
8. CAPITAL MANAGEMENT

79	8.1. Capital requirement under Pillar I
81	8.2. ICAAP
81	8.2.1. Capital requirement under Pillar II
82	8.2.2. Internal assessment of capital needed on the basis of economic capital
83	8.2.3. Stress testing
83	8.2.3.1. Methodology
85	8.2.3.2. Scenarios
86	8.2.3.3. Results
87	8.3. Capital targets
89	8.4. Ratings
89	8.5. Targets for risk-adjusted return
90	8.6. The Group's transition to the CRD
92	8.7. Capital base

The Group must have sufficient capital to comply with regulatory capital requirements and to maintain an AA rating with external rating agencies.

The purpose of the Group's capital management is to ensure an efficient use of capital in relation to risk appetite and business development.

The Group's capital management is therefore based on the regulatory requirements of the Capital Requirements Directive (CRD) that took effect on January 1, 2008. The CRD consists of three pillars. Pillar I contains a set of rules for a mathematical calculation of the capital requirement. Pillar II describes the supervisory review process and contains requirements for the internal calculation of the capital requirement. Pillar III deals with market discipline and sets forth disclosure requirements for risk and capital management. The sum of the capital requirement calculated under Pillar I and any requirement identified under Pillar II represents the total capital required under the CRD.

The principles on which the capital base is calculated are generally unchanged. Section 8.7 contains a review of the components of the capital base.

8.1 Capital requirement under Pillar I

In September 2006, the Group filed a preliminary application to the Danish FSA to use the advanced internal ratings-based (IRB) approach to calculate the capital requirement for credit risk. It submitted the final application in May 2007, and the Danish FSA approved the application in November 2007. Beginning on January 1, 2008, the Group will use the IRB approach to calculate risk-weighted assets for credit risk. The application covered around 83% of the lending portfolio. The remaining 17% will be treated according to the standardised approach, either because the portfolio segment is subject to a permanent exemption or because it is covered by plans for later transition to the IRB approach.

Section 8.6 describes the transition to the CRD and the approval of the Group's advanced IRB approach in greater detail.

The table below shows risk-weighted assets at end-2007 calculated according to the CRD and according to the previous rules. The capital requirement under Pillar I is 8% of risk-weighted assets.

RISK-WEIGHTED ASSETS (DKr m)	2007 Previous rules	2007 CRD
Credit risk:		
Real property retail exposures		39,655
Qualifying revolving retail exposures		5,046
Other retail exposures		55,682
Corporate customers		387,223
Institutions		51,788
Central governments and central banks		-
Securitisation		4,596
Equity		-
Other non-credit-obligation assets		18,994
Credit risk, IRB approach		562,984
Central governments and central banks		1,336
Regional governments and local authorities		456
Administrative bodies and non-commercial undertakings		123
Multilateral development banks		-
International organisations		-
Institutions		6,113
Corporate customers		131,341
Retail customers		29,473
Exposures secured by real estate property		40,792
Past due items		3,196
Exposures in the form of covered bonds		-
Items representing securitisation positions		1,329
Short-term exposures to institutions and corporations		-
Exposures in the form of collective investment undertakings		-
Other items		4,241
Credit risk, standardised approach		218,400
Counterparty risk		26,769
Credit risk, total	1,211,438	808,153
Market risk:		
Exposures with position risk: instruments of debt.		47,982
Exposures with position risk: equities and the like		1,399
Exposures with position risk: commodities		4,058
Exposures with delivery and similar risks		19
Exposures with an option premium		19,190
Total foreign exchange position		-
Market risk, total	101,468	72,648
Operational risk		73,682
Risk-weighted assets, total	1,312,906	954,483
Capital requirement, total	105,032	76,359

The implementation of the CRD will reduce the Group's risk-weighted assets and thus its capital requirement under Pillar I by 27%. The reduction of risk-weighted assets alone raises the solvency ratio by 3.5 percentage points.

8.2 ICAAP

In 2006, in preparation for the transition to the CRD, the Group established an Internal Capital Adequacy Assessment Process (ICAAP). This is a collection, expansion and validation of many assessments and considerations that had also been conducted earlier.

The Group's ICAAP includes an assessment of the capital requirement under Pillar II and an internal evaluation of the total capital requirement.

The ICAAP identifies and measures the Group's risks and ensures that it has sufficient capital in relation to its risk profile. It also ensures that adequate risk management systems are used and further developed.

At least once a year, an ICAAP report is submitted to the Board of Directors. The report contains the considerations that should be undertaken during the determination of the capital requirement and capital targets. The All Risk Committee receives quarterly updates of the ICAAP report.

8.2.1 Capital requirement under Pillar II

The first part of ICAAP consists of evaluating risks that are not covered by Pillar I and require extra capital as well as ensuring that there is a buffer adequate to withstand the cyclicity of the Pillar I capital requirement.

The regulatory framework for Pillar II contains 17 topics that must be assessed in the determination of the capital requirement. The table below shows the relation between these topics and the six risk types that the Group has identified. It also shows which topics are treated in stress tests.

Items	Credit risk	Pension risk	Operational risk	Market risk	Insurance risk	Business risk	Stress test
General, including strategic plans	√	√	√	√	√	√	√
Earnings						√	√
Growth							√
Credit risk	√						√
Market risk				√			√
Concentration risk	√			√			√
Group risk					√		√
Liquidity risk							√
Operational risk			√				√
Control risk			√				
Business size						√	
Settlement risk	√		√				√
Strategic risk						√	
Reputational risk						√	
Interest rate risk on assets outside the trading book				√			
External risks						√	
Other		√			√		√

The risk types that are not covered under Pillar I and therefore must be included in the calculation of the capital requirement under Pillar II are pension and business risks.

Pillar II also entails a number of stress tests intended to determine the additional capital needed to ensure that the capital requirement is always complied with, even during severely distressed economic conditions. In its calculation of the capital requirement under Pillar I, the Group uses a long-term (through-the-cycle since 1992) average for the probability of default (PD) and downturn parameters over the same period for the loss given default (LGD) and the conversion factor (CF). The calculation of risk-weighted assets under Pillar I is therefore relatively unaffected by changes during the business cycle. The stress tests thus result in only a small increase in the capital requirement. Section 8.2.3 contains a more detailed description of the Group's stress tests.

At the end of 2007, Pillar II factors indicated an addition of DKr4bn to the capital requirement calculated under Pillar I. Including this supplementary requirement, the total capital required under the CRD would be 23% lower than the requirement under the previous rules. There are statutory limits to the percentage by which the capital requirement may be reduced in the first two years after implementation, however. In 2008, the requirement may not be reduced by more than 10% of the requirement under the previous rules, and in 2009, by more than 20% of the requirement under the previous rules.

CAPITAL REQUIREMENTS (DKr m)	2007 Previous rules	2007 CRD
Capital requirement under Pillar I		76,359
Capital requirement under Pillar II		4,400
Total		80,759
Transitional rules		13,770
Total capital requirement	105,032	94,529

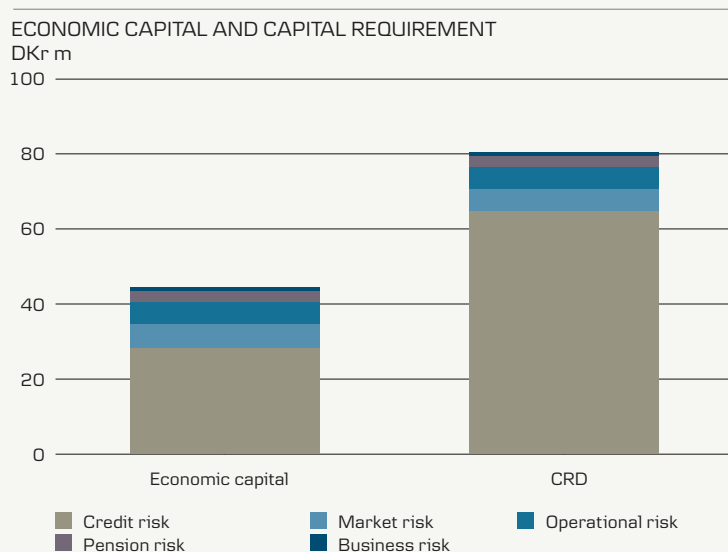
8.2.2 Internal assessment of capital needed on the basis of economic capital

In addition to the assessment of the capital requirement made under Pillar II, the ICAAP also includes an assessment of the capital requirement based on the Group's internal models for calculating economic capital.

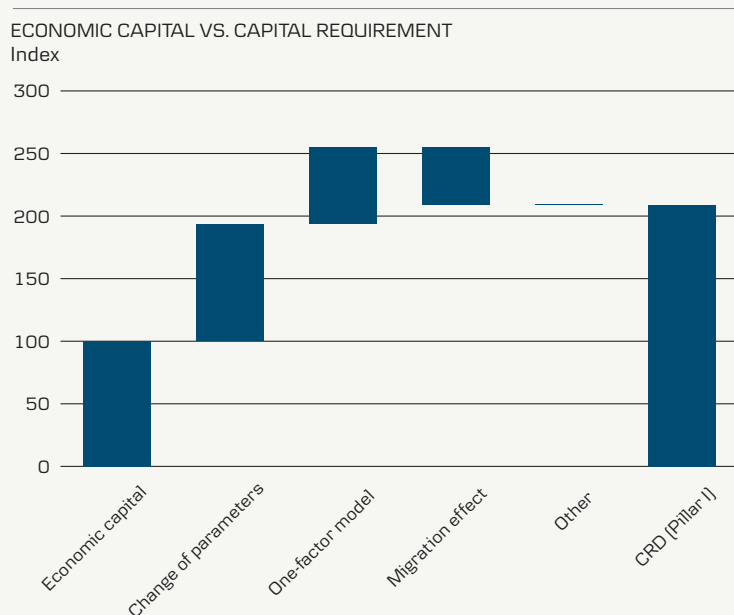
Economic capital is the capital, calculated with the Group's own models, that is necessary to cover potential losses over the next year at a confidence level of 99.97%, which corresponds to an AA rating. The calculation of economic capital takes into account all types of risk, including concentration and migration risks, as well as diversification within the individual risk types. It does not take into account diversification among various risk types, however.

The calculation of economic capital is based on current values (point-in-time parameters) for PD, LGD and CF, and will therefore fluctuate with the business cycle. Stress tests are intended to identify the effects of these fluctuations.

The chart below shows a breakdown of economic capital and the capital requirement under the CRD into the various risk types. The capital requirements for pension and business risks have been added to the capital requirement under the CRD. The contribution from stress tests is not included in these figures, however. As the chart shows, credit risk represents the largest difference between the two calculations.



The main reason that the economic capital for credit risk is lower than the capital requirement is that point-in-time values are used for PD, LGD and CF in the calculation of economic capital. The methods also differ, as the CRD calculation is an analytical formula derived from a one-factor model, while economic capital is calculated by means of a Monte Carlo model with several underlying factors, as shown in the chart below.



The economic capital thus calculated is then subjected to stress tests to ensure that the Group at all times has capital sufficient to maintain its AA rating. The stress tests include assessments of how the Group would be affected by possible unfavourable developments in a series of external conditions, including social and economic conditions, in the countries where the Group operates.

8.2.3 Stress testing

Stress tests are an important tool for analysing a bank's risk profile. They are based on the same concepts as economic capital but operate on a longer time horizon and are based on sudden, severe macroeconomic events. The calculation of economic capital includes the quantification of concentration and migration risks as well as the effects of diversification within credit risks.

The objective of stress testing is to assess the effect of possible unfavourable events on the Group's regulatory capital requirements, internal assessments of its capital needs and earnings.

Since 2005, on a quarterly basis, the Group has conducted a number of stress tests showing the effects of a given economic scenario on capital over a period of three to five years.

8.2.3.1 Methodology

There are four phases in the Group's stress testing methodology:

- Choice of scenario
- Translation of scenario
- Calculation
- Evaluation of results and methodology

Choice of scenario

The scenarios are defined by the Group's Board of Directors, and the scenarios and the macroeconomic input are updated regularly.

Each scenario covers a three-to-five-year period, and for each year, the Group estimates the effect on key macroeconomic indicators. The Group chose a period of three to five years to capture the entire negative phase of a business cycle.

Translation of scenario

The next step is to translate the events into macroeconomic variables.

The scenarios affect both earnings and risk. The Group has developed translation models to determine the effect on the Group's risk parameters in each year of each scenario.

The translation models estimate the relation between macroeconomic variables and the Group's historical observation of defaults, the value of collateral, losses and the like. On the basis of these results, they also show the relation between macroeconomic developments and customers' drawings on credit facilities with the Group. For example, they calculate the effect on the probability of default (PD), deposit and lending growth, and the interest rate margin. The PD model is based partly on the Group's industry-specific loss frequencies since 1992 and their correlation with GDP, unemployment and other measures.

Calculation

On the basis of the current portfolio, the stress tests calculate the consequences of the individual scenarios for net profit, risk-weighted assets, impairment charges and the Group's capital, taking into account its dividend policy.

Earnings are projected on the basis of value drivers. For example, the estimates of interest income take into account the interest margin on deposits and loans and the volume of deposits and loans.

The calculations include the effect that the value of collateral will fall in most unfavourable scenarios. The stress effects are calculated for each year of the three-to-five-year horizon in the individual scenarios. This allows the Group to assess how its total earnings are affected over the period in question, as the largest effect usually does not occur in the first year.

For the credit risk component, the calculations cover the expected loss and economic capital. Risk-weighted assets are calculated in accordance with the IRB approach of the CRD.

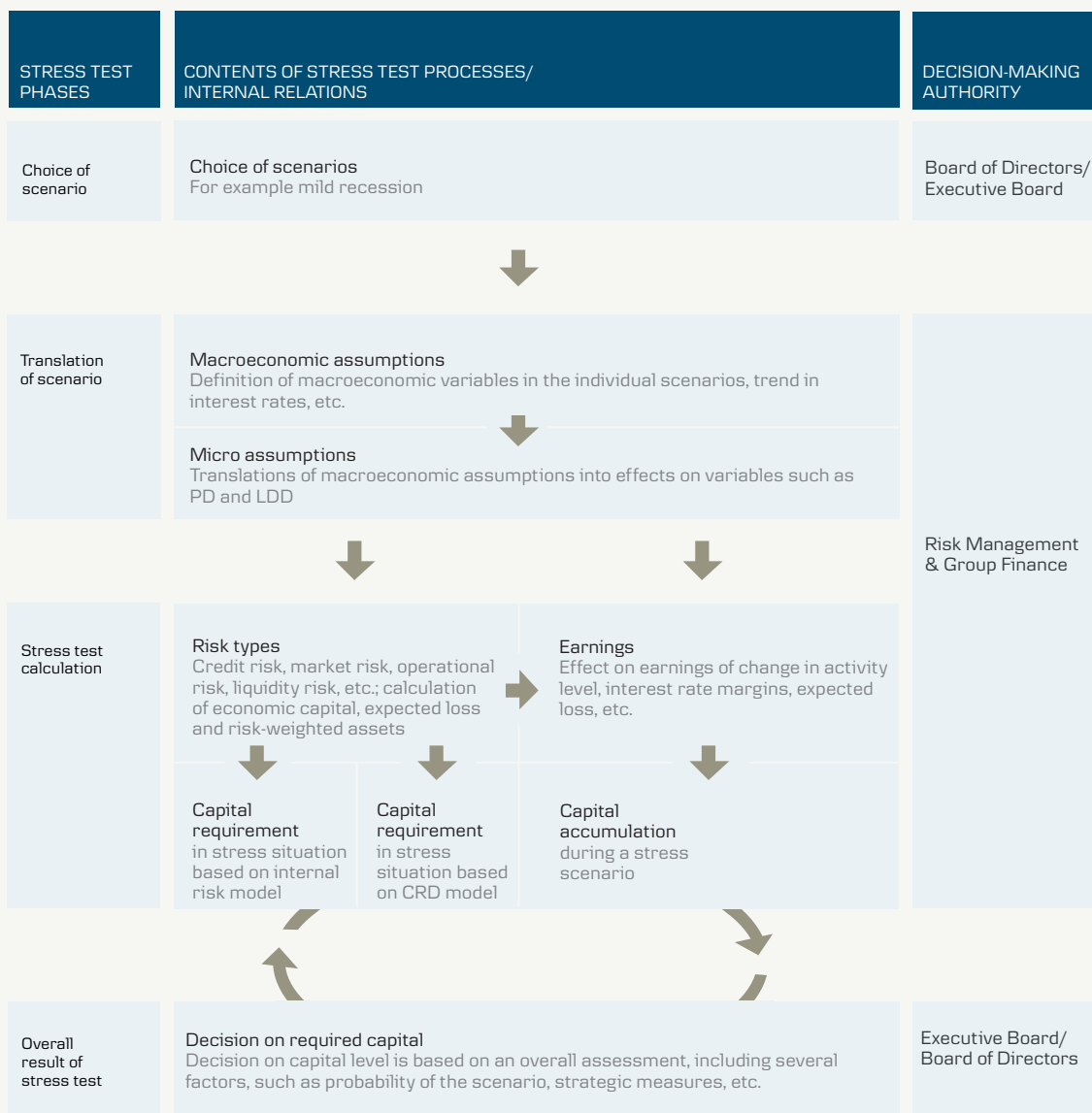
Risk-weighted assets typically rise in an unfavourable scenario. The Group's profit and thus its ability to accumulate capital are adversely affected.

Evaluation of results and methodology

In the individual scenarios, the effects are calculated for all relevant types of risk so that the overall effect can be evaluated. When the capital requirement has been evaluated and determined, it is included in an overall assessment that takes into account growth plans, strategy and other factors.

At least once a year, the Group assesses the scenarios and their relevance on the basis of an analysis of the risks that are most important for the Group in the current economic situation. The analysis is submitted to the All Risk Committee for approval of the scenarios as the basis for subsequent stress testing. The scenarios form part of the Group's ICAAP report, which is submitted to the Board of Directors.

SUMMARY OF THE GROUP'S STRESS TESTING PROCESS



8.2.3.2 Scenarios

Stress test calculations are based on one or more macroeconomic scenarios. The Group currently applies the nine scenarios described below:

Severe recession	Sharp drop in exports and rising taxes lead to a decline in demand. The scenario is estimated to occur once during a period of 25 years.
Deflation	Structural problems in Europe lead to recession and deflation.
Falling real property prices	Rising interest rates lead to falling property prices.
Mild recession	No economic growth for two consecutive quarters. The scenario is estimated to occur once during a period of seven years.
Sharp increase in price of oil	Increase in price of oil of 50% and in commodity prices of 25%, reducing purchasing power (for both consumers and businesses).
Depreciation of the US dollar	US current account deficit triggers a global recession in which the dollar falls 25%.
Bird flu	Bird flu becomes an epidemic and causes a significant decline in GDP.
Liquidity crisis in banking sector	A liquidity crisis triggers credit losses and impairs capital procurement.
Liquidity crisis, Danske Bank Group	One of Danske Bank Group's largest customers files for bankruptcy and the Group's rating is downgraded.

The individual scenarios are described as changes in the current portfolio and macroeconomic variables. For example, the mild recession scenario entails all the Group's markets simultaneously being subject to zero GDP growth in two consecutive quarters and then returning to more normal macroeconomic indicator levels. In the severe recession scenario the downturn is more pronounced, with economic contraction. The stress test results thus take the advantages of the Group's geographical diversification only partially into account, as the tests assume that all the markets are affected at the same time and to the same degree by the shock in question.

For the various stress scenarios, the Group has prepared a number of contingency plans for its options of either raising new capital or reducing risk-weighted assets. Thus far, the Group has not included either these plans or intra-risk diversification in the calculation of required capital. This allows a better interpretation of the effect of the macroeconomic scenarios.

Severe recession and mild recession are the Group's primary scenarios. The table below shows selected macroeconomic variables for the worst year in each of the two scenarios.

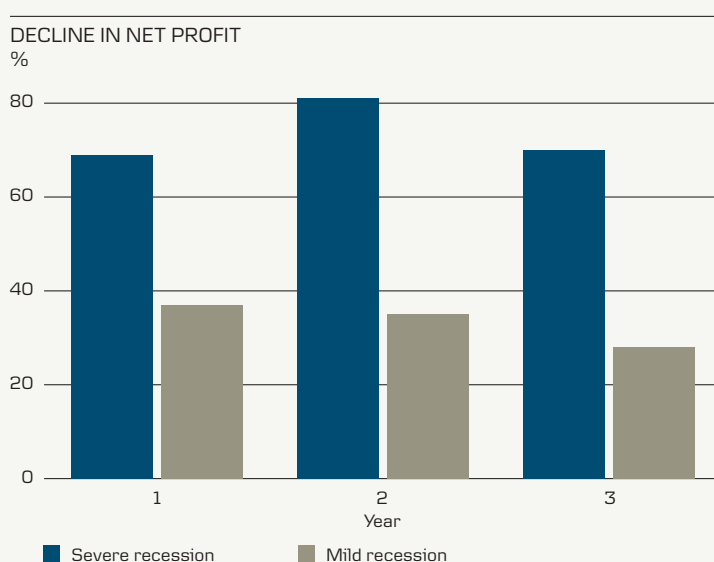
STRESS TESTS, MACROECONOMIC VARIABLES	Severe recession	Mild recession
Number of years	3	3
GDP	-2.1 %	1.4%
Unemployment	9.9 %	6.4%
Property prices	-14.2%	0.7%

A mild recession can be characterised by two consecutive quarters with no economic growth that cause a short-term economic downturn, among other factors.

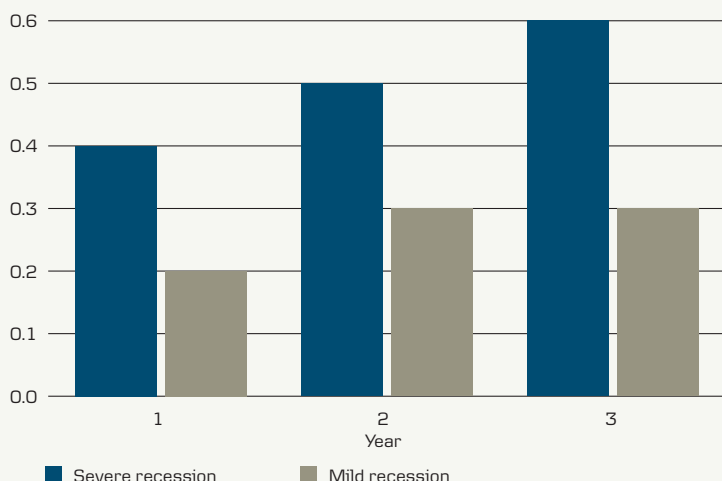
8.2.3.3 Results

The stress tests conducted show that the Group is robust against the economic developments in the selected stress scenarios.

The charts below show the trend in the Group's profit and impairment charges in the two primary scenarios, severe recession and mild recession. As the charts show, even during a severe recession, the Group would not undergo a loss in any of the three years.

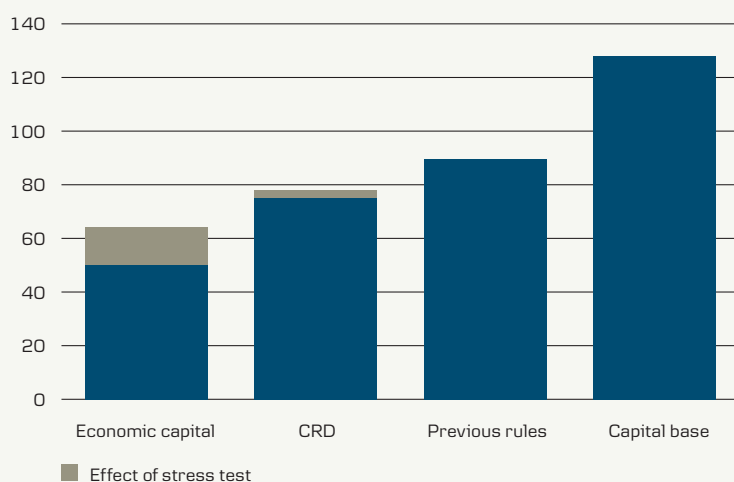


CREDIT LOSS EXPENSES
(As a % of loans, advances and guarantees)



The effect of the stress tests on the Group's capital requirements forms part of the solvency requirement calculated under Pillar II of the CRD. The stress tests show that, in addition to its economic capital, the Group must have a buffer of Dkr6bn to absorb macroeconomic changes, and in addition to the capital requirement under the CRD, a buffer of Dkr0.5bn is necessary.

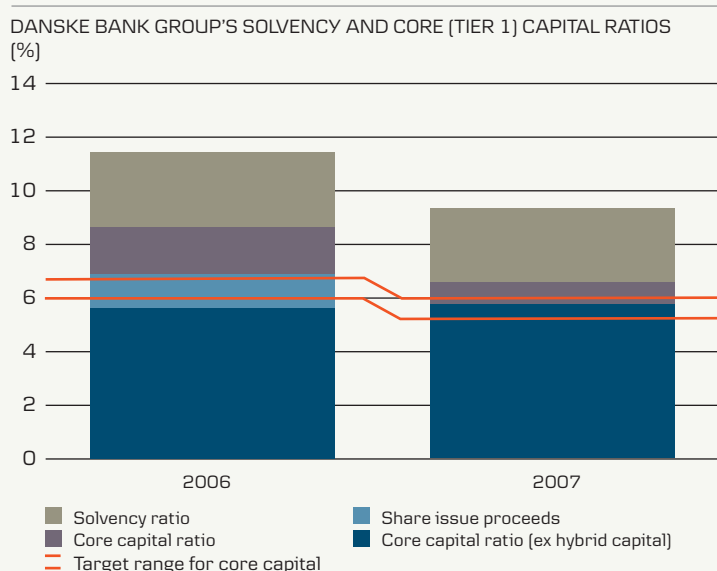
CAPITAL REQUIREMENTS AND CAPITAL BASE
DKr bn



8.3 Capital targets

At the end of 2007, the Group's solvency ratio stood at 9.3% and its core (tier 1) capital ratio stood at 6.4%, and these levels were within the Group's target ranges. The decline from the 2006 levels was owing to a share issue worth Dkr14.5bn that the Group undertook in December 2006 as part of the financing of the Sampo Bank acquisition. This caused the Group's core capital to be extraordinarily high at the end of 2006. The purchase of Sampo Bank was completed in February 2007.

As a result of the acquisition of Sampo Bank, the Group adjusted its capital targets in November 2006. The target range for the core (tier 1) capital ratio (excluding hybrid capital) was reduced from 6.0%-6.5% to 5.5%-6.0%. The target for hybrid core capital, on the other hand, was raised 0.5 of a percentage point to 1.0%-1.5%. When the Group formally acquired Sampo Bank in February 2007, the goodwill from the purchase was deducted from the capital base and Sampo Bank's risk-weighted assets were consolidated in the Group. This reduced the Group's solvency and core capital ratios to



levels within its target ranges. The target ranges were not changed in 2007.

Beginning on January 1, 2008, risk-weighted assets will be calculated according to the CRD. This will cause a reduction in risk-weighted assets by 27%. They will be reduced further when the recently acquired units make the transition, as planned, to the advanced IRB approach. After addition of the capital requirement under Pillar II, the capital requirement was reduced by 23% from January 1, 2008.

There are statutory limits to the percentage by which the capital requirement may be reduced in the first two years after the implementation. In 2008, the requirement may not be reduced by more than 10% of the requirement under the previous rules, and in 2009, by more than 20% of the requirement under the previous rules.

The total capital requirement is based on the Group's assessment of the regulatory capital required under the CRD and its ambition to maintain its AA rating. The Group considers the following criteria in determining its actual capital targets:

- Expected capital requirements under the CRD
- Ratings target
- Expected growth and earnings
- Stress test scenarios

The Group has decided to maintain existing capital target levels at present. Consequently, the implementation of the CRD does not reduce the level of capital in the Group but merely changes the capital ratios as it causes a reduction in risk-weighted assets.

CAPITAL TARGETS 2007 AND 2008 (%)	Previous rules	CRD level
Core (tier 1) capital ratio (excluding hybrid core capital)	5.5-6.0	8
Hybrid core capital ratio	1.0-1.5	2
Solvency ratio	9.0-10.0	13
Payout ratio	30-50	30-50

The capital targets are determined on the basis of the Group's stable earnings, risk profile and geographical diversification.

In 2008, the Group plans to pay out 40% of its net profit in dividends. It is the Group's policy to buy back shares with any capital that is not necessary for its expected long-term growth.

8.4 Ratings

The Danske Bank Group's capacity to honour its payment obligations is assessed regularly by three international rating agencies:

- Standard & Poor's
- Moody's
- Fitch Ratings

The external ratings are important for the Group's funding costs. Good ratings give the Group easier access to capital and liquidity from the capital markets. The Group maintained its ratings in 2007.

The Group's ratings are determined by factors that the rating agencies believe are important in their regular analyses. They pay special attention to the Group's risk profile, business diversification and the quality of the overall risk management. The Group's strong market position, earnings capacity and operational efficiency are also significant. Finally, the Group's capital base is an essential factor.

	Standard & Poor's	Moody's	Fitch
Danske Bank			
Short-term	A-1+	P-1	F1+
Long-term	AA-	Aa1	AA-
Outlook	Stable	Stable	Stable
Covered bonds	AAA	Aaa	AAA
Realkredit Danmark			
Bonds*	AAA	Aaa	--
Outlook	Stable	Stable	--
Danica Pension			
Long-term/Insurer financial strength	AA-	--	--
Outlook	Stable	--	--

*The ratings of Standard & Poor's and Moody's apply to 95% of all bonds issued by Realkredit Danmark.

The table below shows the key conclusions from the latest rating reports.

Rating agency	Positive	Negative
Standard & Poor's	<p>Advantageous strategic position in the Nordic and Baltic markets in the future</p> <p>Significant retail banking operations in units outside Denmark</p> <p>Conservative risk management and advanced risk management systems</p>	<p>Low margins and therefore low earnings</p> <p>Tight capitalisation</p>
Moody's	<p>Dominant position in Denmark and strong retail banking operations in the other markets</p> <p>High-quality credit portfolio</p>	<p>Pressure on margins and therefore on earnings as well</p> <p>High concentration</p>
Fitch	<p>High-quality assets</p> <p>Improvement of geographical diversification</p>	<p>Tight capital targets, but with a strong credit portfolio</p>

8.5 Targets for risk-adjusted return

The Group is implementing a new performance measurement tool called ROAC (return on allocated capital), which measures the risk-adjusted return in relation to allocated capital. The Group has used risk-adjusted return as a performance tool since 1999.

As opposed to previous return measures, the ROAC model calculates the effects of both concentration and diversification of risk. A concentration on few customers, industries and countries will increase the requirement for economic capital and thus reduce the result. Diversification will have the opposite effect.

The Group's capital is allocated to the various business areas (although goodwill and other intangible assets being allocated to "Other areas"). Thus at the Group level there will not be any capital that is not allocated. With ROAC, there will be a correlation between risk and the capital that is committed to cover risk. In order to show value creation at the individual business areas, the Group also calculates economic profit (EP), which is a measure of a unit's risk-adjusted result less the cost of capital, calculated as 12% of the capital that is allocated to the unit.

In the transitional period until the CRD is fully implemented in 2010, the Group will also use the return on average equity (ROE) measure, which expresses the individual business area's return on average shareholders' equity allocated on the basis of risk-weighted assets calculated according to the previous rules.

The table below shows a comparison between the ROE and ROAC methods.

RISK-ADJUSTED RETURN METHODS	ROE	ROAC
Equity/capital calculation	Regulatory	Internal
Time horizon	Point-in-time	3-5 years
Confidence level	-	99.97%
Concentration risk	No	Yes
Migration risk	No	Yes
Operational risk	No	Standardised
Market risk	Advanced	Advanced
Credit risk	Standardised	IRB A
Pension risk	No	Yes
Period used	Until 2010	From 2008

The following table shows ROE and ROAC for the Group and the largest business areas in 2007.

RISK ADJUSTED RETURNS [%]	ROE	ROAC
Banking Activities Denmark (incl. Realkredit Danmark)	31	36
Non-Danish Banking Activities	17	15
Danske Markets	44	29
Danske Capital	146	123
Danica Pension	23	23
Other areas	29	-5
Group	20	18

8.6 The Group's transition to the CRD

In 2007, the Group was still subject to the previous capital adequacy rules. It has received approval to use the IRB approach for credit risk beginning on January 1, 2008.

The Group's application to use the IRB approach was approved by the Danish FSA on November 26, 2007.

The Danish FSA approved the Group's use of the advanced method of calculating the capital requirement for credit risk: the advanced IRB approach. This means that, beginning on January 1, 2008, the Group can use its own risk parameters (PD, LGD and CF) to determine credit risk in its capital requirement calculations.

Permanent exemptions

For certain lending portfolios, the Group has been granted permanent exemption from the IRB approach and uses the standardised approach instead. This is the case for the following exposures, among others:

- Central governments
- Local governments
- Equities

In the vast majority of cases, the standardised approach will result in zero weighting of exposures to central and local governments.

Rollout plans

Plans are in place for transition within two or three years to the IRB approach for the Sampo Bank and Northern Bank subsidiaries and the retail portfolio in the Republic of Ireland.

For the time being, the subsidiaries in Estonia, Latvia and Lithuania will apply the standardised approach. In 2008, the Group will prepare plans for these units' transition to the IRB approach.

A separate application process is required for each portfolio before it can be converted to the IRB approach.

Credit risk

The table below shows the Group's choice of approaches for calculating credit risk broken down by the asset classes designated in the IRB approach.

The Group uses the market value method as part of the standardised approach in the CRD for calculating the capital requirement for counterparty risk. This method is generally the same as the current method. Within one or two years, the Group expects to apply to the Danish FSA for permission to use the internal model method for counterparty risk (the EPE models).

Asset class	Danske Bank Group	Danske Bank A/S (parent company)	Realkredit Danmark A/S	Danske Bank International SA, Luxembourg	Other subsidiaries
Governments	Standardised				
Institutions	Advanced IRB	Advanced IRB	Advanced IRB	Advanced IRB	Standardised
Corporate	Advanced IRB	Advanced IRB	Advanced IRB	Advanced IRB	Standardised
Retail	IRB	IRB	IRB	IRB	Standardised
Securitisation	Ratings-based method and Kirb	Ratings-based method and Kirb	n/a	n/a	Standardised
Equities	Standardised				
Other assets	Advanced IRB	Advanced IRB	Advanced IRB	Advanced IRB	Standardised

Market risk

The Group uses an internal Value at Risk model to calculate risk-weighted assets for general market risk throughout the Group. In April 2007, the Danish FSA approved a simulation-based VaR model that replaced the previously used parametric VaR model.

For the calculation of specific risks, the Group has chosen to use the standardised approach.

Operational risk

The Group uses the standardised approach (the intermediate method) for operational risk. It expects to apply to the Danish FSA for permission to use the advanced measurement approach (AMA) within a few years.

8.7 Capital base

The table below shows the Group's capital base at the end of 2007 calculated according to the previous rules and the CRD rules.

CAPITAL BASE, DANSKE BANK GROUP		
(DKr m)	2007	2007 (CRD)
Core (tier 1) capital		
Share capital	6,988	6,988
Profit brought forward	99,388	99,388
Minority interests	3,149	3,149
Proposed dividends	-5,940	-5,940
Intangible assets of banking operations	-29,411	-29,411
Deferred tax assets	-499	-499
Deferred tax assets on intangible assets	1,464	1,464
Revaluation of real property	-1,602	-1,602
Core (tier 1) capital [ex. hybrid core capital]	73,537	73,537
Hybrid core capital	12,977	12,977
Difference between expected losses and impairment charges	-	-906
Statutory deduction for insurance subsidiaries	2,230	2,230
Statutory deduction for holdings > 10%	18	18
Core (tier 1) capital	84,266	83,360
Subordinated debt, excluding hybrid core capital	34,714	34,714
Hybrid core capital	3,477	3,477
Revaluation of real property	1,602	1,602
Difference between expected losses and impairment charges	-	-906
Statutory deduction for insurance subsidiaries	2,230	2,230
Statutory deduction for holdings > 10%	18	18
Capital base	121,811	119,999

Calculated according to the previous rules, the Group's core (tier 1) capital excluding hybrid core capital amounted to DKr73.5bn at the end of 2007. Of this amount, paid-in capital and profit brought forward represented DKr104bn. The Group's core capital includes special reserve funds in two companies consolidated on a pro rata basis – LR Realkredit A/S and Danmarks Skibskredit A/S – totalling DKr3bn. These reserve funds cannot be distributed but can be used to cover any losses at the companies after the other reserves.

The Group has raised DKr16bn in hybrid core capital, which is subordinated debt that, according to sections 129 and 132 of the Danish Financial Business Act, can be included in core capital although only up to a maximum of 15% of core capital before deductions. Hybrid core capital may be repaid only upon the Group's initiative and with the Danish FSA's permission 10 years after it has been paid in, at the earliest. The Group's other subordinated debt, which according to sections 135 and 136 of the Danish Financial Business Act can be included in the capital base, amounted to DKr38bn. Of this amount, DKr3bn is hybrid core capital that cannot be included in core (tier 1) capital. Note 32 in Annual Report 2007 contains a more detailed specification of the Group's subordinated debt.

In accordance with statutory provisions, the Group's core capital is reduced by the value of intangible assets and deferred tax assets. Please see the notes 23 and 30 of Annual Report 2007.

The Group's life insurance company, Danica, is treated separately in the Group's capital adequacy calculations. The capital requirement for Danica, reduced by the difference between Danica's capital base and the carrying amount of the holding, is deducted from the Group's capital base. Danica's capital base contains supplementary capital of Dkr28m. In 2007, half of the deduction was made in core capital and half was made in supplementary capital. In 2006, the entire deduction was made in supplementary capital. The difference between Danica's capital base and its capital requirement was included in the calculation of risk-weighted assets at a 100% weighting.

Upon the Group's transition to the CRD rules on January 1, 2008, the capital base was adjusted further for the difference between accounting impairment charges and the expected loss determined in the capital adequacy calculation.