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Executive Order no 718 of 21 June 2007 on the Issue of Bonds, the Balance Principle and Risk Management

Pursuant to section 152h(1), no. 6, and section 373(4), of the Danish Financial Business Act (*lov om finansiel virksomhed*), see Consolidation Act No. 381 of 19 April 2007, as amended by Act No. 577 of 6 June 2007, section 20(2), section 21, section 26(5), and section 39(3), of the Mortgage Credit Loans and Mortgage Credit Bonds etc. Act (*lov om realkreditlån og realkreditobligationer m.v.*), see Act No. 454 of 10 June 2003, as amended by Act No. 577 of 6 June 2007, and section 5(4), no. 6, and section 14(2), of the Danish Act on a Ship Financing Institution (*lov om et skibsfinansieringsinstitut*), see Consolidation Act No. 745 of 19 July 2005, as amended by Act No. 577 of 6 June 2007, the following provisions shall apply:

Part 1

Scope and definitions

1. This Executive Order shall apply to:

- 1) the issue by commercial banks of covered bonds in registers,
- 2) the issue by mortgage banks of mortgage bonds, covered mortgage bonds, covered bonds and other securities with preferential status, see section 1 of the Act on Mortgage Credit Loans and Mortgage Credit Bonds etc., in series with a series reserve fund, groups of series with a joint series reserve fund or in the bank as such, and
- 3) the issue by a ship financing institution of debentures, bonds issued by Danish Ship Finance and covered bonds in capital centres or in the bank as such.

2. Undertakings licensed to issue mortgage bonds, covered mortgage bonds, covered bonds and other securities with preferential status, debentures and bonds issued by Danish Ship Finance shall comply with a balance principle. Compliance with the balance principle shall be ensured by compliance with the provisions of either Part 2 or Part 3.

(2) Undertakings covered by subsection (1) above shall be entitled to choose which balance principle to apply to each register, series with a series reserve fund, group of series with a joint series reserve fund or capital centre. For mortgage banks and ship financing institutions, the bank or institution shall be considered a separate series with a series reserve fund or a separate capital centre, respectively.

(3) Compliance with the balance principle pursuant to Part 2 or Part 3, see subsection (2), shall appear from the basic prospectus or prospectus supplement for series or other bond issues opened after 1 July 2007. For bonds comprised by the transitional scheme concerning weighting in connection with the capital adequacy calculation according to the recast Credit Institution Directive 2006/48/EC, this must take place by 31 December 2007.

3. In the event that a mortgage bank or ship financing institution chooses to comply with the balance principle pursuant to the provisions of Part 2, see section (2)1, the provisions of subsections (2)-(4) shall be observed.

(2) The undertaking shall have sound liquidity. The liquidity shall amount to at least 10% of the undertaking's given undrawn credit lines on call loans granted on overdraft terms that have not been financed by a bond issue.

(3) The undertaking's liquidity shall include the following:

- 1) Operating cash.
- 2) Fully safe and liquid demand deposits with credit institutions and insurance companies.
- 3) Portfolio of safe, easily marketable, uncharged securities and credit instruments.

(4) In the event that the requirement in subsection (2) has not been satisfied, and this is not remedied within eight days of the undertaking failing to meet the requirements, the undertaking shall immediately inform the Danish Financial Supervisory Authority (FSA) thereof. The FSA shall stipulate a deadline for the undertaking's satisfaction of the requirement.

4. Commitments arising from financial instruments for hedging purposes with credit institutions as the counterparty shall be included in the general 15% limit for all credit institution claims according to the recast Credit Institution Directive 2006/48/EC. Any failure to comply with this limit shall immediately be offset by provision of additional collateral by way of assets covered by section 152c(1), nos. 3-4, of the Financial Business Act.

(2) In order to be included as cover, financial instruments used to hedge risks between assets and issued bonds shall be concluded with a counterparty qualifying for a 20% weighting pursuant to Schedule 3, No. 11(a), of the Executive Order on Capital Adequacy (*bekendtgørelse om kapitaldækning*). The requirement relating to counterparty weighting shall be satisfied on an ongoing basis.

(3) In the event that the hedging pursuant to subsection (2) concerns another part of the undertaking itself, the following shall be required:

- 1) Initial provision of collateral for the total hedging with the counterparty pursuant to an ISDA Credit Support Annex. Such collateral shall account for at least 2.5 per thousand of the total principal amounts converted into DKK on outstanding derivatives for a counterparty having at a minimum an AA rating, and at least 5 per thousand for a counterparty having at a minimum an A rating. The rating shall be made by a credit rating agency approved by the FSA.
- 2) The provision of collateral shall be unilateral, i.e. the register, series with a series reserve fund, group of series with a joint series reserve fund or the capital centre shall not provide collateral vis-à-vis the counterparty.
- 3) The accepted provision of collateral shall be assets covered by section 152c(1), nos. 3 and 4.
- 4) Continuous daily monitoring of the market values of the derivatives.
- 5) In the event that the market value of the derivatives causes the initial collateral provided to decrease by 20%, the counterparty shall settle with the register, series with a series reserve fund, group of series with a joint series reserve fund or the capital centre in order to restore the initial collateral.

(4) The FSA may demand the provision of additional collateral or that all derivative agreements concluded by the register, series with a series reserve fund, group of series with a joint series reserve fund or the capital centre with another part of the undertaking as the counterparty, see subsection (3), shall be transferred and set up with another counterparty, in the event that the counterparty's rating falls below an A rating.

(5) The 15% limit of subsection (1) shall not apply to the undertaking's investment of the following funds from the undertaking's lending activities:

- 1) Investment of forward payments from the debtor until payments can be made to the creditor (prepaid funds).
- 2) Investment of repayment amounts from the debtor until the bonds issued can be cancelled or drawn or a new disbursement of a new loan secured by mortgages on real estate can be made within three months of the next repayment date (immediate repayment at par funds).
- 3) Investment of proceeds from a bond issue to refinance the maturity of bonds until such bonds mature (refinancing funds).
- 4) Investment of proceeds from a bond issue to hedge fixed-price agreements until the loans can be disbursed (pre-issue funds).
- 5) Land registration guarantees, if the lending undertaking has received a registered mortgage containing an endorsement pertaining only to the existing loans to be discharged by the new loan, and it concerns submission of redemption amounts under binding redemption offers made to undertakings under the supervision of the FSA, the Danish Agency for Governmental Management, the State, local authorities or the Danish National Building Fund, provided that the submission is conditional upon the mortgages being extinguished and delivered to the lending undertaking.
- 6) Loss guarantees, provided that they do not constitute an effective claim on the credit institution.
- 7) Own issued bonds within the register, series with a series reserve fund, group of series with a joint series reserve fund or the capital centre.
- 8) Other commitments from other transfers from or management of funds from debtors having raised loans secured on mortgages on real estate to the owners of issued bonds, until disbursement can be made.

5. Interest rate, currency and option risks shall not be assumed by a register, series with a series reserve fund, groups of series with a joint series reserve fund or a capital centre, but see sections 7-10, 13, 15-17, 26, 28, 29 and 31.

Part 2

General balance principle

Calculation of payments

6. Risks shall be calculated on the basis of the differences between future disbursements on issued mortgage bonds, covered mortgage bonds, covered bonds, other securities issued by mortgage banks, debentures, bonds issued by Danish Ship Finance and financial instruments to hedge differences in payments and the future payments on mortgages, loans to public authorities or guaranteed by a public authority, investments pursuant to section 4(5), other investments and financial instruments hedging differences in payments.

(2) When calculating the payment differences mentioned in subsection (1), payments shall be included on their due date. The undertaking may decide that differences in payments shall not cover payment surpluses arising when debtors make their payments or parts thereof earlier than the payments made by the undertaking to the holders of the underlying bonds, when the customer has no claim for interest rate compensation agreed upon in advance.

(3) In the calculation of the payments mentioned in subsection 1, future payment flows may be calculated on the basis of adequate internal models. The FSA may set requirements for the undertaking regarding such internal models. Interest margin earnings and contributions, etc., may be included in these payment flows, provided that they are included consistently over time and in all stress tests, see sections 7-10 and 12.

Stress tests

Interest rate risk

7. The interest rate risk shall be calculated as the highest reduction in the present value of differences in payments calculated pursuant to section 6 on the basis of six different assumptions regarding the development of the yield structure, see subsections (2) and (4).

(2) The interest rate risk shall be calculated using the following assumptions regarding the development of the yield structure:

- 1) A parallel shift in the yield structure causing all yields to increase by one percentage point.
- 2) A parallel shift in the yield structure causing all yields to decrease by one percentage point.

(3) The interest rate risk pursuant to subsection (2) shall not exceed:

- 1) 10% of the excess cover for commercial banks,
- 2) 1% of the capital adequacy requirement plus 2% of the additional excess cover for mortgage banks,
- 3) 1% of the capital adequacy requirement plus 5% of the additional excess cover for a ship financing institution.

(4) The interest rate risk shall be calculated using the following assumptions regarding the development of the yield structure:

- 1) A parallel shift in the yield structure causing all yields to increase by at least 2.5 percentage points.
- 2) A parallel shift in the yield structure causing all yields to decrease by at least 2.5 percentage points.
- 3) A parallel shift in the yield structure causing all yields to increase by one percentage point up to a term of three months, a parallel shift of the yield structure causing all yields to decrease by one percentage point over a term of ten years, and a continuous, proportional shift in the yield structure in the interval between three months and ten years.
- 4) A parallel shift in the yield structure causing all yields to decrease by one percentage point up to a term of three months, a parallel shift of the yield structure causing all yields to increase by one percentage point over a term of ten years, and a continuous, proportional shift in the yield structure in the interval between three months and ten years.

(5) The interest rate risk calculated pursuant to subsection (4) shall not exceed:

- 1) 100% of the excess cover for commercial banks,
- 2) 5% of the capital adequacy requirement plus 10% of the additional excess cover for mortgage banks,
- 3) 5% of the capital adequacy requirement plus 10% of the additional excess cover for a ship financing institution.

(6) The interest rate risk mentioned in subsections (2) and (4) means the interest rate risk calculated for each currency in which the undertaking experiences differences in payments. The undertaking shall not be entitled to offset interest rate risks resulting from different currencies.

(7) Notwithstanding subsection (6) above, the undertaking shall be entitled to offset an interest rate risk resulting from differences in payments in EUR against an interest rate risk resulting from differences in payments in DKK by up to 50% of the interest rate risk in that of the two currencies with the numerically lowest calculated interest risk.

(8) The undertaking shall be entitled to apply internal models for calculating the interest rate risk pursuant to subsections (2) and (4). The FSA may set requirements for the undertaking regarding such internal models.

8. In connection with the establishment or closing of a register, series with a series reserve fund, group of series with a joint series reserve fund or a capital centre, the interest rate risk may amount to a maximum of DKK 20 million, notwithstanding the limits provided in section 7.

Currency risk

9. The currency risk shall be calculated as the highest reduction in the present value of differences in payments calculated pursuant to section 6 on the basis of two different assumptions regarding the development of the exchange rate, see subsection (2).

(2) The currency risk shall be calculated using the following assumptions regarding the development of the exchange rate:

- 1) An increase in exchange rates of 10% for currencies within the EU, the EEA or Switzerland. For all other currencies, an increase in exchange rates of 50%.
- 2) A decrease in exchange rates of 10% for currencies within the EU, the EEA or Switzerland. For all other currencies, a decrease in exchange rates of 50%.

(3) The currency risk calculated pursuant to subsection (2) shall not exceed:

- 1) 10% of the excess cover for commercial banks,
- 2) 10% of the capital adequacy requirement plus 10% of the additional excess cover for EUR, and 1% of the capital adequacy requirement plus 1% of the additional excess cover for other currencies for mortgage banks,
- 3) 10% of the capital adequacy requirement plus 10% of the additional excess cover for a ship financing institution.

(4) The undertaking shall be entitled to apply internal models for calculating the currency risk pursuant to subsection (2). The FSA may set requirements for the undertaking regarding such internal models.

Option risk

10. Risks pertaining to hedging conditional (asymmetric) claims on debtors as well as term mismatch between conditional (asymmetric) claims on debtors and hedging options in a register, series with a series reserve fund, group of series with a joint series reserve fund or a capital centre shall be limited, see subsections (2)-(4).

(2) The option risk shall be measured on the basis of the vega risk parameter and calculated as the highest reduction in the present value of differences in payments calculated pursuant to section 6 on the basis of two different assumptions regarding the development of the volatility structure, see subsection (3).

(3) The option risk shall be calculated using the following assumptions regarding the development of the volatility structure:

- 1) An increase in the volatility structure of one percentage point.
- 2) A decrease in the volatility structure of one percentage point.

(4) The option risk calculated pursuant to subsection (3) shall not exceed:

- 1) 5% of the excess cover for commercial banks,
- 2) 0.5% of the capital adequacy requirement plus 1% of the additional excess cover for mortgage banks,
- 3) 0.5% of the capital adequacy requirement plus 1% of the additional excess cover for a ship financing institution.

(5) The option risk mentioned in subsection (2) shall mean the sum of the option risk calculated for each currency in which the undertaking experiences differences in payments. The undertaking shall not be entitled to offset option risks resulting from different currencies.

(6) Notwithstanding subsection (5) above, the undertaking shall be entitled to offset an option risk resulting from differences in payments in EUR against an option risk resulting from differences in payments in DKK by up to 50% of the option risk in that of the two currencies with the numerically lowest calculated option risk.

(7) The undertaking shall be entitled to apply internal models for calculating the option risk pursuant to (2). The FSA may set requirements for the undertaking regarding such internal models.

Liquidity risk

11. Interest payments to the register, series with a series reserve fund, group of series with a joint series reserve fund or the capital centre, see section 6, shall be higher than interest payments from the register, series with a series reserve fund, group of series with a joint series reserve fund or the capital centre, see section 6, over a current period of 12 months.

(2) Excess cover and liquidity investments, provided that they have been made in safe and liquid securities, claims on central governments and central banks in zone A countries or contributions to credit institutions in zone A countries may be included as interest payments to the register, series with a series reserve fund, group of series with a joint series reserve fund or the capital centre.

(3) The requirement in subsection (1) shall not apply to structures where loans and funding by definition have been matched in respect of payments from the establishment of the loan and subsequent refinancing, and where any capital gains or losses are equalised by compensation or an increase of the borrower's interest payments up to the maturity of the loan or the next refinancing. In addition to interest, interest-related payments and disbursements may also be included for such structures.

12. The present value of future payments into the register, series with a series reserve fund, group of series with a joint series reserve fund or the capital centre calculated pursuant to section 6 shall always be higher than the present value of the future disbursements from the register, series with a series reserve fund, group of series with a joint series reserve fund or the capital centre calculated pursuant to section 6.

Special provisions governing mortgage banks

13. The interest rate risk with regard to the assets, liabilities and off-balance sheet items of the mortgage bank, excluding section 6, shall not exceed 8% of the capital base of the mortgage bank.

(2) The interest rate risk in subsection (1) shall mean the interest rate risk calculated pursuant to section 7(1)-(2) and (6)-(8).

14. The issue of bonds and other securities may be made as an advance issue of fixed-price agreements concluded, or as a bloc issue based on estimated lending activities.

(2) Excess funds from a bloc issue shall not exceed the budgeted gross volume of loans for the subsequent 6-month period in each individual series with a series reserve fund. This provision shall not apply to bloc issues made on the basis of planned repurchases with a view to re-funding an already existing funding arrangement. Such bloc issues shall not have a term exceeding 6 months, after which period any excess bonds shall be cancelled.

15. The currency risk with regard to the assets, liabilities and off-balance sheet items of the mortgage bank, excluding section 6, shall not exceed 10% of the capital base of the mortgage bank.

(2) The currency risk in subsection (1) shall mean the currency risk calculated pursuant to section 9(1), (2) and (4).

16. If an undertaking is able to document that risks resulting from differences in payments on a specified part of the loans granted in accordance with previous requirements regarding the balance principle, comply with the balance principle provisions of the present Part, the FSA may permit that continuous calculation regarding this part of the portfolio is not carried out.

Special provisions governing a ship financing institution

17. The interest rate risk with regard to the assets, liabilities and off-balance sheet items of a ship financing institution, excluding section 6, shall not exceed 8% of the capital base of the ship financing institution.

(2) The interest rate risk mentioned in subsection (1) shall mean the interest rate risk calculated pursuant to section 7(1), (2) and (6)-(8).

Part 3

Specific balance principle

Definitions

18. The terms used in this Part shall be defined as follows:

- 1) Immediate repayment at par: Immediate repayment of a loan at par value.
- 2) Safe and liquid securities: Listed claims on mortgage banks or similar credit institutions in zone A countries, claims on central governments and central banks in zone A countries as well as listed claims on multinational development banks. As regards such claims, an exchange into cash can take place without significant effect on the price of the claims in question.
- 3) Conditional imbalances: Imbalances of an option-like nature.

Issue of bonds and other funding

19. No undertaking shall be allowed to grant:

- 1) index-linked loans based on the issue of nominal bonds and other nominal securities, or vice versa, or
- 2) index-linked loans based on the issue of bonds and other securities which are to be indexed by an index other than the one used in connection with the loan granted.

(2) The requirements of subsection (1) may be deviated from if, in connection with use of derivative financial instruments, the undertaking fully hedges any differences between payment sequences.

20. No undertaking shall be entitled to grant callable loans on the basis of the issue of non-callable bonds or other securities.

(2) The provisions in subsection (1) shall not be deviated from through the use of derivative financial instruments.

21. The issue of bonds and other securities may be made as an advance issue of fixed-price agreements concluded, or as a bloc issue based on estimated lending activities.

(2) Repayment of loans by bonds other than the underlying bonds cannot exceed 15% of the nominal value of the undertaking's issued bonds in the register, series with a series reserve fund, group of series with a joint series reserve fund or the capital centre..

(3) In the event of repayment in accordance with subsection (2), the bonds used to repay the loans in question shall be bonds issued with a payment sequence that as closely as possible matches the payment sequence of the loans repaid.

(4) Subsection (2) shall not apply to immediate repayments at par.

(5) Excess funds from a bloc issue shall not exceed the budgeted gross volume of loans for the subsequent 90-day period in each individual register, series with a series reserve fund or capital centre. This provision shall not apply to bloc issues made on the basis of planned repurchases with a view to re-funding an already existing funding arrangement. Such bloc issues shall not have a term exceeding 90 days, after which period any excess bonds shall be cancelled.

(6) Excess funds, including funds deriving from immediate repayments at par and funds deriving from more frequent repayment dates on the lending side than on the bond side or any other liquidity surpluses caused by payments exceeding disbursements, see section 23(1), shall, until they can be re-lent, disbursed, or the underlying bonds are repaid, be invested in safe and liquid securities, see section 18, no. 2, or be placed as deposits with zone A credit institutions subject to a period of notice of up to 12 months and be kept separate from other funds.

22. Options and similar derivative instruments that offer asymmetric returns included in the calculation of future differences in payments within the framework of the balance principle, see section 23(1), shall have a maximum term of four years as from the time when the agreement was made with the borrower.

Calculation of payments and liquidity provisions

23. It shall be possible to calculate the differences between future disbursements on issued mortgage bonds, covered mortgage bonds, covered bonds, other securities issued by mortgage banks, debentures, bonds issued by Danish Ship Finance and financial instruments hedging differences in payments and the future payments on mortgages, loans to public authorities or guaranteed by a public authority, investments pursuant to section 4(5), other investments and financial instruments hedging differences in payments, see section 21(6), on a daily, cumulative, discounted basis for all future payments and disbursements.

(2) Disbursements, see subsection (1), shall mean payments on bonds and other securities as well as financial instruments. Payments, see subsection (1), shall mean repayments on mortgages less direct contributions and contributions in the form of significant interest margin earnings and less other administration fees, as well as payments on financial instruments and investments, see section 21(6).

(3) When calculating the payments mentioned in subsection (1), they shall be included on their due date.

24. When calculating the payments mentioned in section 23, future payment flows may be calculated on the basis of adequate financial models.

25. Seen in proportion to the undertaking's capital base, a future liquidity deficit of the undertaking arising from disbursements exceeding payments received, see section 23(1), shall not exceed:

- 1) 25% in years 1-3,
- 2) 50% in years 4-10 and
- 3) 100% as from year 11.

(2) The undertaking's liquidity deficits mentioned in subsection (1) shall not comprise liquidity deficits offset by liquidity investments, provided that such investments are made in safe and liquid securities, see section 18, no. 2, or as deposits in zone A credit institutions subject to a period of notice of up to 12 months.

Provisions governing interest rate risk

26. The interest rate risk assumed by the undertaking due to the differences in payments mentioned in section 23(1), including interest rate risk on excess funds in connection with investment of such funds, see section 21(6), shall not exceed an amount corresponding to 1% of the capital base of the undertaking. Differences in payments shall not cover payment surpluses arising when debtors make their repayments or parts thereof earlier than the payments made by the undertaking to the holders of the underlying bonds, when the customers have no claim for compensatory payments.

(2) Interest rate risks shall be calculated for each individual currency in which the undertaking experiences differences in payments; the risk being calculated as the largest fall in the present value of the differences in payments calculated in the following six ways:

- 1) An assumed parallel shift in the yield structure causing all yields to increase by one percentage point.
- 2) An assumed parallel shift in the yield structure causing all yields to decrease by one percentage point.
- 3) For all conditional imbalances, see section 18, no. 3, a parallel yield increase of three percentage points is assumed, and changes in the present value of the differences in payments are divided by three. For all other differences in payments, a parallel yield increase of one percentage point is assumed where no division is made. The two calculated changes in present value shall be added together.
- 4) For all conditional imbalances, see section 18, no. 3, a parallel yield decrease of three percentage points is assumed, and changes in the present value of the differences in payments are divided by three. For all other differences in payments, a parallel yield decrease of one percentage point is assumed where no division is made. The two calculated changes in present value shall be added together.
- 5) An assumed parallel shift in the yield structure causing all yields to increase by one percentage point up to a term of three months, a parallel shift of the yield structure causing all yields to decrease by one percentage point over a term of ten years, and a continuous, proportional shift in the yield structure in the interval between three months and ten years.
- 6) An assumed parallel shift in the yield structure causing all yields to decrease by one percentage point up to a term of three months, a parallel shift of the yield structure causing all yields to increase by one percentage point over a term of ten years, and a continuous, proportional shift in the yield structure in the interval between three months and ten years.

(3) The interest rate risk mentioned in subsection (1) means the sum of the interest rate risk calculated in compliance with subsection (2) for each currency in which the undertaking experiences differences in payments. Interest rate risks in different currencies cannot be set off against each other.

(4) In the calculation of the interest rate risk according to subsection (2), the interest rate risk shall be calculated on the basis of adequate financial models.

Registers or series with a series reserve fund

27. For each individual register, series with a series reserve fund, including the institution as such, or groups of series with a joint series reserve fund, sections 21, 25 and 26 shall apply with regard to the excess cover of the register, the capital adequacy requirement plus additional excess cover in the series with a series reserve fund, or the capital adequacy requirement plus additional excess cover in the group of series with a joint series reserve fund. For series with joint and several liability, however, no liquidity deficit in the series calculated in accordance with section 23(1) shall exceed 1% of the capital adequacy requirement plus additional excess cover in the series.

(2) In connection with the establishment of a register, a series with a series reserve fund or a group of series with a joint series reserve fund, the liquidity deficit or interest rate risk shall not – irrespective of the limits stipulated in sections 25 and 26 – exceed DKK 20 million. In connection with establishment of a series with a series reserve fund or a group of series with a joint series reserve fund, notwithstanding the provision of section 21(5), excess funds from a bloc issue shall not for a period of up to 12 months after this executive order has entered into force exceed the budgeted gross volume of loans for the subsequent 6-month period in each individual series with a series reserve fund or group of series with a joint series reserve fund.

(3) Subsection (1) shall not apply to series with a series reserve funds, except for the institution as such, in which no new loans are granted after 1 January 2001. For series with joint and several liability, however, no liquidity deficit in the series calculated in accordance with section 23(1) shall exceed 1% of the capital adequacy requirement plus additional excess cover in the series. Moreover, for other series with a series reserve fund, no liquidity deficit calculated in accordance with section 23(1) shall exceed 8% of the capital adequacy requirement plus additional excess cover in the series.

(4) In the event that series according to subsection (3), set up under previous legislation, are being terminated and where, consequently, the limits for liquidity deficits for series cannot be observed, this provision may be disregarded. The FSA shall immediately be notified hereof.

Interest rate risk with regard to the securities portfolio, etc.

28. The interest rate risk with regard to the assets, liabilities and off-balance sheet items of the undertaking, exclusive of the items mentioned in section 23(1), shall not exceed 8% of the capital base of the undertaking.

(2) The interest rate risk mentioned in subsection (1) shall mean a calculation of the change in the present value when the market yield changes by one percentage point. The calculation shall be made both for the market yield plus one percentage point and for the market yield less one percentage point. The interest rate risk is then that of the two results where the present value – in the event of a change in the market yield by one percentage point – expresses a deterioration of the present value in relation to the present value at the market yield.

(3) When calculating the interest rate risk pursuant to subsection (2), the calculation requirements stipulated in section 26(3) and (4) shall apply.

Currency risk

29. The currency risk with regard to the assets, liabilities and off-balance sheet items of the undertaking shall not exceed 0.1% of the capital base of the undertaking. The currency risk shall be calculated by means of exchange rate indicator 2.

(2) Net positions in foreign currencies not included in exchange rate indicator 2 shall not exceed DKK 30 million for each individual currency.

Reporting requirements

30. If an undertaking is able to document that any risks resulting from differences in payments, see section 23(1), on a specified part of the loans granted in accordance with previous balance principle requirements, comply with the balance principle provisions of the present Executive Order, the FSA may permit that continuous calculation of liquidity imbalances and interest rate risks is not carried out regarding this part of the portfolio.

Special provisions governing a ship financing institution

31. Only section 18, nos. 2 and 3, sections 19, 20(1), 22-24, 26, 28 and 29(2) shall apply to a ship financing institution, but see subsection (5).

(2) The requirements of section 20(1) may be deviated from if, in connection with use of derivative financial instruments, the undertaking fully hedges any differences between payment sequences.

(3) The undertaking may issue bonds as an advance issue of fixed-price agreements concluded or as a bloc issue based on the undertaking's loan offers made and the estimated lending activities.

(4) Excess funds from a bloc issue shall not exceed the sum of the undertaking's loan offers made and the undertaking's core capital, see section 129 of the Financial Business Act, see section 17(1) of the Executive Order on a Ship Financing Institution.

(5) Excess funds, see section 21(6), shall, until they can be re-lent, disbursed, or the underlying bonds are repaid, be kept separate from other funds and invested:

- 1) in safe and liquid securities, see section 18, no. 2, or
- 2) as deposits in credit institutions having their registered office in zone A subject to a period of notice of up to 12 months.

(6) A future liquidity deficit of the undertaking arising from disbursements exceeding payments received, see section 23(1), shall not exceed the undertaking's capital base.

(7) The liquidity deficits mentioned in subsection (6) for the undertaking shall not comprise liquidity deficits that are offset by liquidity investments, provided that such investments are made in safe and liquid securities, see section 18, no. 2, or as deposits in credit institutions having their registered office in zone A subject to a period of notice of up to 12 months.

(8) The currency risk relating to the undertaking's assets, liabilities and off-balance sheet items shall not exceed 2% of the capital base of the undertaking, see section 128 of the Financial Business Act, see section 17(1) of the Executive Order on a Ship Financing Institution, plus the total currency risk on write-downs of foreign-currency lending. The currency risk shall be calculated by means of exchange rate indicator 2.

(9) In special circumstances, the FSA may permit that the limit mentioned in subsection (8) and section 29(2) is temporarily exceeded.

Part 4

Reports

32. In connection with presentation of the financial statements, the undertaking shall issue a statement to the effect that all the provisions of this Executive Order have been complied with.

(2) Not later than 20 working days after the end of the first, second and third quarters, the undertaking shall report information on forms prepared by the FSA for the purpose of the FSA's verification of whether the requirements of sections 7, 9, 10, 13, 15, 17, 25, 26 and 28 have been satisfied. The year-end reporting shall be made not later than 30 working days after the end of the year. The forms are available at the FSA's website.

(3) The reports shall be available on a machine-readable or electronic medium and be approved by the undertaking's executive board.

Part 5

Commencement and sanctions

33. Violation of section 2(1) and (3), section 3(1), (2) and (4), section 4 (1)-(4), sections 5-12, section 13(1), section 14(2), section 15(1), section 17(1), section 19(1), section 20(1), section 21(2),

(3), (5) and (6), section 22, section 23(1) and (3), section 25(1), section 26(1), (2), and (4), section 27, section 28(1) and (2), section 29, section 31(2)-(8) and section 32 shall be punishable by a fine.

(2) Undertakings, etc. (legal persons) shall be held criminally liable according to the rules laid down in Part 5 of the Danish Penal Code.

34. This Executive Order shall enter into force on 1 July 2007.

(2) At the same time, Executive Order No. 1190 of 17 December 2003 on Mortgage Banks' Issue of Bonds, the Balance Principle, Interest Rate and Currency Risks shall be repealed.

Danish Financial Supervisory Authority

HENRIK BJERRE-NIELSEN

/ Jørn Andersen