

ABCP programme

Asset Backed Commercial Paper programme.

All Risk Committee

The All Risk Committee is in charge of implementing the Group's

- risk appetite process
- overall structure of and development policy for the balance sheet
- targets for capital structure and solvency
- rating strategy
- overall funding structure
- general principles for measuring, managing and reporting on the Group's risks
- risk policies for relevant business areas
- overall risk exposure guidelines – for example for identifying and managing risk concentrations – and follow-up measures
- overall investment strategy
- capital deployment

The All Risk Committee consists of members of the Executive Board and the heads of Danske Markets and Risk Management.

Banking book versus trading book

Credit exposure is divided into credit exposure in the banking book and in the trading book. The banking book covers items with credit risk that form part of the core banking operations. The trading book covers items with credit risk that form part of the Group's trading-related activities.

In capital requirement calculation, a distinction is made between items in the trading book and items outside the trading book.

Business risk

Business risk is the risk of losses caused by changes in external circumstances or events that harm the Group's reputation or earnings. Business risk includes the risk of a decline in earnings due to strategic decisions (strategic risk).

Capital adequacy rules

The term "capital adequacy rules" refers to the Danish capital adequacy rules stipulated in the Danish executive order on capital adequacy before the amendment of December 22, 2006.

Commodity risk

Commodity risk is the risk of losses because of changes in commodity prices.

Counterparty risk

Counterparty risk is the risk of loss resulting from a customer's default on derivatives contracts with the Group.

Country risk

Country risk is the risk of losses arising from economic difficulties or political unrest in a country, including the risk of losses following nationalisation, expropriation and debt restructuring.

CRD rules

The European Union's Capital Requirements Directives (2006/48/EC and 2006/49/EC), incorporated in the Danish executive order on capital adequacy of December 22, 2006, which took effect on January 1, 2007. The rules stipulate that the advanced approach for calculating credit risk and operational risk may first be used on January 1, 2008, and requires approval of the supervisory authority.

Credit risk

Credit risk is the risk of losses because counterparties fail to meet all or part of their payment obligations towards Danske Bank Group. Credit risk also includes country, dilution and settlement risk. Credit risk on assets in the trading book is called counterparty risk and is treated separately.

Credit spread risk

Credit spread risk is the risk of losses because of changes in credit spreads.

Danske Banking Concept

Danske Banking Concept is the Group's business model. It is based on the principle of a uniform customer segmentation and service strategy in the individual business areas.

The Concept also includes a uniform organisation and uniform processes in the business areas. To a great extent, the processes are based on the shared IT platform implemented over the past few years.

The Concept serves to optimise the control measures carried out at Group level by Group Credits and Group Finance, among others.

Defined benefit plans

In defined benefit plans, the pension agreement contains a provision stipulating the pension benefit the employee will be entitled to receive on retirement. The benefit is typically stated as a percentage of the employee's salary immediately before retirement, but it can also be a percentage of the average salary during the entire period of employment. The pension benefit will typically be payable for the rest of the employee's life, which increases the employer's uncertainty about the amount of the future obligations.

Defined contribution plans

In defined contribution plans, there is no guarantee that the employee will obtain a certain amount of pension benefits. The pension benefits depend on the size of the agreed contributions and developments in the return on invested pension funds and associated expenses.

Dilution risk

Dilution risk is the risk that the debtor – of purchased receivables – may obtain a reduction of the debt through set-off, objections based on underlying legal issues or other factors.

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 point-in-time parameters for PD, LGD and CF, and it will therefore fluctuate with the business cycle. Stress tests are intended to identify the effects of these fluctuations.

Equity market risk

Equity market risk is the risk of losses because of changes in equity prices.

Exchange rate risk

Exchange rate risk is the risk of losses on the Group's foreign currency positions because of changes in exchange rates.

Executive Board's Credit Committee

Credit applications that exceed the lending authorities of the business areas must be submitted to the Credit Committee for approval. The local credit departments of the business areas review these applications before the heads of the local credit departments submit them to the Credit Committee for approval.

The Credit Committee consists of members of the Executive Board and the management team of Group Credits. The Committee is also in charge of preparing operational credit policies and approving or rejecting credit applications involving issues of principle. The Board of Directors determines the lending authorities. In addition, the Credit Committee participates in decisions regarding the valuation of the Group's loan portfolio in connection with the recognition of impairment losses.

Executive Committee

The Executive Committee constitutes the day-to-day executive management. It is headed by the Chairman of the Executive Board. The Executive Committee is a coordinating forum whose principal objective is to take an overall view of activities across the Group with particular attention to the interaction between support functions and product suppliers on the one hand, and individual divisions and country organisations on the other.

The Executive Committee does not take part in the credit approval process.

Floor risk

Floor risk is the risk of lack of earnings on deposits because market interest rates approach zero.

General risk

General risk is the Group's risk of losses on its positions because of general changes in market prices, including interest rates, exchange rates, share prices and commodity prices. It applies to all positions in the trading book. Exchange rate risk and commodity risk also apply to positions outside the trading book.

Group Credits

The Group's credit organisation is led by the head of the central credit department, Group Credits.

Group Credits has overall responsibility for the credit process in all of the Group's business areas. This includes the responsibility for developing rating and score models and for applying them in day-to-day credit processing in the local units.

Group Finance

Group Finance oversees the Group's financial reporting and strategic business analysis, including the performance and analytic tools used by the business units.

The department is also in charge of the Group's investor relations, corporate governance, capital structure, M&A and relations with rating agencies. Risk Management is part of Group Finance. As the Group's risk monitoring unit, Risk Management has overall responsibility for the Group's implementation of the CRD rules, risk models and risk analysis.

ICAAP

In 2006, in preparation for the transition to 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 evaluation 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.

Impaired claims

Impaired claims cover amounts due from customers subject to individual impairment. Of these, customers not in default are classified in the Group's risk category 9, and customers in default are classified in category 10.

Insurance risk

Life insurance risk is the risk that the year's returns on customers' funds are inadequate to cover the customers' guaranteed benefits, any necessary increase in life insurance provisions, and other obligations. Insurance risk also includes the market risk on the assets in which Danica Pension's equity is invested.

Interest rate risk

Interest rate risk is the risk of losses because of changes in market interest rates.

Investment-grade ratings

Investment-grade ratings correspond to categories 1 to 4 on the Group's internal rating scale.

Liquidity risk

Liquidity risk is defined as the risk of losses because

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

Market risk

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

Operational risk

Operational risk is the risk of losses owing to

- deficient or erroneous internal procedures and processes
- human or system errors
- external events, including legal events

Operational Risk Committee

This Committee assists the Executive Board in its functions and processes related to operational risk management. The Committee's responsibilities include the following:

- implementing a group-wide programme that addresses and manages the Group's current and potential operational risk
- processing reports from operational risk management functions
- handling "critical risks"
- preparing management information on issues such as IT security, physical security, business continuity and compliance

Past due amounts

Past due amounts cover loans and advances from the first day's unauthorised excess on the individual facility for customers who are not subject to individual impairment.

Previous solvency rules

This term refers to the solvency rules stipulated in the Danish executive order on capital adequacy before it was amended on December 22, 2006.

Risk policy

To ensure that the Group's business areas comply with the approved risk limits, the Board of Directors has adopted an overall risk policy regulating all risk-taking by the Group.

On the basis of the overall risk policies, operational risk policies are prepared for the main business areas and submitted to the Group's All Risk Committee for approval.

Settlement risk

Settlement risk is the risk arising when payments are settled, for example for trades in financial instruments, including derivatives. The risk arises when the Group remits payments before it can ascertain that the counterparties' payments have been received.

SIV

Structured Investment Vehicle

Specific risk

Specific risk is the risk of losses on the Group's assets in the trading book (excluding derivatives) as a result of circumstances related to the specific issuer.

Sub-investment-grade ratings

Sub-investment-grade ratings correspond to categories 5 and 6 of the Group's internal rating scale, provided that the credit risk is acceptable.

Trading book

See the description under "Banking book versus trading book".