 - b) all relevant employees are aware of the undertaking's policy for operational risk,
 - c) all employees have adequate knowledge about operational risks to carry out their tasks in the area,
 - d) there are effective systems and methods to identify, register, categorise, report and store information about loss events in the undertaking's significant business areas,
 - e) there are procedures to identify, register and categorise loss events, and
 - f) there are procedures for calculating and reporting to the board of directors on operational loss events.
- 10) The board of management shall assess in advance whether and to what extent decisions can lead to operational risks which are in conflict with the policy and strategy for the area stipulated by the board of directors. This applies both to decisions of principle in business areas, including new services or transactions with new financial instruments, and to important decisions on the operation and organisation of the undertaking. This may require that the board of management involve the chief risk officer, cf. section 16 as well as annex 7.
- 11) The board of management shall regularly assess whether there are areas in which operational risks should be minimised, and if so take the measures necessary.

Notification to the Danish FSA

- 12) The board of management shall ensure that the undertaking notify the Danish FSA of significant loss incidents.

Model risk

- 13) An undertaking using risk management models, including risk assessment, asset pricing, customer classification, security assessment, automation of decisions, etc., shall have appropriate measures to manage the risks arising from the use of these models. The measures shall as a minimum include:
 - a) The undertaking's definition of models.

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- b) A register of the models used by the undertaking.
 - c) Location of organisational responsibility for the development, approval, use, monitoring, validation and maintenance of models, including responsibility for assessing the results of monitoring and validation and making decisions on necessary measures.
 - d) Business approaches for the development, approval, use, monitoring and validation of models.
- 14) The undertaking shall take into account the following considerations in the organisation of measures, cf. no. 13 taking into account the scope and complexity of the undertaking's use of models:
- a) Adequate resources, knowledge and IT resources for reassuring development, implementation, validation, maintenance and use of the models.
 - b) Identification, management and monitoring of risks associated with the development, identification, maintenance and use of the models. In this context, the undertaking shall have measures in place to identify and manage unintended trends in the output of the models which may give rise to inaccurate risk assessment or to unwanted risk-taking.
 - c) Regular validation and back testing of model output.
 - d) Insight into assumptions, consequences and limitations in the application of the models of the board of directors and board of management and other relevant management levels, taking into account their tasks and duties.
 - e) Transparency and traceability throughout the process from data collection to input in models to the use of model output.
 - f) Robustness of the quality of the output of models at changing levels of risk.
 - g) Robustness of the operation of the models in the face of disruption, including appropriate contingency plans.
 - h) An appropriate and well-defined control environment.
 - i) The quality of data used by the models, including a clear location of responsibility for definitions, data collection, monitoring, controls and documentation.
 - j) Documentation of the models' built-in methodology, assumptions and data use, as well as of control and monitoring measures including version control, change log and test environment.
 - k) Compliance with relevant rules on consumer and data protection.

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Annex 4.

Liquidity risks Scopes and definitions

- 1) 'Liquidity risks' means risks that
 - a) the costs of the undertaking for providing liquidity increase disproportionately,
 - b) lack of financing prevents the undertaking from maintaining its current business model, and
 - c) the undertaking ultimately fails to meet its payment obligations due to a lack of financing.
- 2) In determining which measures are sufficient under section 2, the board of directors and the board of management shall take into account the liquidity complexity, risk profile and business model of the company. In addition, the undertaking shall take into account the importance of the undertaking in both Denmark and the other countries in which it carries out activities, including whether the undertaking is designated as a systemically important financial institution (SIFI) or as a significant branch.
- 3) For mortgage credit institutions, where there is a very close payment relationship between loans and the underlying bonds that finance the loan, the primary liquidity risks will stem from refinancing of the underlying bonds and any additional collateral requirements arising from subsequent loan overruns. Parts of the specific requirements of this Executive Order could therefore be met by explanatory reference to the Bond Issue, Balancing Principle and Risk Management.
- 4) For banks authorised to issue covered bonds, the liquidity policy, management guidelines, business procedures, controls and reporting in the area of liquidity must be designed in accordance with the Bond Issuance, Balance Sheet Principle and Risk Management Notice.

Tasks and responsibilities of the board of directors in the liquidity area

The liquidity policy

- 5) The board of directors shall adopt a written liquidity policy, cf. section 4(2), no. 5. The liquidity policy shall indicate the liquidity risk profile that the board of directors wants the company to have.
- 6) The board of directors shall ensure that the liquidity policy is sufficiently prudent and, at all times, ensures adequate liquidity, including a sound liquidity reserve and sound funding structure. If the undertaking considers that the possible contingency measures referred to in cf. nos. 16-20, has limited impact, this must be reflected in the undertaking's risk profile.
- 7) The liquidity policy shall include:
 - a) Principles for how the undertaking identifies and quantifies its liquidity risks.
 - b) Limits on the undertaking's liquidity risks, including liquidity coverage ratio (LCR), net stable funding ratio (NSFR) limits and any pillar II liquidity requirements

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set by the Danish FSA. The limits shall reflect volatility and significant measurement uncertainties. The limits shall also take into account the company's liquidity stress tests.

- 8) The liquidity policy shall include principles for the undertaking's liquidity buffers, which shall include the following:
 - a) The size of the undertaking's cash buffer.
 - b) The composition of the undertaking's liquidity buffer, including which assets may be included in the liquidity buffer.
 - c) Principles ensuring that the liquidity buffer is sufficiently diversified and takes into account concentration and currency risks.
- 9) The liquidity policy shall include principles for the undertaking's financing structure which shall include the following:
 - a) Limits on the use and concentration of the different types of financing.
 - b) Principles ensuring a sound maturity of financing.
 - c) Where appropriate, limits on financing in different currencies.
 - d) Principles ensuring that methods are developed to assess the stability of deposits.
 - e) Where appropriate, methods for assessing the geographical concentration of deposits.
- 10) The liquidity policy shall include principles for the undertaking's asset encumbrance which shall include the following:
 - a) Principles for the use of asset encumbrance.
 - b) Principles for monitoring and managing the undertaking's level of encumbrance and the risks involved.
 - c) Methods for monitoring the proportion of unencumbered assets that can be used as collateral if an unexpected financing need arises.
 - d) Principles ensuring the development of methods for distinguishing between
 - i. assets used as collateral for the settlement and clearing of payments;
 - ii. assets encumbered in central banks, and
 - iii. other encumbered assets.

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- 11) The liquidity policy shall indicate if there are legal or other restrictions on the transfer of assets within the undertaking, including whether the different types of assets are recognised within the liquidity rules of the countries in which the undertaking operates.
- 12) The liquidity policy shall include principles for the organisational division of responsibilities in the area of risk, including risk-taking, risk management, control and reporting, including in order to ensure segregation of duties in accordance with nos. 38-39.
- 13) The liquidity policy shall include procedures for the follow-up of liquidity policy, cf. section 5(1).
- 14) The liquidity policy shall include principles for the ongoing reporting to the Board of Directors in the field of remuneration, cf. nos. 47-51.
- 15) The liquidity policy shall be reviewed as necessary and at least once a year.

Contingency plan

- 16) The board of directors shall adopt a contingency plan for the provision of liquidity and financing that can be put into action if the company faces liquidity-related challenges.
- 17) The board of directors shall, in the contingency plan, as a minimum:
 - a) consider, assess and adopt measures to provide liquidity and finance, including prioritising actions and assessing the likelihood that each measure can be implemented within the expected timescale, as well as assessing the company's market access under stress and ability to provide market financing,
 - b) define the events leading to the implementation of the plan, including the definition of early indicators of potential crisis situations, and
 - c) define which entities are responsible for implementing the contingency plan.
- 18) The measures of the contingency plan shall be tested at least once a year as far as possible and the test shall be documented.
- 19) The board of directors shall ensure that the undertaking establishes local contingency plans if the undertaking has legal entities where liquidity does not flow freely between the entities.
- 20) The contingency plan shall be reviewed as necessary and at least once a year.

Stress tests

- 21) The board of directors shall adopt methods and assumptions for assessing institution-specific and market-specific stress in the form of liquidity stress tests. The methods and assumptions adopted shall be documented by the board of management.
- 22) Liquidity stress tests shall take sufficient account of
 - a) institution-specific stress, market-wide stress and combined alternative scenarios,
 - b) different periods and degrees of stress,
 - c) stress scenarios shall be unlikely but not unthinkable scenarios,
 - d) stress tests are based on projected cash flows,

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- e) the assumptions forming the basis of stress tests shall be reviewed at least once a year,
 - f) asset encumbrance, off-balance-sheet items and other contingent liabilities, where appropriate, which could potentially lead to liquidity flow.
- 23) If the undertaking is a parent company, it shall perform stress testing both at group and solo level as appropriate. The other undertakings in the group shall each perform stress testing sufficiently.
- 24) Liquidity stress tests shall be carried out regularly and at least once a month and shall be documented.
- 25) The board of directors shall ensure that the development of the liquidity buffer in stress tests is monitored, including monitoring how long it takes for the undertaking to no longer be able to comply with regulatory liquidity requirements in its stress tests.

Internal allocation of liquidity costs

- 26) The board of directors shall ensure that the undertaking has principles for the statement and distribution of liquidity costs as appropriate. The principles shall be documented by the board of management. If the undertaking is designated as a systemically important financial institution (SIFI), the board of directors shall ensure that liquidity risks and other risks are properly included in the internal pricing of financial products.

Guidelines issued by the board of directors to the board of management for the liquidity area

- 27) The guidelines from the board of directors to the board of management shall translate the liquidity policy into specific guidelines containing provisions on the following:
- a) Calculation of liquidity pursuant to applicable regulatory liquidity requirements and any pillar II requirements, if any.
 - b) Methods for calculation of liquidity risks and time horizons for the calculations. The calculations of liquidity risks shall comprise balance sheet items and off-balance-sheet items.
 - c) The circumstances in which the board of management shall ensure the position of the board of directors on whether the financial undertaking should maintain the chosen levels of risk and the procedure for doing so.
 - d) Any additional limits beyond the limits set by the liquidity policy.

Tasks and responsibilities of the board of management in the liquidity area

- 28) The board of management shall ensure that when new products with liquidity risks and significant changes in existing products increase the institution's liquidity risks, cf. sections 22 and 23, there is an adequate introduction into the undertaking's organisation, including in the undertaking's business procedures, risk management, reporting and internal controls.
- 29) The board of management shall ensure that the LCR and the volatility of the LCR are monitored and managed. In this context, the board of management shall ensure that monitoring provides an overview of the items giving rise to significant movements in net cash flows.

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- 30) The board of directors shall ensure that the development of liquidity is monitored on a daily basis. The board of management shall ensure that it is documented how the company assesses its daily cash flow needs and how it follows liquidity on a daily basis, so that the undertaking complies with the set limits on liquidity risks.
- 31) The board of management shall ensure that day-to-day liquidity management takes sufficient account of
 - a) the current and expected liquidity needs in the coming days, including the settlement of the undertaking's payments, etc. via other banks,
 - b) volatility in liquidity needs over time,
 - c) handling sudden liquidity needs due to late payments, IT errors, human error, etc.,
 - d) liquidity flows from external sources, such as credit institutions and central banks,
 - e) liquidity needs in currencies,
 - f) any legal or regulatory restrictions on the transfer of liquidity, and
 - g) intraday liquidity risk and the ongoing monitoring and control of intraday liquidation.
- 32) The board of management shall ensure that the company reassesses its expected financing needs at least once a year.
- 33) The board of management in undertakings which arrange revolving securitisation transactions subject to an early redemption provision shall ensure that the relevant organisational units draw up liquidity plans to take into account the consequences of both early repayment and repayment when due.

Business procedures and documentation in the liquidity area

Business procedures for the current statement of liquidity and financing

- 34) An undertaking shall have business procedures for the continuous identification, measurement, management, monitoring and reporting of the undertaking's liquidity risks. To the extent that functions are outsourced in whole or in part, the undertaking shall have business procedures for dealing with the associated risks.
- 35) In addition to the general requirements of section 13, the business procedures shall contain provisions to ensure that the undertaking, as appropriate, takes into account regulatory, administrative and operational constraints affecting the transfer of liquidity and unencumbered assets between entities in different countries.
- 36) In addition to the above requirements in section 14 for documentation, the undertaking shall have documentation of assumptions, methodological choices and processes in connection with the statement of LCR and NSFR, as well as board-appointed and other relevant liquidity risk targets, including evidence of
 - a) the methods chosen by the undertaking to measure its cash flows,

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- b) the establishment of an expected date for the possible realisation of assets in the liquidity buffer and how the assets can be realised in accordance with the undertaking's expectations;
- c) assumptions about the maturity of assets and liabilities, which can be both contractually determined and behavioural, and
- d) continuous reassessment of the statements of the company's cash flows, including validation of the assumptions about cash flows.

Procedures for calculation of collateral received and provided

37) Where assessed relevant, an undertaking shall have procedures for calculation of collateral received and provided, which, in addition to the general requirements of section 13, as a minimum, shall include:

- a) Provisions to ensure that the undertaking identifies and estimates current and potential needs for providing and receiving collateral over different time horizons.
- b) Provisions to establish how the undertaking is to calculate the value of liquidity of the undertaking's current and potential collateral. The value of liquidity is the value which the undertaking can expect to achieve, if a collateral is to be sold or pledged in a crisis situation. The value of liquidity normally does not correspond to the carrying amount.
- c) Provisions to ensure that the value of liquidity is always calculated prudently and that the undertaking takes into account that it may be very difficult to sell or pledge certain assets within a reasonable time horizon. When calculating the value of liquidity, the undertaking shall use a relevant deduction where fluctuations in the market capitalisation of the asset are an important element.
- d) Provisions to ensure that the undertaking takes into account any legal and operational limitations in connection with the pledging or selling of collateral.

Segregation of duties in the liquidity area

- 38) In the liquidity area, in order to address conflicts of interest, as a general rule, segregation of duties shall be established in accordance with section 11(1), no. 2.
- 39) Undertakings which have a limited number of liquidity disposals on a daily basis and also have adequate instructions and business arrangements in the liquidity area may have a less extensive organisation and control of the liquidity area, subject to the imposition of reassuring compensatory measures to ensure that unnecessary risks or losses are not inflicted on the entity, as referred to in section 11(3). However, this does not apply to SIFI's and G-SICs, as well as to undertakings with large and/or complex liquidity transactions.

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Risk management in the liquidity area

Chief risk officer and risk management function

- 40) The chief risk officer shall, in addition to the general requirements in section 16 and annex 7, monitor adequate control of credit risks in the undertaking, including monitor the following:
- a) the liquidity of the undertaking, including intraday cash flow, is continuously monitored and controlled,
 - b) the contingency plan is tested at least once a year as far as possible in accordance with no. 13,
 - c) the established limits are constantly reassessed,
 - d) that the level and development of the extent of asset encumbrance and related sources of encumbrance, such as secured financing, are continuously monitored,
 - e) the quantity and credit quality of unencumbered assets, but which can be encumbered, are monitored,
 - f) the quantity and type of any additional asset encumbrance in stress scenarios is monitored.
- 41) The risk management duty shall validate the undertaking's cash flow statements and assumptions with appropriate frequency and the validation shall be documented.

Controls in the liquidity area

- 42) Pursuant to section 19, the undertaking shall establish independent internal controls on all significant activities in the liquidity area. As a minimum, regular internal control shall be carried out to ensure:
- a) compliance with the liquidity policy by the employees of the undertaking,
 - b) Compliance with the authority to grant loans, and
 - c) reporting in the undertaking is correct.
- 43) The undertaking shall document the internal controls carried out.

Reporting in the liquidity area

Reporting on compliance with limits

- 44) The undertaking shall report for all established liquidity limits in the liquidity area to those who have set the limits.
- 45) The frequency of reporting on compliance with limits depends on the risk target and the liquidity complexity, risk profile and area of work.
- 46) An overrun of a limit shall be reported to those who have set the limits and to other relevant persons. As a general rule, reporting shall be made no later than the day after the overrun has been detected.

Reporting to the board of directors

- 47) The reporting to the board of directors shall give the board a full overview of the undertaking's liquidity

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risks and be adequate and accurate, cf. section 3(1) no. 7.

- 48) The reporting shall support the board's basis for making decisions about the undertaking's liquidity risks, including changes in the business model, liquidity policy and guidelines to the board of management. Similarly, the reporting shall contribute to the basis for the board of directors to assess whether the board of management is performing its tasks in the liquidity area satisfactorily.
- 49) The Board of Directors shall be informed of the status of the limits laid down in the liquidity policy at the ordinary board meetings or at a higher frequency if the development of liquidity risks so requires.
- 50) The board of directors shall be informed as soon as possible and without delay of errors in liquidity statements if the errors result in a material change in the undertaking's regulatory objectives or the undertaking's risk situation.
- 51) Reporting to the board of directors shall comply with the following:
 - a) Designed in such a way as to highlight all significant liquidity risks and their developments.
 - b) Updated continuously.
 - c) Address the actual and expected future development of liquidity. The undertaking's expectations for the development of liquidity shall be measured either quantitatively by means of stress tests or by means of qualitative assessments.
 - d) Document the undertaking's management actions and decisions about changes in liquidity situation.

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Annex 5.

IT strategy, IT risk management policy and IT security

policy Scope

- 1) This Annex lays down the conditions set out in the Executive Order relating to information technology (IT), including communication technology, information security and related risk management and control measures. By extension, IT assets are understood to mean both IT and information assets.
- 2) Undertakings covered by this annex shall comply with the provisions in a manner commensurate with and taking into account the size of the undertaking, its internal organisation and the use of a common data centre. In addition, it must be proportionate to the nature, scope and complexity of, as well as the risks, services and products that the undertaking provides or intends to provide. For undertakings provided with business-critical systems and/or IT infrastructure by a single data centre, the data centre may actively contribute to ensuring compliance with the relevant provisions set out in the annex. However, it remains the undertaking's responsibility to comply with the regulations and to follow up on the data centre's compliance with the agreed division of labour.

Tasks and IT strategy of the

Board of directors

- 3) The board of directors shall be responsible for ensuring that the undertaking has an appropriate organisation and adequate internal management and control of risks associated with its IT use.
- 4) The board of directors shall ensure that the undertaking has an IT strategy that must be consistent with the undertaking's overall strategy and determine:
 - a) How the undertaking's IT should be developed, including organising IT work, changes in IT systems and significant reliance on third parties.
 - b) Clear IT security objectives with a focus on IT systems, IT services, staff and processes.
- 5) The board of directors shall continuously, and at least once a year, reassess and approve the IT strategy.

IT risk management policy.

- 6) The board of directors shall ensure that the undertaking has a policy for IT risk management, cf. section 4(2) no. 6. The policy can be a separate policy or part of other relevant policies. The policy shall as a minimum include:
 - a) IT risk tolerance in accordance with the undertaking's overall risk tolerance.
 - b) Methodological requirements for managing IT risks, including identification of IT risks. The identification shall identify the IT risks to which the company is and may be exposed, including those associated with the undertaking's

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- i. processes, activities, services, systems and data,
 - ii. dependence on external conditions, including suppliers,
 - iii. organisation, including lack of segregation of duties.
- c) Requirements for IT security incidents to be included in risk management.
 - d) Requirements for the scope and frequency of risk assessments.
- 7) The Board of Directors shall continuously, and at least once a year, reassess and approve the policy of IT risk management.

IT Security Policy

- 8) Based on an overall risk assessment of the company's use of IT, including IT outsourcing, the board of directors shall decide on an IT security policy.
- 9) Based on the desired risk profile in the IT field, the IT security policy shall contain an overall position on all essential matters relating to IT security, including principles and rules to protect the confidentiality, integrity and availability of the company's and customers' data, and the undertaking's essential business functions. What is important depends, among other things, on the size of the undertaking, the business model, the scope and complexity of the undertaking's IT use, as well as the undertaking's potential impact on the financial system. The IT security policy shall comply with the undertaking's IT security objectives, as set out in, no. 4(b) and be based on the relevant results of the risk assessment.

The following factors shall as a minimum be considered:

- a) Organisation of IT work, including segregation of duties between:
 - i. system development/maintenance,
 - ii. IIT operations, and
 - iii. business conduct of the undertaking.
- b) Regular risk assessments.
- c) Protection of systems, data, hardware and channels of communication.
- d) System development and maintenance of systems.
- e) Project management.
- f) IT operations.
- g) IT incident and problem management.

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- h) Logging and surveillance.
 - i) Segregation of duties.
 - j) Backup.
 - k) Objective for preparedness, including for business continuity and recovery.
 - l) Quality assurance.
 - m) Testing and review of IT security.
 - n) Access management.
 - o) Principles for implementing the policy in deeper business procedures, etc.
 - p) Measures in case of breach of IT security policy and security rules.
 - q) Compliance with relevant legislation.
 - r) Reporting, control and follow-up.
 - s) Any exemptions from the IT security policy.
 - t) IT security training.
- 10) The policy shall set requirements for staff and consultants, processes and technology. Likewise, the policy shall ensure the confidentiality, integrity and availability of critical logical and physical assets, resources and sensitive data during storage, transfer and use.
 - 11) The policy shall be communicated to all relevant employees and consultants.
 - 12) It security policy shall include a position on the need to establish multi-centre operation on all business-critical IT systems.
 - 13) The board of directors shall regularly and at least once a year reassess and approve IT security policy on the basis of an updated overall risk assessment based on the undertaking's continuously maintained IT risk register, as referred to in no. 107(a). In this context, the board of directors shall assess whether the IT security policy is sufficient to ensure that risks posed by use of IT and is expected to entail are at an acceptable level for the undertaking.
 - 14) The IT security policy shall be independent of applied technology as far as possible.

Tasks and responsibilities of the board of management

IT strategy

- 15) The board of management shall ensure that action plans are drawn up to ensure the implementation of the IT strategy's objectives. All relevant employees, consultants and suppliers shall be informed about these action plans. Action plans shall be reviewed at least once a year to ensure their relevance and appropriateness.
- 16) The board of management shall ensure that key roles and responsibilities are identified and assigned for all IT functions.
- 17) The board of management shall ensure that the implementation of the IT strategy is monitored.

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Implementing the IT Risk Management Policy

Organisation and targets

- 18) The board of management shall ensure, in accordance with no. 7 that the undertaking's IT risk management policy is adhered to and that the undertaking has an appropriate framework and business for IT risk management and control.
- 19) The board of management shall ensure that there are sufficient and qualified staff to continuously support the undertaking's operational IT needs and IT risk management processes. The board of management shall ensure that the budget allocated is sufficient. In addition, the board of management shall ensure that relevant employees involved in the field, including those with key functions, receive appropriate training in IT risks, including IT security, at least once a year.
- 20) The board of management shall ensure that key roles and responsibilities, as well as reporting channels, are identified and assigned to ensure that the IT risk management framework is effective. This shall be fully integrated into and adapted to the overall risk management of the undertaking.
- 21) The board of management shall ensure that IT risks are managed. The IT function(s) responsible for IT systems, processes and security measures shall have appropriate processes and control measures to ensure that risks are identified, analysed, measured, managed, monitored, reported and within the company's IT risk tolerance cf. no. 6(a).

Identification of functions, processes, and assets

- 22) The board of management shall ensure the identification of business functions, roles and supporting processes in order to assess the importance of each element and their interdependence in relation to IT risks and to ensure that its mapping is kept up to date.
- 23) The board of management shall ensure that an up-to-date overview of IT assets is prepared and maintained that supports the mapped business functions and supporting processes. The overview shall at least enable the undertaking to manage the IT assets that support critical business functions and supporting processes. IT assets that support business functions and supporting processes include IT systems, IT services, employees, consultants, third parties and dependencies on other internal and external systems and processes.

Classification and risk assessment

- 24) The board of management shall ensure that the identified business functions, supporting processes and IT activities are classified on the basis of their criticality.
- 25) To define how critical the identified business functions, supporting processes, and IT assets are, confidentiality, integrity, and availability requirements shall be taken into account. There shall be a clear division of responsibilities in relation to IT assets.
- 26) The board of management shall ensure that the adequacy of the classification of IT assets and the relevant documentation is assessed when carrying out risk assessments.
- 27) The board of management shall ensure that IT risks are identified in accordance with the criticism of the identified and classified business functions, supporting processes and IT assets affected by the IT risks. Risk assessments shall be carried out and documented at least once a year. Such risk assessments shall also be carried out in the context of major changes in infrastructure, processes or business processes affecting business functions, supporting processes or IT activities, and other relevant changes, including in the threat situation. On the basis of this, the overall existing risk assessment, cf. no. 13, of the undertaking shall be updated.
- 28) The board of directors shall ensure that threats and vulnerabilities relevant to business functions, supporting processes and IT assets are continuously monitored. In addition, the risk scenarios that may

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affect these business functions, supporting processes and IT assets, shall be developed and regularly implemented.

Managing IT risks

- 29) On the basis of the risk assessments, the board of management shall ensure that decisions are made on the measures to be implemented to address identified IT risks so that they are at an acceptable level and whether changes need to be made to existing business processes, control measures, IT systems and IT services. Where changes are necessary, it shall be ensured that risks in the intervening period are managed by taking the necessary compensatory measures to stay within the company's IT risk tolerance cf. no. 6(a).
- 30) The board of management shall ensure that measures are developed and implemented to address the identified IT risks and to protect IT assets in accordance with the classification.

Reporting

- 31) The board of management shall ensure that risk assessments as appropriate and the overall IT risk assessment are reported clearly and in a timely manner to the board of management and board of directors.

Implementing the IT security policy

- 32) The board of management shall ensure that the undertaking's IT security policy is complied with and that it is deepened and implemented in business procedures, etc.
- 33) The board of management shall ensure that business processes are developed and implemented that support the location of responsibilities, including ownership of IT processes and resources.
- 34) The board of management shall ensure that business processes are developed and implemented that support continuous monitoring and reassessment of segregation of duties.
- 35) The board of management shall ensure that business processes are developed and implemented that support the maintenance of the desired IT security level and the management of any weaknesses.
- 36) The board of management shall ensure that business arrangements are developed and implemented that support the need for adequate IT resources.

Logical security

- 37) The board of management shall ensure that logical access control (identity and access management) business processes are developed and implemented. The business processes shall also include control measures to ensure the monitoring of irregularities. These businesses processes shall ensure that the undertaking has risk-based user and rights management that contains at least the following elements, where the term "user" also includes user accounts that are not assigned to people:

- a) The "need to know" principle, the "least privilege" principle and "segregation of duties": The undertaking shall manage access rights to IT assets and their support systems according to the "need to know" principle. Users shall be granted minimum access rights that are strictly necessary for the performance of their tasks (the "least privilege" principle) so that the undertaking ensures that a user is not granted combinations of access rights that can be used to circumvent control measures (principle of "segregation of duties"). Segregation of duties in systems and in technical environments shall be documented.

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- b) **User responsibility:** The undertaking shall restrict the use of generic and shared user accounts and ensure that users who have performed actions in the IT systems can be identified.
- c) **Privileged access rights:** The undertaking shall ensure continuous control and monitoring and implement strong control measures in relation to privileged system access. In order to achieve secure communication and reduce risk, remote access to critical IT systems should only be granted on the "need to know" principle and when strong authentication solutions are used.
- d) **Logging user activities:** All relevant activities, and at least the activities of privileged users, shall be logged and monitored. Logs shall be secured in order to prevent unauthorised modification or deletion and shall be kept for a period commensurate with the criticality of the identified business functions, supporting processes, and IT assets. The undertaking shall use this information as part of the identification and investigation of irregular activities.
- e) **Access control.** Access rights shall be granted, deleted, withdrawn and/or amended in a timely manner in accordance with predefined business processes involving the data owner of the information made available (the owner of the IT asset). Upon termination of employment, access rights shall be withdrawn without delay.
- f) **Periodic review of access rights:** Access rights shall be regularly reviewed to ensure that users do not have too broad rights and that access rights are deleted when they are no longer needed. Where inappropriate or risky accesses are identified during the review, it shall be ensured that control and follow-up measures are carried out to identify whether access has been used inappropriately.
- g) **Authentication methods:** The undertaking shall have sufficiently effective authentication methods. Authentication methods shall correspond to the criticality of the IT systems, information or process granted. This shall include at least complex passwords or stronger authentication methods based on the relevant risk.
- h) **Classification:** The undertaking shall identify and classify critical systems and data in relation to rights management and make risks visible. Similarly, systems and data shall be continuously classified, critical accesses across systems shall be identified and critical system accesses shall be logged to ensure effective monitoring and timely tracking of unauthorised activity.
- i) **Combination of roles and privileges:** The undertaking shall identify the roles, rights and combinations thereof and make visible the risks associated with them,

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including the extent to which access is to be subject to continuous control and monitoring and responsibility for it.

- 38) Applications' access to data and IT systems shall be limited to the minimum necessary to provide the relevant service.

Physical security

- 39) The board of management shall ensure that physical security measures are defined, documented and implemented to protect properties, data centres and sensitive areas from unauthorised access and climate and environmental hazards.
- 40) The board of management shall ensure that physical access to IT systems is only permitted for authorised persons. The authorisation shall be granted in accordance with the tasks and responsibilities of the individual and shall be limited to persons who are adequately trained and supervised. Physical access rights shall be reviewed regularly.
- 41) Measures to protect against climate and environmental hazards shall be proportionate to the importance of buildings and the criticism of the operation or IT systems located in the buildings.

IT reliability

- 42) The board of management shall ensure that business processes are developed and implemented to prevent and minimise IT security issues. These operations shall include all appropriate measures to counteract likely risks, taking into account the size, nature and risk of the undertaking. The business processes shall as a minimum concern the following:
- a) Identification of potential vulnerabilities to be assessed and addressed, including by ensuring that software and firmware are up to date. This applies to both software used by the undertaking's internal and external users.
 - b) Implementation of secure default configurations for all network components and relevant systems.
 - c) Implementation of network segmentation, data loss prevention systems, and encryption of network traffic.
 - d) Protection of devices with which users have access to systems, including servers, workstations and mobile devices. It is also necessary to assess whether the devices meet the safety standards established before the devices are connected to the undertaking's network.
 - e) Ensuring that mechanisms are in place to control software, firmware and data integrity.
 - f) Encryption of data when storing and transferring.
- 43) The board of management shall ensure that changes in production environments affect safety measures on an ongoing basis or require that additional measures be implemented to adequately address the associated risks. These changes shall form part of the undertaking's formal change management process, which shall ensure that changes are risk assessed, planned, tested, documented, approved and properly installed cf. no. 85.

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Security monitoring

- 44) The board of management shall ensure that business operations are developed and implemented to detect and respond to irregular activities that may affect the undertaking's IT security. As part of this, continuous monitoring and effective measures shall be established to detect and report physical or logical intrusions, as well as breaches of the confidentiality, integrity and availability of IT assets. Monitoring shall as a minimum include:
- a) Relevant internal and external factors, including business functions and administrative IT functions.
 - b) Transactions to detect abuse of access by third parties or other entities and internal abuse of access, cf. no. 37.
 - c) Potential internal and external threats.
- 45) The board of management shall ensure that business and organisational structures are developed and implemented to identify and continuously monitor security threats that may have a significant impact on the ability to provide services, including actively monitoring technological developments to ensure awareness of IT risks. Detection controls, such as to identify possible information leaks, malicious code and other security threats, as well as publicly known vulnerabilities in software and hardware, shall be implemented. Corresponding security updates shall be monitored.
- 46) Security monitoring shall help the undertaking understand the incident in order to identify trends and support the investigation of the incident.

Testing and review of IT security

- 47) The board of management shall ensure that tests, reviews and assessments of IT security are carried out to ensure effective identification of vulnerabilities in IT systems and IT services. A gap analyses shall as a minimum be carried out in relation to IT security standards, as well as regular review of whether the undertaking complies with applicable rules. In addition, based on a risk-based approach, the undertaking shall perform source code review, vulnerability assessments, penetration tests, red team exercises, etc.
- 48) The board of management shall ensure that requirements for testing IT security are developed and implemented to ensure that the effectiveness of IT security measures is validated. The undertaking shall ensure that these requirements take into account threats and vulnerabilities identified through threat monitoring and the risk assessment process.
- 49) IT security testing requirements shall ensure that tests:
- a) Are carried out by independent persons with sufficient knowledge, professional competence and expertise in testing IT security measures and not involved in the development of the company's IT security measures.
 - b) Includes vulnerability scans and penetration tests that are proportionate to the level of risk identified in business processes and systems.
- 50) The board of management shall ensure that ongoing and repeated tests of the security measures are carried out. Critical IT systems shall be tested at least once a year. Non-critical systems shall be tested regularly and within a minimum period of three years.

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- 51) The board of management shall ensure that security measures are tested in the event of changes in infrastructure, processes or business processes and if changes are made due to major IT security incidents cf. no. 64. Tests shall also be carried out as a result of the launch of new or significantly modified critical applications that can be accessed from the Internet.
- 52) The board of management shall ensure that the results of the safety tests carried out are evaluated and that security measures are updated accordingly without undue delay in the case of critical systems.
- 53) For institutions providing payment services, the test framework shall also include security measures relevant to:
 - a) Payment terminals and units used for payment services.
 - b) Payment terminals and devices used to authenticate the payment service user.
 - c) Devices and software provided by the payment service provider to the payment service user to generate/receive authentication codes.
- 54) Based on the observed security threats and the changes made, tests shall be carried out on scenarios that include relevant and predictable potential attacks.

IT operations management

- 55) The board of management shall ensure that IT operations are managed on the basis of prepared and implemented business operations. These will define how the undertaking operates, monitors, and controls IT systems and services, and shall include documentation of critical IT operations and maintenance of the updated it assets overview.
- 56) The board of management shall ensure that it operations comply with business requirements. The undertaking shall maintain and improve the efficiency of IT operations, including ensuring that potential errors resulting from the performance of manual tasks are minimised.
- 57) The board of management shall ensure that logging and monitoring business times for critical IT operations are prepared and implemented to enable errors to be detected, analysed and corrected.
- 58) The board of management shall ensure that an up-to-date overview of IT assets including IT systems, network equipment, databases, etc. is kept. This shall include the configuration of IT assets and interdependencies between the different IT assets in order to complete configuration and change management processes.
- 59) The list of IT assets shall be sufficiently detailed to ensure the rapid identification of an IT asset, its location, security classification and ownership. Interdependencies between IT assets shall be documented in order to contribute to the management of IT security incidents, including cyber attacks.
- 60) The board of management shall ensure that the life cycle of IT assets is monitored and managed to ensure that they continuously meet and support business and risk management requirements. The undertaking shall monitor whether IT assets are supported by internal or external vendors and developers, and whether all relevant patches and upgrades are implemented according to proven processes. Likewise, it must be monitored whether all relevant patches and upgrades are installed on the basis of proven processes. Risk arising from outdated or un-supported IT assets shall be assessed and handled.
- 61) The board of management shall ensure that capacity monitoring is implemented in order to prevent, detect and respond in a timely manner to important operational problems related to IT systems and lack of IT capability.

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- 62) The board of management shall ensure that procedures for the backup and recovery of data and IT systems are developed and implemented to ensure that they can be restored as required in accordance with established requirements. The scope and frequency of backups shall be determined in accordance with the business requirements for recovery, data and the criticality of IT systems and shall be evaluated in accordance with risk management. Testing of backup and recovery business aisles shall be carried out continuously in accordance with established requirements.
- 63) The board of management shall ensure that data backups and IT systems are stored securely and in isolation from the primary location so that they are not exposed to the same risks.

Management of IT incidents and problems

- 64) The board of management shall ensure that an IT incident and problem management business is developed and implemented to monitor and log IT security events and enable the company to continue or restore critical business functions and processes in a timely manner when disruptions occur. The undertaking shall set appropriate criteria and thresholds for classifying IT security incidents, as well as establish early warning indicators to act as alarms to enable early detection of IT security incidents.
- 65) In order to minimise the impact of unintended IT security incidents and enable timely recovery, appropriate business practices and organisational structures must be developed and implemented to ensure consistent and integrated monitoring, management and follow-up of IT security incidents. In addition, the root causes shall be identified and removed to prevent IT security incidents from being repeated. In addition, the IT incident and problem management business process shall as a minimum establish:
 - a) Requirements for identifying, tracking, recording, categorizing, classifying and reporting IT security incidents are prioritized based on business criticality.
 - b) Roles and responsibilities for different incident scenarios.
 - c) IT problem management requirements to identify, analyse, and resolve the problem(s) that lead to IT security incidents. IT security incidents that may affect the undertaking that has been identified or occurred inside and/or outside the organisation must be analysed. Similarly, the most important experience must be taken into account and the security measures shall be updated accordingly.
 - d) Effective internal communication plans, including notification of IT security incidents and escalation procedures, which also include security-related complaints, to ensure that
 - i. IT security incidents with potentially significant negative impacts on critical IT systems and IT services are reported to the relevant management;
 - ii. the board of management shall be informed in the event of significant IT security incidents and shall at least be informed of the consequences, follow-up and additional control measures to be developed and implemented as a result of the IT security incidents, and that;

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- iii. the board of directors shall be informed as appropriate.
 - e) IT security incident management requirements to address the impact of IT security incidents and ensure that the service becomes operational and secure in a timely manner.
 - f) Specific external communication plans for critical business functions and processes to ensure
 - i. co-operation with relevant stakeholders to effectively respond to the need to re-establish operations, and
 - ii. provision of timely information to external parties, as appropriate and in accordance with applicable law.
- 66) The board of management shall ensure that IT security incidents, which the company itself categorizes as critical, are reported without undue delay to the Danish FSA. The reporting shall as a minimum include IT security incidents that result in a significant reduction in functionality due to breaches of confidentiality, integrity and/or availability of IT systems and/or data.

Use of suppliers

- 67) The board of management shall ensure the effectiveness of risk management measures when outsourcing the operational functions of IT services, payment services and IT systems, including to group entities.
- 68) In order to ensure continuity of IT services and IT systems, the board of management shall ensure that contracts and service supply agreements with suppliers include at least the following:
- a) Appropriate and proportionate IT security objectives and measures.
 - b) IT security incident management business, including escalation and reporting.
- 69) The board of management shall ensure that suppliers' compliance with IT security objectives and security measures is monitored and reported as appropriate.

The undertaking's potential status as an operator of a significant service

- 70) The board of management of a credit or mortgage credit institution designated by the FSA as the operator of essential services shall ensure that the Danish FSA and the Centre for Cyber Security are informed as soon as possible of incidents which have significant consequences to the continuity of the essential services they deliver. This notification shall include information on the number of users affected by the interruption of the essential service, the duration of the incident, the geographical distribution with regard to the area affected by the incident and any cross-border consequences of the incident.

IT project management

- 71) The board of management shall ensure that a business process for IT project management is developed and implemented that defines roles and responsibilities.

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- 72) Risks arising from the undertaking's portfolio of IT projects shall be identified, analysed, measured, managed, monitored and reported, taking into account also the risks that may arise from interdependences between different projects, including when wound up with the same resources and/or expertise.
- 73) The IT project management process shall as a minimum include:
 - a) Project targets,
 - b) Roles and responsibilities.
 - c) A project risk assessment.
 - d) A project plan, a time frame, and the different steps.
 - e) Most important milestones.
 - f) Change management requirements.
- 74) The IT project management process shall ensure that IT security requirements are analysed and approved by a function that is sufficiently independent and has the right competencies.
- 75) The board of management shall ensure that all areas affected by an IT project are represented on the project team and that the project team has the necessary knowledge to ensure a safe and successful project implementation.
- 76) The establishment and progress of IT projects and the derived risks shall be reported to the board of management depending on the importance and scope of the IT projects. Reporting shall be carried out on a regular basis and when appropriate. Project risks shall be included in the risk management framework. The reporting shall be made available to the board of directors as appropriate.

Acquisition and development of IT systems

- 77) The board of management shall ensure that a business plan for the acquisition, development and maintenance of IT systems is developed and implemented, which shall be designed on the basis of a risk-based approach.
- 78) The board of management shall ensure that functional and non-functional requirements, including IT security requirements, are clearly defined and approved by the relevant manager before IT systems are acquired or developed.
- 79) The board of management shall ensure that there are mitigating measures against unintended changes or deliberate manipulation of IT systems that are being developed and implemented.
- 80) The board of management shall ensure that IT systems are tested and approved before they are put into service and that the criticisms of business processes and assets are taken into account. Test environments shall adequately reflect the production environment.
- 81) The board of management shall ensure that IT systems, IT services and measures are tested in order to identify potential security breaches, weaknesses and incidents.
- 82) The board of management shall ensure that separate IT environments are established in order to achieve adequate functional separation and prevent unverified changes to production systems. Production environments shall be separated from the development and testing environments and other non-production environments. At the same time, the integration and confidentiality of production data used in non-production environments shall be ensured. Access to production data shall be limited to authorised users.
- 83) The board of management shall ensure that measures are implemented to protect the integrity of the source co-ordination of IT systems. The development, implementation, operation and/or configuration of IT systems shall be documented in order to minimise unnecessary personal dependence. The documentation

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of an IT system shall as a minimum include user documentation, technical system documentation and business processes.

- 84) The board of management shall ensure that the requirements for the acquisition and development of IT systems also apply to IT systems developed and/or handled by the users of the business functions outside the IT organisation. But this shall be based on a risk-based approach.

IT change management

- 85) The board of management shall ensure that an IT change management process is developed and implemented to ensure that all changes to IT systems are recorded, risk assessed, tested, approved, implemented and verified in a controlled manner. Urgent and emergency changes shall be managed according to predetermined and adequate measures.
- 86) The board of management shall ensure that changes in existing production environments affect existing measures or whether further measures are necessary is continuously assessed. These changes shall be made in accordance with the undertaking's formal change management process.

Contingency planning: Business Continuity Management

- 87) The board of management shall ensure that a Business Continuity Management (BCM) plan is developed and implemented in order to maximise the ability to continuously provide services and limit losses in the event of significant IT outages.
- 88) The board of management shall ensure that an event that puts an operations centre out of service cannot hit other operating centres at the same time. This shall be done on the point of view of a specific risk assessment.

Contingency planning: Business impact assessments

- 89) The board of management shall ensure that business impact analysis (BIA) is carried out on business processes. This should be done by analysing exposure to significant breakdowns and assessing potential impacts quantitatively and qualitatively using internal and/or external data and scenario analysis. In addition, potential implications for confidentiality, integrity and accessibility shall be assessed. Business impact assessments shall also take into account the criticality of the identified and classified business functions, supporting processes, third parties and IT assets, as well as their interdependencies.
- 90) The board of management shall ensure that the company's business impact assessments are reflected in the design of IT systems and IT services, for example by ensuring redundancy of critical components to avoid operational disruptions caused by events affecting these components.

Contingency planning: Business continuity plans

- 91) The board of management shall ensure that business continuity plans (BCPs) are prepared and implemented on the basis of business impact assessments. This shall be documented and approved by the board of management. The plans shall take into account risks that may have a negative impact on IT systems and IT services. The plans will support aims to protect and restore the confidentiality, integrity, and availability of business functions, supporting processes, and IT assets. Where appropriate, co-operation with internal and external stakeholders shall be provided during the preparation of plans.
- 92) The board of management shall ensure that business continuity plans are drawn up and implemented in order to respond appropriately to potential crash and error scenarios and that the entity is able to restore critical business activities after breakdowns and within the established recovery targets, cf. no. 9(k). The maximum amount of time within which a system or process must be restored after an event (Recovery Time Objective) and the maximum acceptable data loss, measured in time

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(Recovery Point Objective, RPO) shall be considered as a minimum. In the event of serious business disruptions triggering several specific business continuity plans, it shall be ensured that emergency measures are prioritised on the basis of a risk-based approach.

- 93) The board of management shall ensure that business continuity plans contain a variety of scenarios, including extreme but plausible scenarios, including cyberattack scenarios to which the company may be exposed, and shall assess the potential impact that such scenarios may have. Based on these scenarios, it is necessary to describe how to ensure the continuity of business processes and IT security.

Contingency planning: Recovery plans

- 94) On the basis of the business impact assessments cf. no. 89, and possible scenarios, the board of management shall make sure that disaster recovery plans (DRPs) are prepared and implemented. These plans shall describe the conditions which may lead to the activation of the plans and the measures to be taken to ensure the recovery, availability and continuity of, at a minimum, the undertaking's critical IT systems and IT services. Recovery plans shall ensure that the recovery objectives can be achieved cf. no. 9(k).

- 95) Recovery plans shall take into account both short-term and long-term recovery options. The plans shall, as a minimum:

- a) Focus on restoring the operation of critical business functions, supporting processes, IT assets and their interdependencies to avoid negative impacts on business operations and on the financial system, including on payment systems and on payment service users, and to ensure the execution of outstanding payment transactions.
- b) Documented and made available to business and support units and be easily accessible in emergency situations.
- c) Updated in line with the experience of IT security incidents, tests, new identified risks and threats, as well as in changed recovery targets and priorities.

- 96) The plans will also consider alternative options in the event that in the short term it is not possible to restore operations due to costs, risks, logistics or unforeseen circumstances.

- 97) As part of the recovery plans, the board of management will have to consider and implement contingency planning measures to address failures by suppliers that are essential for the continued operation of the undertaking's IT services.

Contingency planning: Plan testing

- 98) The board of management shall ensure that the plans are regularly tested. Plans for critical functions, supporting processes, IT assets and their interdependences shall be tested at least once a year, including, where appropriate, those provided by third parties.

- 99) The plans shall be updated at least once a year and on the basis of the test results, the current profile picture and the experience of previous IT security incidents. Changes in recovery targets (including RTOs and DPOs) and/or changes in business functions, supporting processes and IT assets shall also, where appropriate, lead to updates of the plans.

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- 100) The board of management shall ensure that testing of the plans shows that it is possible to maintain the company's business activities until critical functions are restored. The plans shall, as a minimum:
- a) Include testing of several serious but plausible scenarios, including those taken into account in the development of the plans. This also applies to testing of services offered by third parties. Tests shall also include switching critical business functions, supporting processes and IT assets to the undertaking's capabilities to demonstrate that they can operate in these circumstances during a representative period of time and that the undertaking can return its operations to normal operations.
 - b) Be designed to challenge the assumptions on which the plans are based, including governance and crisis communication plans.
 - c) Include requirements to verify the ability of employees, consultants, IT systems and IT services to respond appropriately to the identified scenarios.
- 101) The board of management shall ensure that the test results are documented and that any identified deviations are analysed, addressed and reported to a relevant manager, as well as the board of management and board of directors where appropriate.

Contingency planning: Crisis communication

- 102) In the event of a breakdown or emergency and during the implementation of the business continuity issues, the board of management shall ensure that the entity has effective crisis communication measures so that all relevant internal and external stakeholders are informed in a timely and appropriate manner. This includes, inter alia, the competent authorities and external service providers, suppliers and/or group entities.

IT security training

- 103) The board of directors shall ensure that a training programme, including the running awareness programmes, is developed and implemented for all employees and consultants. It shall ensure that they are trained to carry out their tasks and responsibilities in accordance with the relevant security policies and business practices and in how IT risks should be managed to reduce human error, theft, fraud, abuse and/or loss. The training programme shall ensure training for all employees and consultants at least once a year.

Implementing the IT security policy

- 104) The board of management shall regularly report to the board of directors on non-compliance with the IT security policy. This must as a minimum be done on the basis of the adequacy of the business procedures as well as the implemented measures.

Requirements for follow-up process for audit recommendations

- 105) The board of management shall ensure that business practices are developed and implemented for managing and compliance with IT audit recommendations as well as the risks to which the recommendations relate.

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Tasks of the risk management function and the risk officer in the area of IT risk management

- 106) The risk management function, as referred to in section 16 and annex 7, shall monitor and ensure compliance with the IT risk management framework and ensure that IT risks are identified, analysed, measured, managed, monitored and reported.
- 107) The framework for IT risk management must be in accordance with the IT risk management policy and must at least include processes to:
 - a) Identify, analyse and measure the IT risks to which the undertaking is and may be exposed, cf. no. 6(b). The risks shall be collected in an IT risk register, cf. no. 13.
 - b) Establish measures to reduce IT risks. There shall be a clear link between the specific measures and the risks.
 - c) Monitor the effectiveness of these measures as well as the number of IT security incidents.
 - d) Report to the board of management and the board of directors on IT risks as well as measures and their effectiveness.
 - e) Identify and assess whether there are IT risks resulting from major changes in IT systems, services, business processes and/or processes and/or after significant IT security incidents.
- 108) The framework for IT risk management shall be documented and improved on an ongoing basis based on experience with implementation and monitoring. The framework shall be updated and approved at least once a year by the board of management.

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Annex 6.

Organisation of the work of the board of directors

Rules of procedure of the board of directors,

- 1) The board of directors shall use the rules of procedure to lay down more detailed provisions with regard to the performance of its duties and responsibilities cf. section 65 of the Financial Business Act, section 68 of the Fund Brokerage and Investment Services and Activities Act and section 130 of the Companies Act.
- 2) In drawing up the rules of procedure pursuant to no. 1, the board of directors shall take as its starting point its statutory obligations as well as the complexity of the financial undertaking and its business and activity areas. The rules of procedure must as a minimum contain:
 - a) Provisions on the constitution of the board of directors, including the use of alternates and quorum requirements, as well as the intervals at which meetings shall be held.
 - b) Provisions on written and electronic board meetings, cf. no. 19.
 - c) Procedures for determining the division of work between the board of directors and the board of management, including authorities, responsibilities for business procedures and professional secrecy.
 - d) Procedures for the board of directors' ongoing position on organisational location and staffing of the risk management function described in Section 16(1) and Annex 7.
 - e) Procedures for the board of directors' supervision of the board of management's management of the financial business activities and any subsidiaries, including assessment of whether the board of management performs its duties in an appropriate manner and in accordance with the established risk profile, the established policies and the Board of Directors' guidelines to the board of management, cf. section 70(5) of the Financial Business Act and Section 67(4) of the Fund Companies and Investment Services and Activities Act.
 - f) Procedures for the creation and keeping of books, registers and records under company law.
 - g) Procedures for the board of directors' ongoing position on the financial undertaking's business model, risk profile, organisation and resources.
 - h) Procedures for how the board of directors obtains the information necessary for the performance of its tasks, including the obligations imposed on the board of directors under the Financial Business Act, the Securities Trading Act etc., the Prevention of Money Laundering and Terrorist Financing Act, and other relevant legislation.
 - i) Provisions on the board of directors' ongoing position on the board of management's reporting to the board of directors, including positions on the individual solvency needs of the financial undertaking, budgets, financial reports, liquidity and capital requirements, substantial dispositions, special risks and general insurance matters.

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- j) Procedures for the Board's position on and endorsement of the audit records.
 - k) Procedures for how the board of directors ensures the presence of the necessary basis for auditing, including if applicable, deciding on the need for internal audit.
- 3) The board of directors shall regularly and at least annually review the rules of procedure to ensure that they reflect the business and activity areas of the financial undertaking.
 - 4) The board of directors shall ensure and be able to document that all members of the board of directors are aware of the rules of procedure.

Board meetings and board negotiations

- 5) Pursuant to section 74(1) of the Financial Business Act and section 69(1) of the Act on Stockbroking Companies and Investment Services and Activities, the board of directors shall meet when deciding on matters not covered by the powers conferred on the board of management by the board of directors, cf. section 70(2), of the Financial Activities Act and section 67(2) of the Act on Stockbroking Companies and Investment Services and Activities. Thus, the board of directors cannot lawfully delegate its decision-making powers, for example to an executive committee. The chairman of the board of directors shall ensure that material for the meeting is broadcast well in advance of the meeting.
- 6) No. 5 does not apply to the discussion of standard cases which, according to the articles of association or authority, must be discussed by the board of directors. Such cases may be referred for discussion and decision in a committee under the board of directors, if guidelines have been laid down by the entire board of directors in advance for the discussion of the cases. These guidelines and the committee's discussion of the cases in question must be continuously evaluated by the entire board of directors. This delegation does not include the board of directors' responsibility for discussion of the cases and the decisions taken.
- 7) The board of directors may decide that employees of the financial undertaking, members of the Board of Directors and employees of other companies in the Group may attend a meeting of the board of directors, possibly only for certain items on the agenda.
- 8) In individual cases, the board of directors may also decide that there may be persons other than those mentioned in no. 7, such as shareholders or advisers, present for one or more specific items on the agenda.
- 9) Notwithstanding nos. 7 and 8, unauthorised persons may not be present at a meeting of the Board of Directors or for an item on the agenda of the meeting of the Board of Directors at which there is discussion of confidential information that may not be lawfully disclosed in accordance with the rules on disclosure of confidential information in Chapter 9 of the Financial Business Act and Chapter 12 of the Act on Stockbroking Companies and Investment Services and Activities.
- 10) The minutes pursuant to the Financial Business Act, section 74(3), and section 69(3) of the Act on Stockbroking Companies and Investment Services and Activities shall reflect the discussions at the meetings, including significant risk assessments and decisions made, as well as the preconditions for these. It shall be clear which members were present at a meeting. If persons other than members of the board of directors were present, this shall also be stated.
- 11) The minutes shall be satisfactorily organised so that it is clear when the minutes of a meeting are final, and each page of the minutes shall be consecutively numbered.
- 12) Where a separate protocol of appropriations is kept, this shall be recorded in the minutes. The minutes of the protocol of negotiations shall clearly indicate which loans are:

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- a) Granted/declined.
 - b) Granted pursuant to section 78 of the Financial Business Act
 - c) For information purposes.
 - d) For post-authorisation (urgent cases).
 - e) Granted by written examination or at an electronically held board meeting.
- 13) This shall be expressly stated in the minutes of the authorisation or in the minutes when dealing with exposures covered by section 78(1) and (4) of the Financial Business Act. The members of the board of directors and executives concerned shall not be present during the discussions, and it shall be recorded that they are not present.
- 14) The provision in no. 13 does not prevent a member of the board of directors or an executive who also participates in the management of a parent company that owns all the shares in the undertaking or in a wholly-owned affiliate or subsidiary from participating in the discussion of issues relating to or exposures with this undertaking.
- 15) The provisions of section 78(1) and (4) of the Financial Business Act do not prevent employee-elected members of the board of directors from being granted exposures on the same terms as the employees of the rest of the financial undertaking.
- 16) The provision in Section 78(3) of the Financial Business Act does not apply to fully secured exposures or exposures of negligible size.
- 17) The board of directors shall review the exposures with the persons and companies referred to in Section 78(1) and (4) of the Financial Business Act at least once a year and Section 88(1) and (4) of the Act on Stockbroking Companies and Investment Services and Activities, for example in connection with the annual asset review. The examination and conclusions of this shall be recorded in the minutes.

Written and electronic meetings of the board of directors

- 18) The board of directors may hold written and electronic board meetings in accordance with the Companies Act, to the extent that this is compatible with the performance of the board's duties.
- 19) The board of directors shall decide which types of case are suitable for discussion at a written or electronic board meeting, for example uncomplicated, routine cases or urgent cases that cannot be postponed without harm to the undertaking. The decision shall be stated in the rules of procedure.
- 20) Nos. 18 and 19 shall apply mutatis mutandis to written grant procedures.
- 21) Where a board decision is made by correspondence or electronically, an actual declaration is required from the individual board members. Such declarations shall be registered in the minutes. Failure to respond to material forwarded is not sufficient evidence.

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Annex 7.

Risk management function and the chief risk officer

Tasks and responsibilities of the board of management

- 1) The board of management shall, cf. section 16(1), 1st sentence, ensure that the undertaking has a risk management function and a chief risk officer.
- 2) The board of management shall ensure that functional descriptions and procedures, for example, clearly specify the tasks of the risk management function, cf. nos. 4-14.
- 3) The board of management shall ensure that the risk management function has access to all relevant information and sufficient resources, cf. section 9(2).

Tasks and duties of the risk management function and the chief risk officer in the risk management area

- 4) The chief risk officer shall have an overall view of the undertaking and the risk exposures of the undertaking to be able to assess whether these are being adequately managed.
- 5) The chief risk officer shall decide whether the decision-making basis of the board of management and board of directors is sufficient, cf. nos. 6-8.
- 6) The chief risk officer shall ensure that all significant risks in the undertaking, including risks which occur across the organisation of the undertaking, are identified, measured, managed and reported correctly.
- 7) The chief risk officer shall ensure that risk exposures in subsidiary undertakings, cf. section 2(2) are included in the assessment of the undertaking's overall risk exposures.
- 8) The chief risk officer shall ensure that risk exposures in outsourced functions are included in the assessment of the undertaking's overall risk exposures.
- 9) The chief risk officer shall assess whether the necessary measures have been put in place to ensure the quality of the data used in risk management.
- 10) The chief risk officer shall assess whether the necessary measures for managing model risk have been introduced, cf. annex 3, nos. 13 and 14.
- 11) The risk management function shall participate actively in development of the undertaking's risk strategy, cf. section 4(1).
- 12) The chief risk officer shall be consulted in advance about significant decisions so that he/she has the opportunity to comment on the risk beforehand, including significant decisions about changes in strategy and business model, risk-taking, new products, new customer groups, organizational changes, establishment of new branches and business units, change of IT systems, outsourcing, use of models, etc.
- 13) The risk management function shall prepare a report to the board of directors on the company's risk management at least once a year, in accordance with section 5(4). The report shall include the position of the chief risk officer on the matters referred to in nos. 4-10, and 12 and shall be included as part of the board of directors' overall assessment basis, cf. section 5(4). The undertaking may choose that the report be included as part of or as an addition to the assessment of the undertaking's solvency needs (ICAAP). The chief risk officer shall, where appropriate, ensure that the reporting meets all content requirements and is clearly stated in the annex and that the board of directors is informed that the report is included as a supplement.
- 14) The chief risk officer shall urgently express concerns and alert the Board of Directors if there is a development in specific risks that affect or may affect the company, and it is relevant that the board of directors takes a position on the risk.
- 15) If the undertaking has appointed a risk committee, cf. section 80 b(1) of the Financial Business Act, the risk manager's report, cf. no. 13, shall be submitted to the risk committee.

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Organisation of the risk management function

The board of management shall appoint an overall manager with specific responsibility for the risk management function as the chief risk officer. The board of directors may, however, decide that the board of directors appoints the chief risk officer.

- 16) The chief risk officer shall be sufficiently independent of the undertaking's functions that the tasks of the chief risk officer can be performed appropriately.
- 17) The board of management shall ensure that the organisational location of the risk management function is adequate.) If the board of management chooses to appoint a senior employee as the chief risk officer also responsible for other tasks than risk management, the board of management shall ensure that any conflicts of interest between the tasks of the chief risk officer and any other tasks of the chief risk officer are managed appropriately.
- 18) A member of the board of management not appointed by the board of directors as the managing director may be appointed as the chief risk officer if the person in question meets the requirements in nos. 16 and 17.
- 19) The board of management of banks with working capital of less than DKK 12 bn., small mortgage-credit institutions and undertakings covered by section 1, nos. 3 and 5-7 may appoint as the chief risk officer an executive director appointed by the board of directors as the managing director.
- 20) The board of management of banks with working capital of less than DKK 12 bn., small mortgage-credit institutions and undertakings covered by section 1, nos. 3 and 5-7 may also decide that the risk management function shall comprise just the chief risk officer
- 21) The board of management may decide to place the tasks of the risk management function in organisational entities outside the risk management function.
- 22) If the undertaking is a SIFI or a G-SIFI, the board of management shall assess the need for the risk management function under management by the chief risk officer to be organised such that a manned risk management unit be established for each important risk area in the undertaking in order to increase awareness in the undertaking of the risk exposures for the individual areas.
- 23) A chief risk officer appointed pursuant to nos. 16-21 shall ensure that the risk management function performs the tasks, cf. nos. 4-14, appropriately.
- 24) If the undertaking has set up a risk committee, cf. section 80b(1) of the Financial Business Act, the chief risk officer shall, at the request of said committee, contribute with information.
- 25) The risk officer shall attend the meetings of the Risk Committee for the presentation and discussion of the risk management of the undertaking cf. no. 4-11 and 14.
- 26) The chief risk officer shall regularly, including in connection with presentation of the report of the risk management function, cf. no. 13, take part in meetings of the board of directors in order to present and discuss the risk management at the undertaking.

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Annex 8

Risk of excessive gearing

- 1) This annex contains provisions on the matters referred to in the Executive Order relating to the risk of excessive gearing.
- 2) The board of directors shall ensure that, where appropriate, the company has policies and processes for identifying, monitoring and managing the risk of excessive leverage.
- 3) The policy and processes must reflect the size, exposure and complexity of the undertaking.
- 4) The board of management shall ensure compliance with the policies and processes of the Board of Directors addressing the risk of excessive gearing,
- 5) The undertaking shall have indicators of the risk of excessive gearing, The indicators shall include the gearing ratio calculated in accordance with Article 429 of Regulation (EU) no. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms, as amended by Regulation (EU) no. 2019/876 of 20 May 2019 amending of Regulation (EU) no. 575/2013 as regards gearing ratios, net stable funding ratios, capital base requirements and impairment liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment schemes, large exposures and reporting and disclosure requirements, and Regulation (EU) no. 648/2012, and mismatch between assets and liabilities.
- 6) The undertaking shall, where appropriate, exercise caution when managing the risk of excessive gearing. The undertaking shall take due account of the potential increase in the risk of excessive leverage due to a reduction in the company's own funds due to expected or realised losses, depending on the applicable accounting rules. To this end, undertakings shall be able, as appropriate, to withstand various stresses related to the risk of excessive gearing.
- 7) Stress testing of the risk of excessive leverage must reflect the size, exposure and complexity of the undertaking.
- 8) The board of directors shall, where appropriate, generally receive quarterly reports on the undertaking's risk of excessive gearing,
- 9) The board of management shall, where appropriate, receive a report on the undertaking's risk of excessive gearing at least once a quarter.