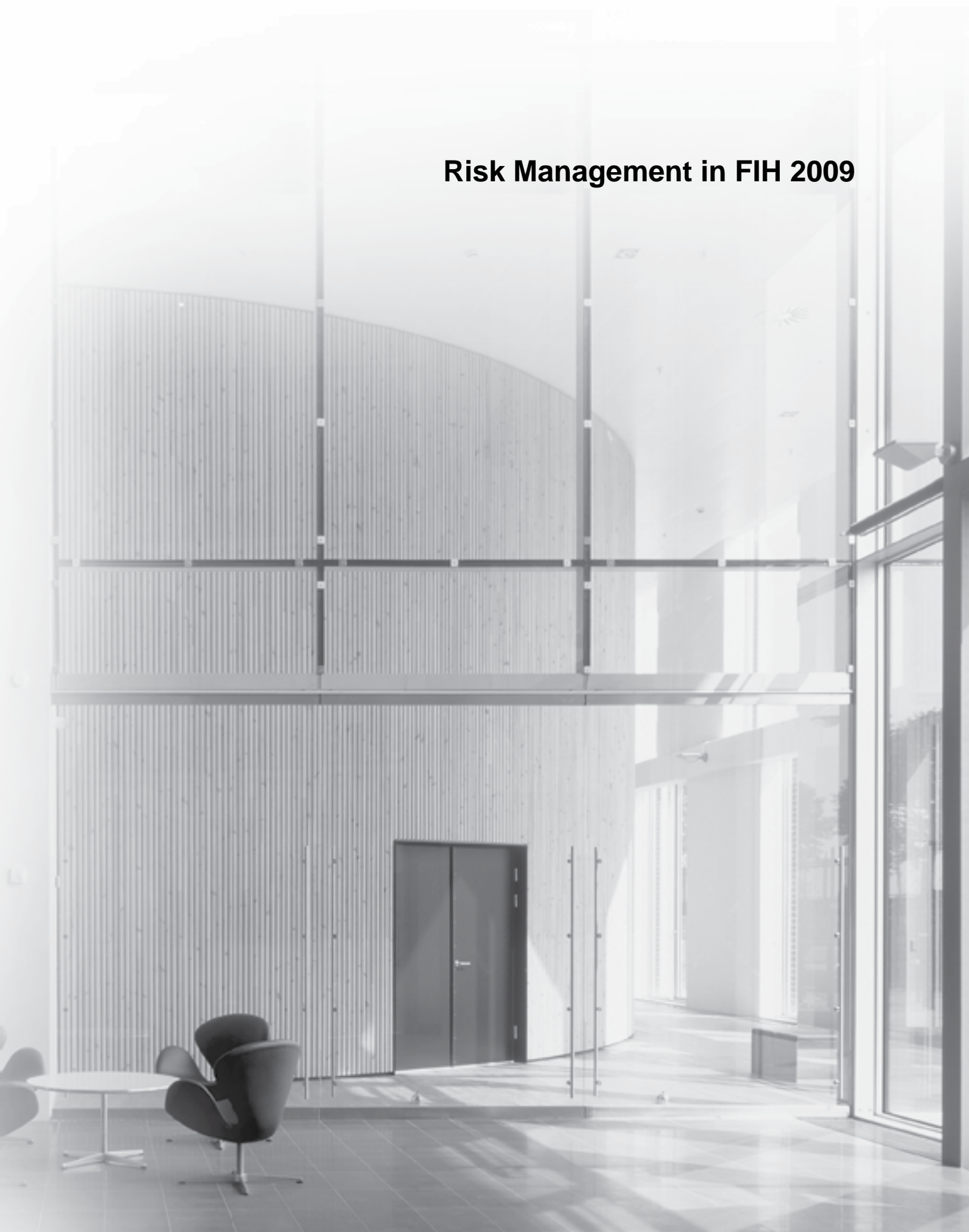


Risk Management in FIH 2009



Contents

1	Introduction	4
1.1	Methods of consolidation	4
1.2	Structure of risk identification and management	5
1.3	Compliance.....	8
1.4	Risk Management	8
1.5	Credit.....	9
1.6	Account managers and risk management.....	9
1.7	Reporting policy at FIH.....	10
2	Capital target	12
2.1	Applied regulatory methods	12
2.2	Base capital	12
2.3	Minimum capital requirement	13
2.4	Adequate capital base	15
2.5	Methodology.....	18
2.5.1	Specification of adequate capital.....	19
2.6	Market Discipline	19
2.7	Regulatory use of collateral.....	20
3	Credit risk	21
3.1	Credit organisation	21
3.2	Credit policy	21
3.2.1	Target group and products	21
3.2.2	Financial transactions.....	22
3.2.3	Size of exposures	22
3.2.4	Portfolio limits	22
3.3	Exposure approvals.....	24
3.4	Lending conditions.....	24
3.5	Exposure reviews	24
3.6	Collateral.....	25
3.7	Impairments.....	27
3.7.1	Group impairments	27
3.8	Rating models	28
3.8.1	Validation	29
3.9	Overview of Credit Risk.....	30
3.9.1	Rating distribution	30
3.9.2	Arrears	30
3.9.3	Probability of default	31
3.9.4	Distribution of the portfolio and impairments	32
3.9.5	Regulatory requirements on credit portfolio information.....	35
3.9.6	Stress test of the credit portfolio	37
3.9.7	Credit risk concentrations	38
3.9.8	Counterparty risk	38

Contents

3.10	Minimum capital requirement for credit risk	39
4	Market risk	40
4.1	Interest rate risk	41
4.2	Foreign exchange risk	42
4.3	Equity risk	42
4.3.1	Back testing	44
4.3.2	Stress testing	44
4.4	Minimum capital requirement for market risk	45
5	Operational risk	46
5.1	Minimum capital requirement for operational risk	47
6	Compliance	47
7	Contingency plan	47
8	Liquidity risk	48

1 Introduction

This Risk Management Report is intended to provide an insight into the FIH Erhvervsbank Group's risk and capital management.

The report will start by describing the Group's risk organisation and move on to discussing and describing the risk view of the different types of risk to which FIH is exposed.

It is our intention to give the reader an in-depth view of the different risk areas in FIH, related policies and tables.

Sophisticated risk management and a strong capital base are key objectives for FIH, and risk management is an integral part of the Bank's daily operations and strategic decisions.

We hope that you will find the Risk Management Report 2009 informative and useful.

1.1 *Methods of consolidation*

The rules set out in Executive Order on Capital Adequacy and the rules set out in the Danish Financial Business Act are used to calculate the capital adequacy requirement.

The calculation comprises FIH Erhvervsbank A/S and companies in which FIH Erhvervsbank A/S has direct or indirect control of the company's operational and financial management.

The consolidated risk statement comprises:

- FIH Erhvervsbank A/S
- FIH Kapital Bank A/S
- FIH Realkredit A/S
- FIH Finance A/S
- FIH Leasing og Finans A/S
- FIH PARTNERS A/S
- FIH Aztec Holding ApS

The companies specified above are all fully consolidated.

Definition of exposures in credit reporting

In general in the report, the exposures shown in the tables and figures differ from the number shown in the annual report. The difference is due mainly to the fact that guarantees related to real credit institutions are included in the exposure as well as OTC limits are treated as a common exposure here, whereas they are treated as off-balance sheet items in the annual report. Inclusion of all sorts of exposures in the Risk Report ensures that all risks are covered without the boundaries from the definitions used in accounting legislation. Impairments on investment properties (DKK 55 million) are treated as marketable securities adjustments in the annual account but treated here as ordinary impairments.

Whenever FIH is mentioned in this report, it applies to the FIH Group, FIH Erhvervsbank A/S and FIH Kapital Bank A/S.

Introduction

1.2 Structure of risk identification and management

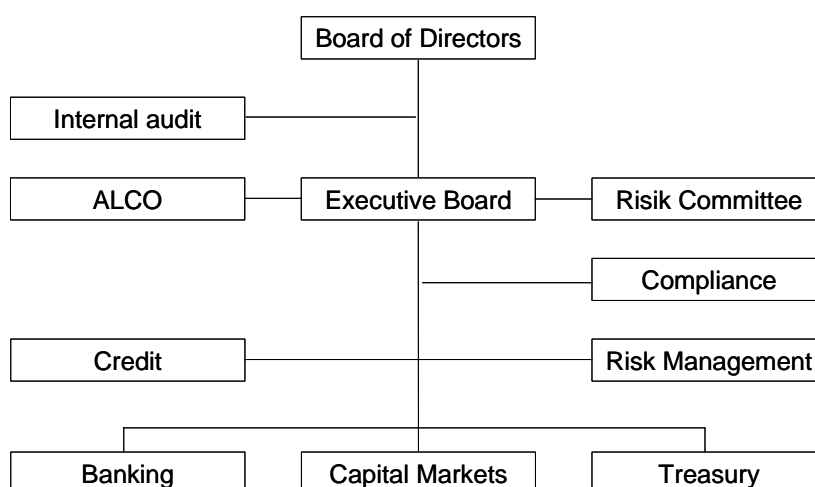


Figure 1

At FIH, we are committed to a clear risk policy, defining the risks we are willing to assume and our maximum exposure. In order to ensure compliance with the risk policy in practice, it is important that all levels within the FIH organisation understand the risks assumed by the Bank and how these risks impact the overall FIH business. Therefore, staff involved in risk management in their daily work (from account managers over traders to risk analysts) must have a thorough understanding of the risk policy and the impact of their daily work on FIHs overall risk exposure.

Division of duties is established between the functions involved in business and assuming risks, and the functions carrying out the overall risk management.

The risk policy adopted divides risk management between the Board of Directors, the Executive Board, the Risk Committee, ALCO, Risk Management, Credit, Internal Audit, Compliance and the business areas, each with their own responsibilities and tasks.

The Board of Directors

The Board of Directors and the Executive Board are in charge of corporate governance. The Board of Directors supervises FIHs activities to ensure that FIH is managed responsibly and in accordance with the Articles of Association and statutory provisions.

FIHs Board of Directors is responsible for establishing overall risk policies and limits.

Risk Management and Credit report to the Executive Board and the Board of Directors on an ongoing basis to enable the Executive Board and the Board of Directors to ensure compliance with the policies and limits provided by FIHs rules of procedure.

The Executive Board

The Executive Board establishes policies for and supervises the Bank, referring to the directions from the Board of Directors to the Executive Board. The Board of Directors refer to the rules in the procedures for the Board of Directors.

The Executive Board also reports to the Board of Directors on the Group's risks and exposures. In addition, the Executive Board approves credit exposures and risk-taking within the limits provided by FIHs rules of procedure.

Introduction

The Executive Board has delegated some of the powers granted by the Board of Directors to the Risk Committee, Credit and Banking and has provided instructions for Capital Markets including Treasury and established an underlying framework for market and liquidity risk. The Executive Board will set up additional committees as required. These committees will be responsible for handling the continuous risk management under the Executive Board's management and within a defined framework.

ALCO

The ALCO Committee, comprising Capital Markets, Treasury, Risk Management and the Executive Board, is responsible for FIH's overall liquidity and balance-sheet management, including e.g. investment of own funds. The ALCO Committee convenes at least twice a month.

Risk Committee

The Risk Committee, comprising the Executive Board and the Heads of Risk & Legal, Credit, and Banking, respectively and the Risk Committee convenes twice a week, the focus of these meetings being on credit.

To deal with other risk areas, the Risk Committee convenes once a month for an extended meeting, in which the Heads of Risk Management and Capital Markets, respectively, participate.

The work of the Risk Committee is subject to overall regulation by external legislation in the area and the rules of procedure for the Board of Directors and the directions for the Executive Board from the Board of Directors.

The Risk Committee's overall knowledge of the Bank's risks at any time is based partly on ongoing reporting and partly on the continuous work and discussions of the Committee.

Based on and subject to the rules of procedure for the Board of Directors and the directions to the Executive Board from the Board of Directors, the Risk Committee also discusses and makes decisions on the types and extent of risks the Bank has assumed and wants to assume in the future.

Lastly, the level of delegated powers is discussed internally within the Bank on a regular basis, along with the level and extent of the Bank's risk management. Changes to the levels of risk are also determined by the Committee.

Risk management at FIH

Risk is a key element of financial business. Virtually all types of transactions involve an element of risk for financial institutions. Therefore, it is vital to ensure that a fine-meshed and well-functioning risk management policy is in place. The need for effective risk management has intensified with the growth of financial markets and increasing financial complexity. Functional systems are required to manage and control the risk exposure.

At FIH, we are committed to a clear risk policy, defining the risks we are willing to assume and our maximum exposure. Considerable resources are allocated towards identifying substantial risks, quantifying exposures, monitoring and, if possible, limiting risks.

Recent years have seen increased focus on risk management – a trend that has been further reinforced by the so-called Basel II requirements. Under the Basel II requirements, banks – in addition to quantifying credit, market and operational risk – must develop internal models for the calculation of their solvency requirements. The main objective of the internal solvency requirement model is to ensure a balance between risk profile, risk management and risk capital.

FIH is exposed to various types of risk associated with our various business areas. The key risk types are set out below.

Introduction

Credit Risk is the potential risk of financial loss arising from the failure of a counterparty to settle its obligations – either in the form of current payments, repayment of principal or otherwise. The risk depends partly on the credit quality of the customer and the collateral provided, including its size and stability, and partly on the current cyclical scenario and its development.

Market Risk is the potential risk of financial loss on an asset or portfolio arising from changes in financial market rates and prices. Market risk is associated with pricing towards customers and FIHs own positions in bonds, shares, foreign exchange, derivatives and other financial obligations that depends on market rates and prices.

Operational Risk is the risk of financial loss arising from inadequate or failed internal processes, people and systems, or from external events, adversely affecting FIHs business or reputation and causing direct or indirect loss. All of FIHs business areas are by nature subject to operational risk.

Liquidity Risk is the risk that FIH does not have sufficient financial resources available to meet its obligations when they fall due or to undertake new business, or can secure such resources only at excessive cost.

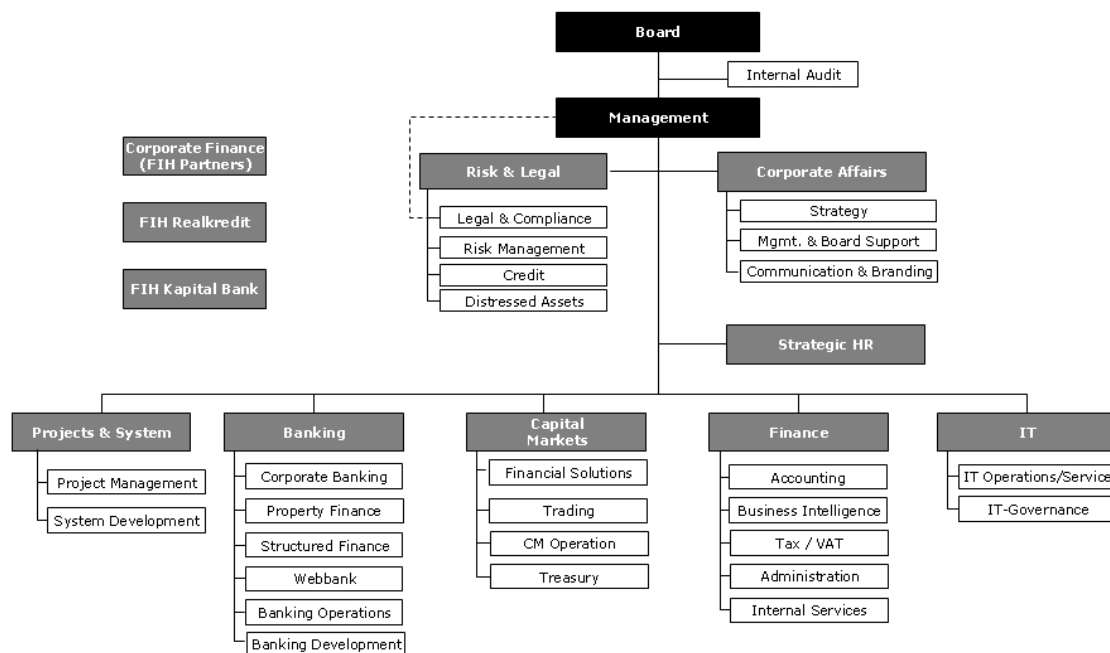


Figure 2 FIH organisation

Introduction

1.3 Compliance

Compliance assists the Management in ensuring that the Bank complies with existing laws, regulations and guidelines.

The services provided by Compliance include advice, instruction, project participation, monitoring and control.

Twice a year, Compliance submits a report to the Executive Board on significant tasks performed during the past six months and on major planned tasks for the coming six months.

1.4 Risk Management

The expertise within the development of credit risk models, market risk models, liquidity risk models and solvency requirement models is gathered in Risk Management. In addition, Risk Management focuses on supervisory rules, risk management systems, etc.

For practical purposes, Risk Management is divided into four groups: Risk, Credit Models, Risk Systems and Solvency group.

Risk

Risk has the day-to-day responsibility for maintaining market risk and value assessment models, monitoring and estimating risk parameters related to the models, and preparing relevant stress tests and back tests.

Risk monitors compliance with FIHs overall risk policies and limits for market and liquidity risks.

Instances of non-compliance with the rules of procedure for the Board of Directors and the directions to the Executive Board from the Board of Directors are reported to the Executive Board and the Board of Directors.

Risk Management also monitor that the Risk Committee's further restrictions – set out in the instructions for Capital Markets regarding market and liquidity risks – are complied with. Instances of non-compliance are reported to the Executive Board.

Credit Models

Credit Models develops and improves all models related to the measurement of credit risk. The ongoing monitoring of the use of the models and their performance is supported by continuous reporting of the credit risk. This provides excellent early warning if the models need improvements.

All the models are updated at least yearly.

Risk Systems

Risk Systems helps to ensure that the right decisions are made on the implementation of technical risk management solutions – with the main focus on market risk and liquidity risk. The department must ensure that the risk management systems comply with internal and external requirements.

Risk Systems helps to ensure a smooth transition from project to operations, e.g. by ensuring that ownership is vested in the organisation when new projects are launched.

Introduction

Solvency group

The primary objective of the Solvency Group is to ensure compliance with the Danish Executive Order on Capital Adequacy, including ensuring timely reporting of solvency requirements and capital adequacy to the Danish Financial Supervisory Authority and internally within FIH.

Solvency group is also responsible for ensuring compliance with FIHs overall risk policies and limits for operational risk. Reporting is made to the Executive Board and the Board of Directors. Solvency group also handles calculations in connection with the Danish Contingency Association for Winding up and Transfer of Banks, Savings Banks and Cooperative Banks.

1.5 Credit

The Credit organisation, which consists of the two groups Credit and Distressed Assets, has the general responsibility for FIHs credit policy and the credit quality. The responsibility covers credit approvals, credit systems and processes:

- Ongoing development and maintenance of FIHs credit policy. Presentation of the credit policy to the Board of Directors and the Executive Board.
- Review and position-taking on new exposures.
- Participation and administration of FIHs Risk Committee.
- Approval of customer ratings.
- Portfolio management and reporting.
- Sparring with account managers and, if needed, attendance at customer meetings.
- General handling of critical and weak exposures.
- Follow-up and reporting on the data quality of data entries in FIHs systems. Review and follow-up on documentation of the loan and collateral systems.
- Development of the Bank's credit systems and optimisation of credit processes.
- Credit approval of new products.
- Development of account manager credit competencies.
- Organisation of the loss provision process.

The tasks are carried out in close cooperation with the customer-oriented departments.

1.6 Account managers and risk management

The account manager covers all aspects of the business, including credit, sale and profit management. The account manager also covers the consolidated clients emanating from the relationship with the customer.

Due to various reasons, e.g. geographical or personal relations, company groups may be divided between several account managers – divided customer responsibility. The account manager responsible for the bulk of the consolidated exposure is the primary account manager. If several account managers are assigned to a group, sub-account managers are required to coordinate approval of loans, terms, prices, etc., with the primary account manager.

The obligation to provide information regarding fiscal statements and other information of significance to the rating of a customer's credit quality, customer review, updating of rating, etc. lies with the account manager.

In general, the business unit leaders of the loan departments are responsible for the individual customers and for customer portfolio follow-up.

Introduction

1.7 Reporting policy at FIH

Risk Management continuously prepares various reports on FIHs risk exposure.

Daily reports focusing on market risk, counterparty risk and liquidity risk are submitted to the Management, among other recipients, to provide an overview of:

- Equity risk
- Expected loss if the Value-at-Risk is exceeded
- Foreign exchange risk
- Income statement
- Interest rate risk
- Large exposures
- Liquidity risk
- Stress tests of interest rate, foreign exchange and equity risks
- Total accounts with financial counterparties
- Value-at-Risk

The limits and lines approved by the Board of Directors, the Executive Board and the Risk Committee, as well as the utilisation of these limits and lines, are clearly stated in the reports.

Reports focusing on credit risk are prepared regularly at least on a quarterly basis and are required to provide an overview of among other things:

- Customer ratings
- Customers defaulting on their obligations
- Customers whose ratings have been downgraded
- Customers with subjective ratings
- Individual and collective impairment
- Industrial distribution
- Number of defaults
- Stress testing

Banking performs daily follow-up on all overdrawn accounts. Credit follows up on significantly and repeatedly overdrawn accounts on an ongoing basis – and at a minimum once a week.

Descriptions of processes and limits are reviewed at least once a year. In addition, the following reports are prepared on a regular basis.

Introduction

RISK MANAGEMENT REPORTS	Daily	Monthly	Quarterly	Semi-annually	Annually
FIH Management Report	X				
Risk Management reports for Capital Markets	X				
Various Risk Management reports decomposing interest rate risk, foreign exchange risk, lines, large exposures, Value-at-Risk, stress tests, etc.	X				
Economic Capital		X			
Risk Management Report to the Board of Directors			X		
Solvency Report			X		
Operational Risk Report to the Operational Management Forum			X		
ICAAP reports			X		
Various credit reports			X		
Credit Report to the Board of Directors, the Executive Board, and Internal Audit			X		
Credit Stress-testing to the Board of Directors			X		
Operational Risk Report to the Executive Board				X	
Operational Risk Report to the Board of Directors					X

Table 1

2 Capital target

FIHs capital target is based on a solvency position that is sufficient for the Bank to continue its lending activities even during negative business cycles. The capital must be sufficient to ensure that regulatory capital requirements can be met in such situations, and it must be able to withstand large unexpected losses. This is ensured by holding more capital than is legally required.

The Bank's capital planning and objectives are adapted to the current economic situation and legislation.

FIHs focus is directed towards the following:

- Maximum consolidation
- Optimisation of the risk-weighted items, taking into account the business strategy, risk measures and the cyclical situation

The level of the individually calculated solvency requirement (adequate capital base) is lower than the strategic target, but the strategic target should be seen in light of FIHs wish to present itself at all times as a well-consolidated company.

For the purpose of building up an additional solvency buffer to absorb any coming losses in the current poor economic climate, FIH, during 2009, admitted hybrid capital of DKK 1.9 billion from the Danish government through Bank Package II. At the end of 2009, FIHs solvency is 13.8%.

2.1 Applied regulatory methods

In 2009, FIH used the standard method to calculate capital requirements for credit and market risk, respectively, and the Standard Indicator Method to calculate capital requirements for operational risk. The choice of method is expected to remain unchanged in 2010.

2.2 Base capital

FIHs capital base is calculated in accordance with Part 10 of the Danish Financial Business Act. The composition of the capital base is set out in the table below.

Capital target

Capital base – (DKK million)	FIH Group	FIH Erhvervsbank A/S	FIH Kapital Bank A/S	FIH Realkredit A/S
Share capital	514	514	900	100
Reserves	10	680	900	0
Retained earnings	7,265	7,046	119	10
Net profit for the year	29	-222	14	2
Total core capital	7,818	8,018	1,933	112
Primary deductions from core capital				
Intangible assets	-31	-31	0	0
Core capital after primary deductions	7,818	7,987	0	0
Hybrid core capital	1,900	1,900	0	0
Core capital, including hybrid core capital after primary deductions	9,687	9,887	1,933	112
Other deductions from core capital				
Half the amount of equity investments > 10%	0	0	0	0
Core capital, including hybrid core capital after deductions	9,687	9,887	1,933	112
Supplementary capital				
Subordinated loan capital	2,296	2,296	0	0
Deductions, maturities	-186	-186	0	0
Revaluation reserve transferred to supplementary capital	1	1	0	0
Total supplementary capital	2,111	2,111	0	0
Deductions from the capital base				
Half the amount of equity investments > 10%			0	0
Capital base after deductions	11,799	11,999	1,933	112

Table 2

Holdings	Debt outstanding, (DKK 1000)	Maturity
Var. % EUR	990	26-03-2013
4.80% JPY	562	31-03-2032
Var. % EUR	744	22-09-2012
Total	2,296	

Table 3

2.3 Minimum capital requirement

The new capital requirements rules, Basel II, introduced a more risk-sensitive measurement of capital requirements.

For the past eight years, FIH has been preparing for the adoption of the new rules.

Further to the introduction of the new capital requirements, FIH has decided to apply for the approval of the Danish Financial Supervisory Authority to use the Foundation Internal Ratings-Based Approach in the calculation of its capital requirement. This approach provides the opportunity for a more balanced measurement of the risk of individual exposures and individual counterparties than has been allowed under the previous rules.

For the present, the process in relation to the Danish Financial Supervisory Authority has been put on hold; probably until the ownership of FIH has been clarified. FIH is prepared for the transition to the Foundation Internal Ratings-Based Approach and expects to be able to obtain the Danish Financial

Capital target

Supervisory Authority's approval as an independent bank, as the Financial Supervisory Authority has reviewed FIHs models.

The effect on FIHs solvency ratio of adopting the Foundation Internal Ratings-Based Approach is assessed to be limited, based primarily on the portfolio allocation of the Bank's exposures and collateral received.

Over the coming years, FIH will, therefore, be working to obtain the approval of the Danish Financial Supervisory Authority to use the Advanced Internal Ratings-Based Approach under the new capital requirements, the aim being to provide a lower and, at the same time, a more true and fair view of the capital requirement. The Advanced Internal Ratings-Based Approach provides the opportunity for an even more balanced measurement of the credit risk of individual exposures. It is FIHs view that the implementation of A-IRB will have a positive effect of approximately 200 basis points on the solvency ratio.

Overall, the capital adequacy requirements are comprised of three pillars.

Pillar 1 is the minimum capital adequacy requirement, covering operational risk, credit risk and market risk. The minimum capital adequacy requirement is defined as 8 per cent of the risk-weighted assets, calculated using the methods applied by the institution for operational, credit, and market risk, respectively.

As part of its preparations for the Internal Ratings-Based Approach in individual areas, FIH has taken the following steps:

Credit risk – The new capital adequacy requirements open up the possibility for FIH to use internal models for the calculation of the capital requirement for credit risk. FIHs ratings-based model builds on the new requirements; therefore, FIH expects to be able to use the model's estimation of the probability of future default by borrowers to calculate its capital requirements.

In the longer term, the aim is to obtain approval to apply the Advanced Internal Ratings-Based Approach.

Market risk - Risk models have been further developed for internal risk management purposes. As part of this development, Value-at-Risk models and models for stress testing have been implemented since 2003, based on the recommendations of the Basel Banking Committee on the development and use of advanced internal models.

Capital target

At 31 December 2009, the total risk-weighted items of the FIH Group designed to cover credit and market risks as well as operational risks amounted to DKK 85,240 million, corresponding to a solvency ratio of 13.84 %. All subsidiaries are listed in Table 4.

FIH Group (DKK 1,000) Capital adequacy requirement (8%)	FIH Group	FIH Erhvervsbank A/S	FIH Kapital Bank A/S	FIH Realkredit A/S
Credit risks (standard method)	5,692,163	5,089,579	921,584	32,320
Central governments or central banks	115	115	0	0
Regional or local authorities	0	0	0	0
Public sector	362	362	0	0
Financial institutions	80,622	326,476	7,197	0
Corporate	4,847,786	4,319,851	777,398	25,066
Secured by mortgage on real property	212,685	165,810	42,273	4,576
Arrears or overdrafts	387,894	267,431	94,716	2,586
Other items including assets with no counterparties	162,726	9,535	0	92
Market risks (standard method)	925,097	845,456	23,435	1,952
Items subject to position risk: debt instruments	898,518	837,004	22,480	1,952
Items subject to position risk: shares	17,935	0	0	0
Total foreign exchange position	8,644	8,451	955	0
Operational risks (Standard Indicator Method)	206,494	187,938	15,231	3,324
Solvency percentage	13.8%	15.7%	16.1%	23.9%

Table 4

2.4 Adequate capital base

Under Pillar 2 of Basel II's three-pillar model, financial institutions are required to implement a process for assessing their adequate capital base in relation to their risk profile, on the one hand, and a strategy for maintaining the capital level, on the other. This is normally known as an analysis of the adequate capital base.

While the minimum capital adequacy requirement (8 per cent of risk-weighted assets) only comprises calculation of capital to cover unforeseen losses as a result of credit, market and operational risks under Pillar 1, Pillar 2 – in addition to capital to cover credit, market and operational risks – also comprises capital to cover all other significant risks at FIH.

The analysis of the adequate capital base covers all processes and measures designed to ensure appropriate identification and measurement of risks and adequate internal capital in relation to the risk profile.

The analysis of the adequate capital base is to ensure consistency between risk appetite, risk management and risk capital. It is particularly important to discern, as quickly as possible, trends that could compromise the financial institution, thereby enabling the institution to take the necessary measures. Thus the introduction of the analysis of the adequate capital base serves the interests of internal as well as external parties.

FIH is required to determine its adequate capital base, based on FIHs special conditions and risk profile. The adequate capital base differs from the solvency requirement that is continuously calculated and

Capital target

submitted to the Danish Financial Supervisory Authority (FSA) in that FIH defines its adequate capital base.

In order to determine its adequate capital base, FIH must take an active position on e.g. the Bank's earnings, growth and risk profile.

FIH's determination of adequate capital is based *inter alia* on models for economic capital, extensive stress testing of significant risk areas, a support model for internal ratings, a review of capital plans and cash resources.

FIH has been working explicitly with the determination of the adequate capital base since 2004. In 2008, the determination of adequate capital became even more extensive – not least in view of the tightening of requirements resulting from the introduction of Basel II.

Each quarter, an internal report is prepared with a presentation of the adequate capital base/solvency requirement based on current and future activities and in compliance with the general solvency requirements of the Danish Financial Business Act.

The report is submitted to the Executive Board and approved by the Board of Directors quarterly. The approved solvency requirement is reported on a quarterly basis to the Danish Financial Supervisory Authority.

Pursuant to the new rules issued by the Danish FSA, FIH is under a duty to disclose its solvency requirement each quarter. The methodology of the ICAAP must be published once a year.

The responsibility for preparing the report rests with Risk Management, but each of the risks dealt with by the report has a risk owner assigned to it who is responsible for ensuring that the risk picture is correctly described and that the allocated capital is adequate. Physical sign-off in the ICAAP report is provided by the heads of the departments that are risk owners.

Capital target

The following table provides an overview of risks and the associated risk owners:

Risk type	Department	Responsible for sign-off
Economic capital		
Credit risk	Risk Management/Credit Models	Head of Credit Models
Market risk	Risk Management/Market Risk	Head of Risk Management
Operational risk	Risk Management/Basel II	Head of Solvency
Model risk	Risk Management	Head of Credit Models
Other risks		
Concentration risk	Credit Models	Head of Credit Models
Control risk	Risk Management	Head of Risk Management
Earnings risk	Capital Markets and Banking	Heads of CM, Banking
Growth conditions	CM Treasury Funding	Head of CM Treasury Funding
Liquidity risk	CM Treasury Funding	Head of CM Treasury Funding
New business areas	Strategy	Head of Strategy
Group risk	Strategy	Head of Strategy
Reputational risk	Compliance/Marketing	Head of Compliance
Settlement risk	Capital Markets Operations	Head of CMO
Strategy risk	Strategy	Head of Strategy
Stress testing		
Credit risk stress	Risk Management/Credit Models	Head of Credit Models
Market risk stress	Risk Management/Market Risk	Head of Market Risk
Operational risk stress	Risk Management/Basel II	Head of Solvency
Earnings risk stress	Capital Markets and Banking	Head of CM, Banking
Overall sign-off	Risk & Legal, Management	Head of Risk & Legal Managing Director, CEO

Table 5

The report separately discusses the following topics:

- Business cycle movements
- Concentration risk, collateral
- Concentration risk, sector
- Concentration risk, single-name
- Control risk
- Credit risk
- Credit risk stress testing
- Dividend policy stress testing
- Earnings risk
- Earnings risk stress testing
- Economic capital model uncertainty
- Equity risk stress testing
- Foreign exchange risk stress testing
- Growth conditions
- ICAAP support model stress testing
- Interest rate risk stress testing
- Internal processes
- Large exposures
- Liquidity risk
- Liquidity risk stress testing
- Market risk stress testing
- New business areas
- Operational risk
- Operational risk stress testing
- Overall group risk
- Reputational risk
- Risks associated with new business
- Settlement risk
- Strategic risk
- Unlisted shares – add on to general credit risk
- Value at Risk stress testing

2.5 Methodology

On the 18th of January 2010 the Danish FSA issued a set of guidelines and interpretation of the ICAAP process. The internal capital adequate assessment process in FIH uses those guidelines as benchmark. If there is a gap between the capital charges in the ICAAP and in the guidelines the gap is closed by adding the amount to the ICAAP percentage.

FIH will in the coming period conduct a further analysis of the FSA guidelines in order to establish if the guidelines should result in an add on to FIHs own solvency analysis.

The methodology, as described in this section, is not applicable for FIH Realkredit A/S. FIH Realkredit A/S consists of a run-off portfolio with limited maturity and minimal risks. The methodology used for FIH Realkredit A/S is an add-on method which start out with the minimum capital requirement of 8% and adds on capital charges following the guidelines from the Danish FSA.

FIH has been working explicitly with the determination of the adequate capital base since 2004. Each quarter, an internal report is prepared with a presentation of the adequate capital base/solvency requirement. The report is submitted to the Executive Board and the Board of Directors quarterly. The Board of Directors approves the ICAAP results. In this process, the Risk & Legal department challenges the quantification of risk by the risk owner.

Each risk has an appointed risk owner who signs off that the risk in question is adequately assessed and analysed. The risk owner is responsible for describing the risk and its implications for FIHs solvency, in cooperation with FIHs Risk & Legal department.

FIH has developed an economic capital model. Within this model credit risk, market risk and operational risk have been measured since 2005, at a confidence level of 99.97%.

The Internal Capital Adequacy Assessment Process (ICAAP) uses several building blocks to determine the adequate capital for FIH. The basis for the calculation of adequate capital is FIHs economic capital model. The advanced models make it possible to calculate a unified measure of risk across credit risk, market risk and operational risk. The determination of economic capital is made in strict accordance with the fundamental principles of the most advanced methods in the Capital Requirements Directive (CRD). The economic capital models do not incorporate any diversification benefits or correlation structures other than those present in the CRD.

Some risk types are poorly captured in quantitative models and therefore expert opinions are used to manage those risks. The overall level of confidence corresponds to 99.97%.

In order to capture future risk elements, extensive stress testing is performed on a regular basis. Stress tests are divided into the 3 major contributors to the overall risk: credit, market and operational risk.

The credit risk stress tests perform single-factor shocks corresponding to the largest movements since 1993. The corresponding PD levels are calculated on the basis of these shocks. The stressed PDs are entered into FIHs own economic capital model and the new capital requirement is assessed. The credit risk mitigants e.g. financial or real estate collateral is also stressed in economics capital contents. The types of credit risk stress testing are listed in the section Stress test of the credit portfolio.

The stress tests range from interest rate increases over real estate prices to energy consumption prices. A combination of stress scenarios is also calculated. Market risk stress tests are performed for interest rate risk, currency risk, equity risk and expected shortfall. A historical view of changes is created and the

Capital target

largest movements within a range of years are identified for interest rate risk, currency risk and equity risk. The chosen movements are deployed on FIHs existing portfolio in order to capture any uncovered risk.

Furthermore, a single probability distribution of extreme events is calculated to assess the expected total loss FIH would occur if the VaR limit was exceeded. Additional stress tests for liquidity, earnings and business cycle movements are performed.

2.5.1 Specification of adequate capital

Risk Type (DKK million)	FIH Group	FIH Erhvervsbank A/S	FIH Kapital Bank A/S	FIH Realkredit A/S
Credit Risk	7,204	6,287	1,041	32,323
Market Risk	466	423	37	1,952
Operational Risk	400	399	1	3,325
Other risk contributors	321	339	75	0
Total	8,391	7,448	1,154	37,600
ICAAP Result	9.8%	9.7%	9.6%	8%

Table 6

The specification of the adequate capital is broken down by key areas. The credit risk segment contains the following items:

- Economic capital for credit risk
- Economic capital uncertainty
- Add on for unlisted shares to general credit risk
- Concentration risk
- Collateral risk
- Business cycle movements
- Credit risk stress
- Credit risk add on from the FSA guidelines

The market risk segment contains the capital required for market risk. The operational risk segment contains the operational risk Value at risk model output.

The other segment contains the following:

- Earnings risk
- Growth conditions
- Liquidity risk
- Reputation risk
- Settlement risk
- Earnings risk from the FSA guidelines
- Growth conditions from the FSA guidelines
- Operational risk from the FSA guidelines

FIH Realkredit A/S has its adequate capital and solvency requirement specified by paragraph 124, section 2, in *Lov om finansiel virksomhed*.

The Executive Management assesses the level of the solvency requirement to the institution's risk profile. During this assessment non-model driven add-ons might be included in the solvency requirement.

2.6 Market Discipline

Pillar 3 sets out requirements for financial institutions to disclose more detailed information on risks, capital structure, capital adequacy, risk management, etc. The objective of the requirements under Pillar 3 is to create more transparency. Accordingly, there are clear expectations that market discipline will be strengthened.

Since 2005, FIH has been analysing the need for changes in the financial statements, etc. This report is a result of these analyses.

Capital target

2.7 Regulatory use of collateral

In terms of credit risk reduction techniques, FIH has decided to use the extended method, cf. Executive Order on Capital Adequacy. Thus, financial collateral is set off against the calculation of capital requirements and the adequate capital base, respectively, and the effects of guarantees are recognised by substituting the counterparty's risk weight for the guarantor's risk weight. FIH does not use credit derivatives in connection.

Collateral used for regulatory capital (DKK million)	Guarantees	Financial volatility- adjusted collateral
Central governments or central banks	0	5,914
Regional or local authorities	0	0
Public sector	0	0
Financial institutions	0	0
Companies, etc.	0	6,178
Secured by collateral on real estate	0	97
Arrears or overdrafts	0	27
Total	0	12,218

Table 7

For regulatory capital purposes, only guarantees provided by banks are recognised. With a few exceptions, guarantees are provided by Danish banks. Guarantees are accepted subject to an individual assessment of the guarantor and approval of a guarantee line for the guarantor.

To the limited extent that FIH establishes exposures for which significant importance is attached to the value of securities deposited, the Bank requires diversification of securities issuers; moreover, the market values of the securities must exceed the value of the loan and the Bank must have access to compulsory sale of securities if the market value of the securities is falling.

Requirements in terms of excess cover are matched to the type of security, so as to ensure that the excess cover is higher in case of share collateral than in case of bond collateral.

Only securities listed on recognised securities exchanges are accepted as collateral.

3 Credit risk

3.1 Credit organisation

The Credit organisation's standard staffing level has been increased during the last couple of years.

The Credit organisation consists of two groups, Credit and Distressed Assets. The Credit organisation is part of "Risk & Legal".

Credit is responsible for seeing to it that FIH complies with its credit policy, thereby ensuring that exposures are processed and subject to continuous follow-up in a reliable and satisfactory manner. Furthermore, Credit has the responsibility for credit approvals, credit systems and processes.

Distressed Assets is responsible for ensuring follow-up and handling of the Bank's non-performing exposures in close cooperation with the Bank's account managers.

Credit is independent of FIHs lending activities. However, Credit is in continuous contact with the lending departments to ensure knowledge of the credit policy and ensure that the need for training and adjustment of business processes, etc., is identified.

3.2 Credit policy

FIHs credit policy and credit-granting rules are set out in the Bank's Credit Handbook. The Credit Handbook is available to all FIH employees.

The Credit Handbook is maintained by Credit and is updated continuously.

As mentioned above, the overall credit policy is assessed and approved by the Board of Directors once a year.

3.2.1 Target group and products

FIH caters to financially healthy, well-run companies within the following target groups:

- SME and Corporate Banking
- Property Finance
- Structured Finance

FIH primarily provides financing solutions in the form of loans, credits and guarantees as well as financial products.

FIHs business areas do not include

- Financing of primary trades, such as agriculture and fisheries
- Financing of ships, aircraft, and IT businesses
- Financing of companies in the start-up phase or companies dependent on emerging products and/or markets

FIH may, in exceptional cases, approve and accept exposures that are not normally part of the day-to-day business; these exposures are incurred as elective options and need to be justified. This also applies to development and contracting businesses – areas in which FIH may selectively choose customers.

3.2.2 Financial transactions

FIH offers financial products for liability management of the interest-bearing debt of customers.

To the extent that FIH offers financial products for speculative purposes, stop-loss agreements must be concluded and the market value of the transactions must be followed on a daily basis.

3.2.3 Size of exposures

FIH generally does not wish to enter into lasting exposures with an individual customer/group exceeding DKK 750-1,000 million, equivalent to approx. 10% of FIHs capital base. Furthermore, FIH does not wish the lasting unsecured exposure of an individual customer/group to exceed 5% of FIHs capital base

The current limits for risks and exposures took effect in Q1 2009 and apply to exposures that are subsequently extended or established.

However, in connection with the structuring of exposures, typically further to acquisitions and structured finance, individual exposures may be required temporarily to exceed the internal target during the establishment and structuring phases and until the subsequent disposal or syndication takes place.

3.2.4 Portfolio limits

FIH aims to spread its lending activities across sectors, business areas and purposes.

In order to avoid unwanted concentration risks, FIH continually monitors the development in the Bank's exposures, broken down by sector. The Bank also closely monitors the development in the distribution of exposures across FIHs three lending areas: Corporate Banking, Property Finance and Structured Finance.

FIH aims to ensure a balanced distribution of exposures so that loans granted by Corporate Banking always account for at least 50% of FIHs total loans. The aim for loans granted by Structured Finance and Property Finance is that it should account for 20%, respectively 30%, of FIHs total loans.

Credit risk

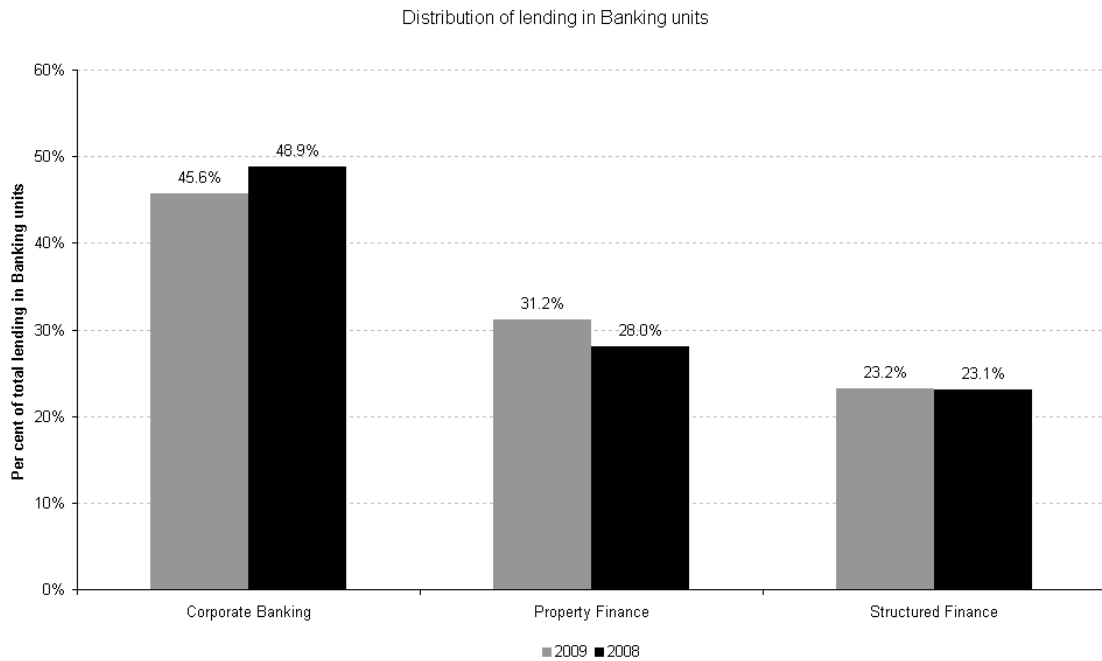


Figure 3

Currently, the allocation of exposures does not match the aims of a diversified portfolio. The reason for this is that the amortization of the exposures in Corporate Banking has exceeded the amortization of the exposures in Structured Finance and Property Finance in 2009.

Under the Danish Financial Business Act, the sum of exposures accounting for 10% or more of the capital base may not, in total, exceed 800% of the capital base. However, FIH does not want the sum of these exposures to exceed 100% of its capital base.

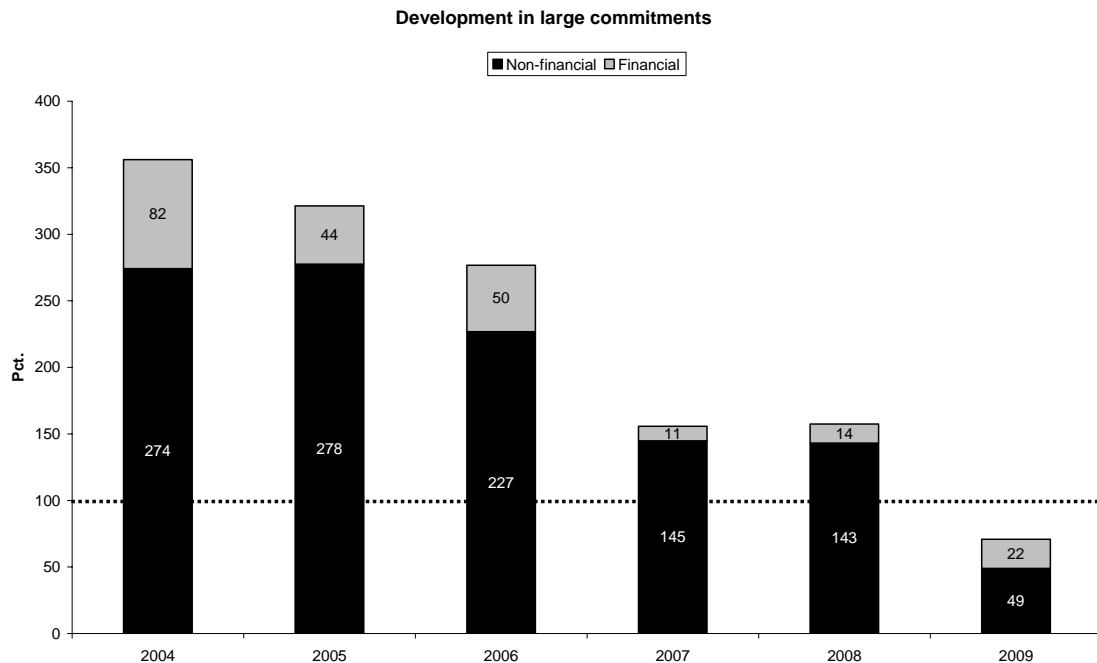


Figure 4

Credit risk

The large commitments have decreased in a satisfactory way the last years and are now as planned below 100. The current level, for all Danish institutions¹, is 90% which is the average end 2008.

3.3 Exposure approvals

All exposures must be approved by at least two employees (the recommender and approver).

Depending on the size of the exposure, loans may be approved by an account manager and a head of department. Large loans are approved by the Risk Committee, the Credit Committee or the Board of Directors depending on the size of the exposure, the collateral provided and rating.

- Branch Manager
 - Up to DKK 15 million depending on customer rating and security value
 - Additional approval authority DKK 2 million
- Credit
 - Up to DKK 50 million depending on customer rating and security value
 - Additional approval authority DKK 25 million
- Risk Committee
 - Up to DKK 200 million
 - Additional approval authority DKK 75 million

Approvals which lie outside the above structure are handled by the Board of Directors. Allocation of approval authority is subject to an assessment of needs and skills.

Responsibility for approval authority is vested in Credit, and individual authorities are issued by the Executive Board.

3.4 Lending conditions

In general, credit facilities offered by FIH are established as uncommitted facilities, subject to annual renegotiation. That way, FIH is able to adjust terms and conditions for established credit facilities to changes in the customer's credit quality. To the extent that committed facilities are established, FIH normally requires the customer to provide covenants.

3.5 Exposure reviews

FIH continuously conducts follow-up on exposures via credit risk reporting. The follow-up ensures that the Board of Directors, the Executive Board, the Risk Committee and the Credit organisation are up to date on the most significant exposures.

¹ "Vejledning om tilstrækkelig basiskapital og solvensbehov for pengeinstitutter", 18. januar 2010, "5.3 Store engagementer", Finanstilsynet

Credit risk

The principles for the follow-up and reporting are:

- Exposures exceeding DKK 100 million on a consolidated basis are presented to the Board of Directors and the Risk Committee at least once a year.
- Facilities with short commitment periods are renegotiated once a year.
- Committed exposures are reviewed at least yearly and covenants are monitored on an ongoing basis.
- A programme of action is planned for the weak exposures.
- Each quarter, the Credit organisation presents a thorough credit risk report to the Board of Directors and the Executive Board.

Twice a year, exposure reviews are conducted with the participation of the Executive Board, Credit, Internal Audit and Banking. The following exposures are reviewed:

- Exposures exceeding DKK 10 million which are subject to impairment
- Exposures less than DKK 10 million which are subject to impairment exceeding DKK 5 million
- Week exposures exceeding DKK 15 million
- Selected large exposures
- Exposures with rating drops.

The exposure reviews normally comprise at least two-thirds of the loan portfolio.

In addition, reviews of selected segments of the Bank's lending portfolio are conducted on an ongoing basis and as required.

3.6 Collateral

FIH generally wants the risk of customer exposures to be secured in the best possible manner, through collateral and/or covenants. When possible, first priority pledges are established in assets financed by FIH. Furthermore, FIH normally requires the customer to contribute adequate funds.

For some types of collateral, the market value is the result of public listing or similar while FIH has to assess the market value of other types of collateral internally. The collateral system enables FIH to assess the current collateral value and to calculate the development in the collateral value under different assumptions. These assessments and calculations are crucial e.g. for the overview and management of FIH, reporting, solvency requirement calculations and compliance with stricter requirements in terms of publication of risk profiles, etc.

All types of collateral under each exposure are reviewed at least once a year to ensure that the collateral still exists and its scope has not changed, and with a view to revaluation.

In case of changes in the scope and/or value of collateral, these changes are documented by registrations in the collateral system. As far as general collateral is concerned, changes are recorded through changes in the value and, if needed, the description of the collateral (in case of significant changes).

For exposures with an increased risk of breach of contract or default, or exposures in breach of contract or in default, the value of collateral must be revalued at least twice a year.

If, in the period between annual exposure reviews, significant changes in value are observed (fluctuations of more than 10 per cent) for some of the collateral received, this collateral must be revalued. If the significant changes in value are of a general nature and applicable to a broad range of collateral, Credit shall be notified accordingly to make a specific assessment as to whether or not general corrections will be required.

Credit risk

The most important types of collateral are mortgages secured on real estate and/or machinery and other operating assets. Lease assets and securities, along with cash deposits, are also important and commonly used as collateral with a certain volume.

FIH calculates the security value of all collateral as follows:

Market value less Haircut less Senior Liability/Debt = the value of FIHs collateral.

Haircuts:

- Listed stocks
 - 20%- 50%
- Listed bonds
 - 10%-50%
- Production equipment
 - 35%-50%
- Residential properties
 - 20%-30%
- Commercial real estate
 - 30%-40%
- Industrial properties
 - 35%-50%

During 2009 the collateral coverage has increased for the worst exposures:

Rating	2009			2008		
	Exposure	Collateral value	Average secured part	Exposure	Collateral value	Average secured part
D	4,493	3,525	78%	2,201	935	42%
0	156	132	85%	160	50	31%
1	1,983	1,538	78%	688	480	70%
2	1,178	505	43%	669	393	59%
3	4,730	2,036	43%	2,278	1,611	71%
4	7,918	4,590	58%	3,845	3,134	82%
5	8,431	5,184	61%	9,924	7,111	72%
6	13,041	6,185	47%	14,351	7,192	50%
7	10,771	5,953	55%	21,742	8,550	39%
8	12,932	6,184	48%	13,111	5,052	39%
9	4,323	1,745	40%	4,663	1,866	40%
10	2,189	444	20%	4,902	1,095	22%
11	933	308	33%	2,220	343	15%
12	1,602	152	9%	487	57	12%
13	1,505	6	0%	1,549	6	0%
In process	921	12	1%	1,051	65	6%
Total	77,106	38,501	50%	83,840	37,940	45%

Table 8

All customers with a rating of 13 are covered by a full government guarantee. Covenants are widely used within structured finance and are not reflected in the above tables. The value of guarantees and letters of intent etc. is not included either. The main collateral type is real property where FIH typically have first preferred mortgage.

As can be seen from the table above, FIH has increased the averaged secured part of the exposures during 2009. In general, exposures rated D, 1 and 2 have a high level of security.

3.7 Impairments

FIH conducts an individual review of all loans. The objective is to assess whether events have occurred that negatively impact the value of the loan asset, causing FIH to no longer expect to recover the full carrying amount of the loan.

In case of objective evidence of impairment of the loan, impairment is recorded equivalent to the difference between the carrying amount of the loan and the present value of expected future payments, proceeds from collateral and, possibly, dividends.

Impairment is recorded for individually assessed loans and collectively assessed loans.

The accounting definitions of non-performing claims and impaired claims comply with the sections 51-54 of Executive Order on the Presentation of Financial Statements by Credit Institutions and Investment Firms etc.

2009 were in many cases an extreme year financially. This is also shown in the impairments and recorded losses which were high in the year.

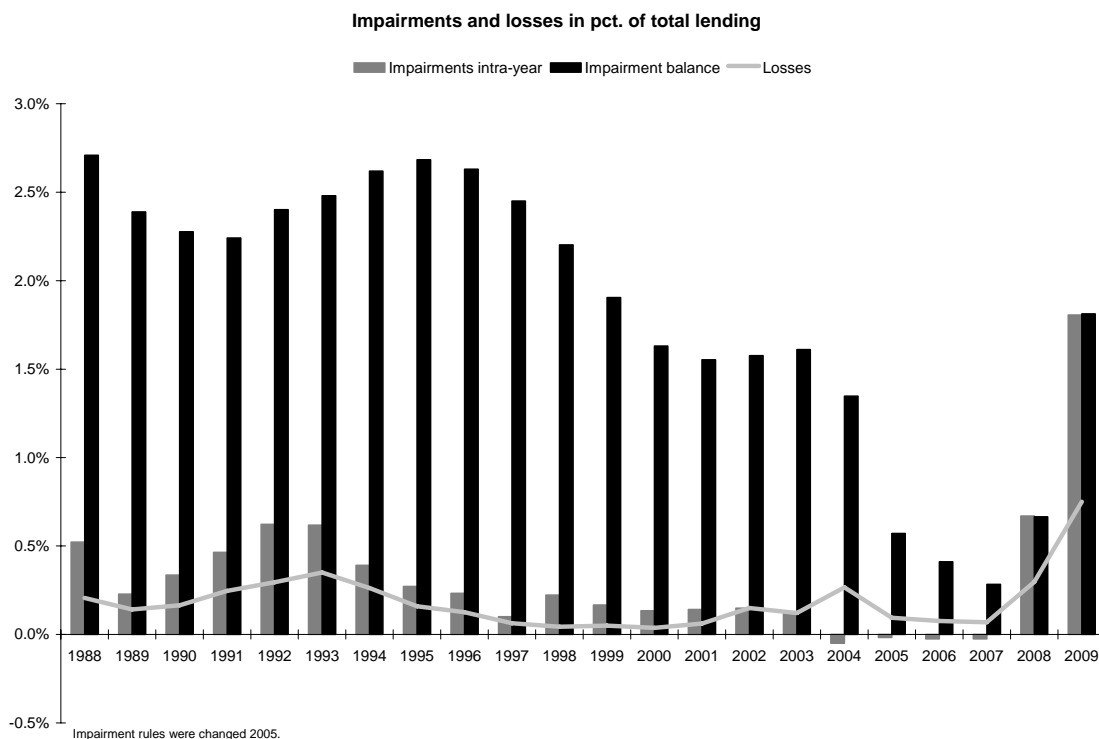


Figure 5

3.7.1 Group impairments

The model for group impairments uses a ratings-based approach. This approach uses each rating grade as a group and excludes customers with individual impairments. In the calculation of group impairments, a number of parameters, such as probability of default (PD) and loss-given-default (LGD), are used in an adjusted manner to reflect the modified duration of the loans.

If a customer has been downgraded since the origination of the loan, this could give rise to a group impairment loss. Any rating upgrades are not included, so the model makes a gross calculation. In the calculation, future cash flows are discounted and compared with the booked value of each loan in each group.

3.8 Rating models

Rating models are used to estimate the probabilities of default. The PDs are based on history back to 1998. PDs are used as integral parts in various areas like

- Credit approval process
- Indications of prices
- Monitoring and reporting
- Calculation of risk-weighted assets
- Calculation of economic capital

The rating scale consists of 15 grades, including 1 default grade. Defaulted customers have grade D while non-defaulted are rated 0-13, with 13 as the best grade. Only customers covered by full government (Danish or similar) guarantees can get a rating of 13. The estimated PD represents the long-term average of yearly default rates. If necessary, the calculated rating may be overridden by a subjective rating after approval.

Exposures with customers rated 0 – 3, both inclusive, are called weak exposures.

The definition of default is:

A default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place.

- We consider that the obligor is unlikely to pay its credit obligations to us in full, without recourse by the Bank to actions such as realising security (if held).
- The obligor is past due more than 90 days on any material credit obligation to us. Overdrafts will be considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than current outstanding.

Rating grade 7 to 13 is investment grade, while rating 0 to 6 is speculative grade as defined by the external credit assessment institutions. An indicative mapping between our internal ratings and the ratings used by external credit assessment institutions is shown in table 9.

	Internal rating	Pd range	Moody's	Standard & Poor's	Fitch	DBRS Limited
Investment grade	13	0.00%	Aaa - Aa3	AAA - AA-	AAA - AA-	AAA – AA (low)
	12	0.03%-0.11%				
	11	0.11%-0.17%	A1 - A3	A+ - A-	A+ - A-	A (high) – A (low)
	10	0.17%-0.26%				
	9	0.26%-0.41%	Baa1 - Baa3	BBB+ - BBB-	BBB+ - BBB-	BBB (high) – BBB (low)
	8	0.41%-0.64%				
7	0.64%-0.99%					
Speculative grade	6	0.99%-1.54%	Ba1 - Ba3	BB+ - BB-	BB+ - BB-	BB (high) – BB (low)
	5	1.54%-2.40%				
	4	2.40%-3.73%				
	3	3.73%-5.80%	B1 - B3	B+ - B-	B+ - B-	B (high) – B (low)
	2	5.80%-9.01%				
	1	9.01%-31%				
	0	31%-99%	Caa1 - C	CCC/C	CCC TO C	CCC

Table 9

The PD range for each rating is fixed. This means that in a boom the portfolio will have more customers with high ratings than in a recession.

Credit risk

All corporate commitments are rated. Financial institutions, sovereigns and personal customers are not rated. All ratings are made by the account manager but each rating must be approved by the Credit department.

The rating models cover all industry segments. A rating consists of a number of financial key ratios combined with other quantitative factors as well as subjective assessments. Each rating must be updated at least yearly and in case of events that could affect the rating.

3.8.1 Validation

FIHs rating models are validated and recalibrated at least yearly. This task is carried out by a unit independent of the credit process and the business. The calibration ensures that the models constantly reflect the current economic environment. The validation consists of a qualitative and a quantitative validation. The quantitative validation consists of several back testing and benchmarking procedures.

The validation checks

- whether the models are able to differentiate bad customers from good ones
- whether the PD estimates are valid and how stable the models are
- the models' rank order abilities
- the data quality
- the use of the models

External data are used for benchmarking.

Figure 6 shows that in 2009 the PDs have underestimated the realised probability of default. The recalibration will handle this. Over the years, the forecasted and realised default rates are, however, quite similar. The dots in the figure represent different rating grades with rating 0 in the top-right corner.

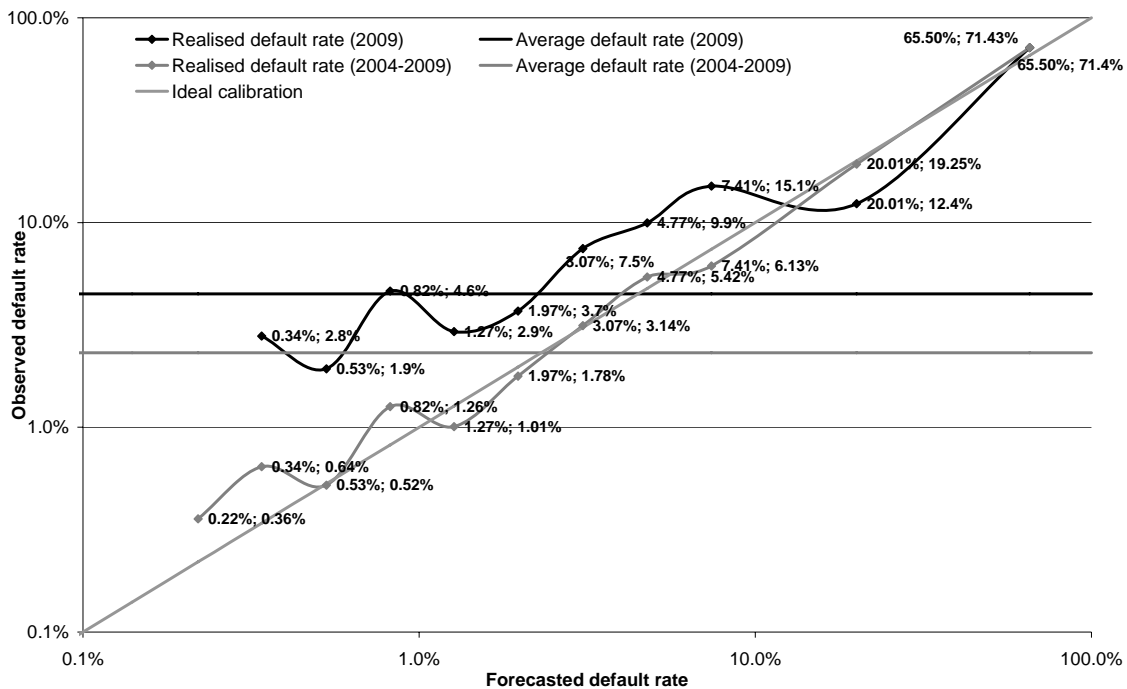


Figure 6

3.9 Overview of Credit Risk

3.9.1 Rating distribution

The rating distribution is evened out during 2009. The most common ratings are 6-8. The amount in default has doubled in the past year.

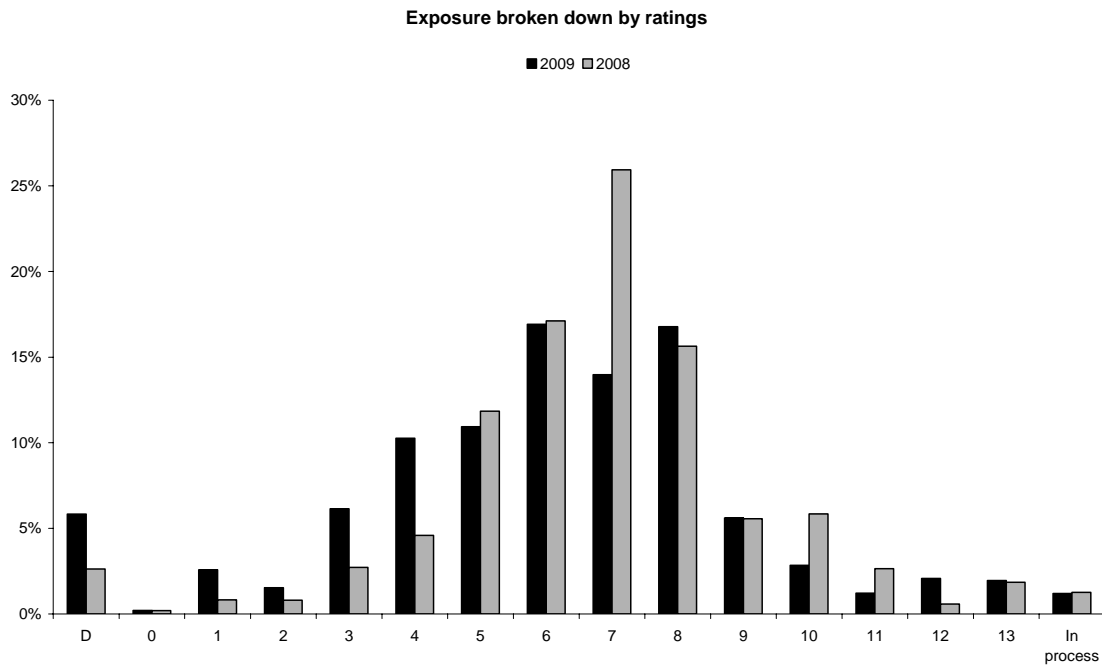


Figure 7

3.9.2 Arrears

Figure 8 shows the development of total arrears. Despite a peak in the arrears in October the arrears are less end-year than in the beginning of 2009.

Credit risk

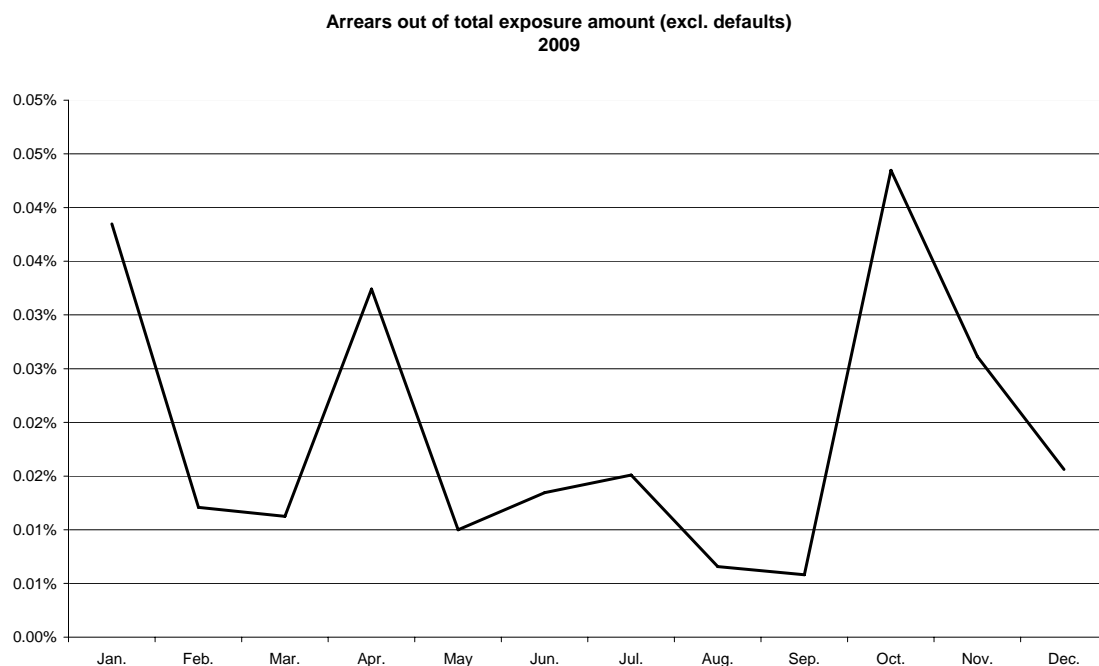


Figure 8

There has been a clear trend towards longer arrears during 2009. At the beginning of 2009, almost all arrears were less than 30 days. At end-2009, 73 per cent of the arrears were more than 60 days.

Arrears	End 2009
Less than 30 days	23%
30 to 60 days	3%
More than 60 days	73%

Table 10

3.9.3 Probability of default

The average credit quality measured by the PDs declined during 2009. The exposure-weighted PD went from 1.43% to 2.03% during 2009.

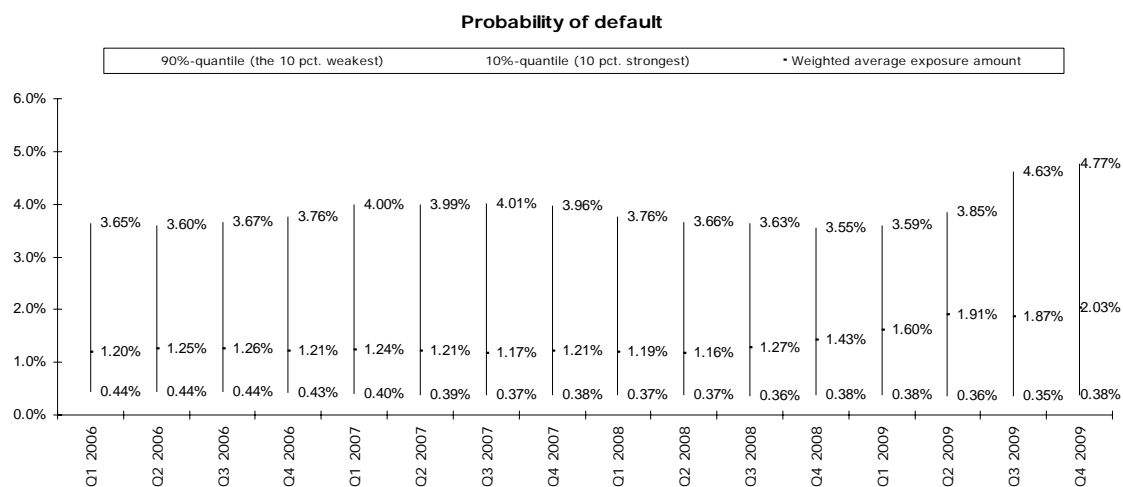


Figure 9

Credit risk

The number of defaults has followed the economic cycle and increased significantly in 2009:

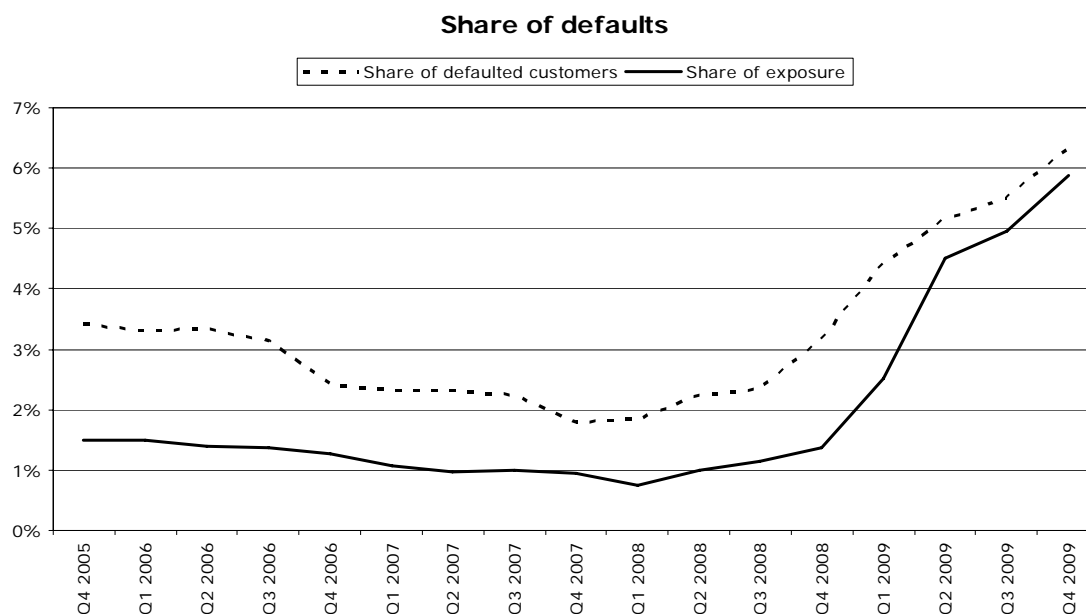


Figure 10

3.9.4 Distribution of the portfolio and impairments

Despite the fact that most of the defaulted exposure belongs to the real estate sector the recorded losses are almost entirely from manufacturing, utility services etc.

	Exposure in default	Recorded losses
Real estate	52%	5%
Manufacturing, mining and quarrying, and utility services	18%	92%
Financial and insurance	18%	1%
Trade and transport etc.	7%	1%
Construction	2%	1%
Personal	1%	1%
Other business services	1%	0%

Table 11

The portfolio broken down by segments looks like

(DKK million)	Exposure	Of which secured	Group impairments	Individual impairments
Corporate Banking	37,595	52%	41%	58%
Property Finance	23,586	78%	59%	22%
Structured Finance	15,924	3%	0%	20%
Total	77,106	50%	100%	100%

Table 12

Credit risk

The portfolio is mainly placed in real estate, manufacturing and trade and transport companies. The distribution has been stable in the past year.

	31 December 2009			31 December 2008		
	Exposure amount	Group impairment	Individual impairment	Exposure amount	Group impairment	Individual impairment
Real estate	32%	56%	22%	29%	40%	18%
Manufacturing, mining and quarrying, and utility services	30%	12%	29%	30%	36%	23%
Trade and transport etc.	18%	16%	5%	20%	15%	6%
Financial and insurance	6%	2%	37%	6%	2%	41%
Other business services	4%	1%	1%	5%	0%	0%
Construction	3%	13%	5%	3%	1%	11%
Information and communication	3%	0%	0%	2%	0%	0%
Public administration, education and health	2%	0%	0%	3%	4%	0%
Arts, entertainment and other services	1%	0%	0%	1%	1%	0%
Personal	1%	0%	1%	1%	1%	1%
Total	100%	100%	100%	100%	100%	100%

Table 13

In absolute numbers the real estate portfolio has been constant during 2009. table 13 shows that the recorded losses in the real estate portfolio has been limited. The real estate portfolio consists mainly of commercial lease properties in Denmark and residential lease properties in Germany:

Country	Purpose	Share of exposure
Denmark	Multi-purpose property	4%
	Residential lease property	5%
	Commercial lease property	36%
	Total	45%
Germany	Multi-purpose property	5%
	Residential lease property	23%
	Commercial lease property	13%
	Total	41%
Sweden	Residential lease property	1%
	Commercial lease property	8%
	Total	9%
Other	Commercial lease property	3%
	Non lease	2%
	Total	5%
Total Percent		100%

Table 14

Credit risk

Exposure broken down by industry and rating looks like:

	D	0-3	4-6	7-9	10-13	In process	Total
Arts, entertainment and other services	0%	0%	1%	0%	0%	0%	1%
Construction	0%	0%	2%	1%	0%	0%	3%
Financial and insurance	1%	0%	1%	1%	1%	1%	5%
Information and communication	0%	0%	1%	2%	0%	0%	3%
Manufacturing, mining and quarrying, and utility services	1%	4%	10%	12%	3%	0%	30%
Other business services	0%	0%	3%	1%	0%	0%	4%
Public administration, education and health	0%	0%	0%	0%	2%	0%	3%
Real estate	3%	5%	14%	11%	0%	0%	33%
Trade and transport etc.	0%	1%	7%	8%	1%	0%	18%
Total	6%	10%	38%	36%	8%	1%	100%

Table 15

In 2009, the general time to maturity of the portfolio has increased. At 31 December 2009, 59 per cent of the portfolio had more than 5 years to maturity, while the same number was 54 per cent a year ago:

	Less than 3 months	3-12 months	1-5 years	More than 5 years
Mortgage credits	0%	0%	0%	100%
Corporate bonds	0%	0%	83%	17%
Lending and leasing	5%	8%	33%	55%
Other	0%	0%	2%	98%
Total 31 December 2009	4%	7%	29%	59%
Total 31 December 2008	11%	4%	31%	54%

Table 16

All commitments except mortgage credits and leasing are renegotiated every year. The renegotiation covers all aspects of the loan including risk assessment, the size of the commitment, collateral and margins.

Credit risk

3.9.5 Regulatory requirements on credit portfolio information

Credit and dilution risk - exposure (DKK million)	Assets with no counterparties	Central government or bank	Business exposure	Institutional exposure	Public unit	Regional or local authority	Arrears or overdraft	Secured by mortgage on real estate	Total
Total value after writedowns and before any credit risk reduction	2,034	6,980	70,550	7,690	23	1,674	4,038	6,281	99,270
Average value after writedowns and before any credit risk reduction in 2009	1,818	8,975	76,099	7,213	23	1,755	3,636	6,394	105,913
Geographical distribution									
Denmark	81%	100%	88%	65%	100%	100%	100%	97%	86%
Scandinavia	7%	0%	6%	1%	0%	0%	0%	0%	4%
The rest of Europe	12%	0%	6%	32%	0%	0%	0%	2%	9%
Other	0%	0%	0%	2%	0%	0%	0%	1%	1%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%
Specified by time to maturity									
Up to and including 3 months	100%	100%	17%	61%	0%	16%	30%	3%	27%
Over 3 months and up to and including 6 months	0%	0%	1%	2%	0%	0%	3%	1%	1%
Over 6 months and up to and including 1 year	0%	0%	3%	2%	0%	0%	3%	2%	3%
Over 1 year and up to and including 5 years	0%	0%	32%	16%	0%	0%	20%	6%	26%
Over 5 years	0%	0%	46%	19%	100%	84%	45%	88%	43%
Total	100%	10%	100%	100%	100%	100%	100%	100%	100%
Distribution by sector									
Public sector	0%	0%	1%	0%	0%	100%	0%	1%	2%
Agriculture, hunting and forestry	0%	0%	0%	0%	0%	0%	0%	0%	0%
Fisheries	0%	0%	0%	0%	0%	0%	0%	0%	0%
Trade	0%	0%	14%	0%	0%	0%	6%	18%	11%
Manufacturing industries	1%	0%	33%	0%	0%	0%	17%	4%	24%
Building and construction	0%	0%	3%	0%	0%	0%	6%	1%	2%
Transport	3%	0%	9%	0%	100%	0%	0%	5%	7%
Credit and finance	66%	100%	4%	87%	0%	0%	36%	2%	21%
Property administration, purchase and sale	1%	0%	28%	0%	0%	0%	32%	63%	24%
Other	30%	0%	8%	13%	0%	0%	3%	7%	8%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

Credit risk

Movements on impaired claims as a result of value adjustments and writedowns (DKK 1,000)	Loans	Guarantee debtors
Supplementary information relating to writedowns/provisions		
Individual writedowns/provisions		
A. Accumulated writedowns/provisions at beginning of year on loans and guarantee debtors	378,326	64,641
Movements during the year		
1. Exchange rate adjustment	0	0
2. Writedowns/provisions during the year	1,005,344	235,850
3. Reversal of writedowns/provisions made in previous financial years, where there is no longer any objective indication of value impairment or the value impairment has been reduced	65,705	0
4. Other movements	-1,066	-885
5. Value adjustment of assets acquired	0	0
6. Ultimately lost (written off) previously individually written down/provided for	487,872	1,806
B. Accumulated writedowns/provisions at year-end on loans and guarantee debtors (A+1+2-3+4+5-6)	829,027	297,800
C. The sum of loans and guarantee debtors, on which individual writedowns/provisions (calculated before writedowns/provisions) have been provided	3,166,071	0
Collective writedowns/provisions		
A. Accumulated writedowns/provisions at the beginning of the year on loans and guarantee debtors	50,912	0
Movements during the year		
1. Exchange rate adjustment	0	0
2. Writedowns/provisions during the year	6,219	0
3. Reversal of writedowns/provisions made in previous financial years, where there is no longer any objective indication of value impairment or the value impairment has been reduced	0	0
4. Other movements	0	0
B. Accumulated writedowns/provisions at year-end on loans and guarantee debtors (A+1+2-3+4)	57,131	0
C. The sum of loans and guarantee debtors, on which collective writedowns/provisions (calculated before writedowns/provisions) have been provided	4,804,294	0
Writedowns/provisions on receivables from credit institutions and other items subject to credit risk		
A. Accumulated writedowns/provisions at the beginning of the year on loans and guarantee debtors	0	0
Movements during the year		
1. Exchange rate adjustment	0	0
2. Writedowns/provisions during the year	0	0
3. Reversal of writedowns/provisions made in previous financial years, where there is no longer any objective indication of value impairment or the value impairment has been reduced	0	0
4. Other movements	0	0
5. Value adjustment of assets acquired	0	0
6. Ultimately lost (written off) previously individually written down/provided for	0	0
B. Accumulated writedowns/provisions at year-end on loans and guarantee debtors (A+1+2-3+4+5-6)	0	0
C. The sum of loans and guarantee debtors, on which individual writedowns/provisions (calculated before writedowns/provisions) have been provided	0	0
Ultimately lost (written off)		
A. Ultimately lost (written off) not previously individually written down/provided for	0	0
B. Received on claims previously written off	2,756	0

Table 18

Credit risk

Non-performing and impaired claims as well as writedowns (DKK million)	Non-performing and impaired claims	Writedowns	Expensed amounts relating to writedowns
Corporate banking	1,711	682	682
Structured finance	362	218	218
Property finance	1,093	284	284
Total	3,166	1,184	1,184
Geographical distribution:			
Denmark	3,166	1,184	1,184
Total	3,166	1,184	1,184

Table 17

3.9.6 Stress test of the credit portfolio

Stress tests of the credit portfolio are conducted quarterly. The objective of the stress test is to assess the effect of different possible scenarios on the probability of default for every customer and the derived effect on the capital requirement. The horizon for the stress test is the next three years.

The stress test does not predict what will happen in the near future but shows the effect of different possible scenarios.

To obtain the effects, the models calculate the expected impact the scenarios will have on each customer's annual accounts. Using these stressed accounts the stress model estimates the stressed PDs and the stressed capital.

The scenarios used are all evaluated at least once a year and new scenarios are added if deemed necessary.

The results from the stress model are used in the Internal Capital Adequacy Assessment Process (ICAAP).

The scenarios used are

- Scenario 1: Increasing interest rates
- Scenario 2: Decreasing stock prices
- Scenario 3: Decreasing real property prices
- Scenario 4: DKK appreciates to all currencies except EUR
- Scenario 5: Increasing oil prices
- Scenario 6: All customers are downgraded
- Scenario 7: Multi-factor stress test using combinations of the above-mentioned scenarios

The macro variables behind the scenarios are derived from Danmarks Nationalbank, EcoWin, Statistics Denmark and Bloomberg.

In none of the scenarios, the stressed capital is near or falls below the required capital.

In the autumn FIH participated in a large stress test facilitated by Danmarks Nationalbank. The 3-year scenarios covered the anticipated projection of the Danish economy through an intensified financial and confidence crises in Denmark to a lengthy recession in both Denmark and abroad. The results from this stress test showed that FIH will experience negative pre-tax profits in some years with a credit loss of 2.31

Credit risk

pct of loans and guarantees in the worst case. In no cases the capital adequacy ratio was near or fell below the required level. Experiences from the exercise will be integrated in the stress tests made by FIH.

3.9.7 Credit risk concentrations

The concentration of the credit risk is measured in two areas: single-name concentration and industry concentration.

Monitoring and calculation of the concentration risk is part of the ICAAP.

The 20 largest group exposures account for less than 25 per cent of the total exposure:

	Of total exposure	Accumulated exposure
Top 5	8%	8%
Top 6-10	6%	14%
Top 11-15	5%	19%
Top 16-20	4%	23%

Table 18

The five largest industries account for less than 40 per cent of the total exposure:

3.9.8 Counterparty risk

FIH uses financial instruments in its daily transactions – either for trading purposes or for the purpose of controlling risks. In this process, the two parties to a financial contract develop potentially substantial receivables/liabilities.

Counterparty risk is the risk that the Bank's counterparty to a financial contract will not fulfil its contractual obligations.

For capital adequacy purposes, the Executive Order on Capital Adequacy defines the financial instruments to be subject to a capital charge and how to calculate the capital charge. When calculating the exposure value of the counterparty risk, FIH uses the market value method. This method calculates the value of the exposure as the sum of any positive market value of a given contract with the addition of an amount reflecting the potential development of the market value of the contract. In the amount added to the current market value, allowance is made for the remaining term and type of contract, respectively.

FIH has subjected the use of financial instruments to general approval rules and credit policies and to provisions concerning limits aimed at handling the counterparty risk involved.

As regards Corporate Customers, FIH is currently offering only unlisted financial instruments. The credit risk attached to these instruments is handled by means of OTC limits, established with or without credit support/stop-loss but with a "retention right". The "retention right" gives FIH the right to retain the customer's realised gains if a release would result in the stop-loss limit being exceeded. Limits are established before transactions are made with the customer.

FIH is also subject to financial counterparty risk in which case agreements are typically based on ISDA agreements. ISDA standards include agreement terms and conditions, including netting of payments. Netting is carried out bilaterally between the ISDA parties and is calculated in relation to the individual counterparty as the sum of potential liabilities less the sum of potential gains.

CSA agreements are also used in connection with most ISDA agreements on financial counterparties. Through CSA agreements, the credit risk is reduced by counterparties providing collateral for the amount to be paid if all transactions under the given ISDA agreement were to be terminated.

Credit risk

At 31 December 2009, the calculated exposure value was DKK 10,441 million including add-ons, cf. Executive Order on Capital Adequacy, the "Market Value method".

In addition, FIH Erhvervsbank participates in CLS (Continuous Linked Settlement), an international clearing and settlement system for foreign exchange transactions. Its objective is to minimise credit and settlement risks. The credit risk related to counterparties is eliminated as transactions are settled under the PVP principle (payment vs. payment), and the liquidity requirement is reduced as a result of net settlement.

Credit exposure, financial instruments Market value, risk (DKK million)	31 December 2009
Positive gross fair value	10,441
Netting gains	-6,185
Collateral	-1
Netted current credit exposure	4,255

Table 19

3.10 Minimum capital requirement for credit risk

In the calculation of credit exposures underlying the calculation of capital adequacy requirements and solvency requirements, the total amount of loans to customers is measured at the carrying amount. As opposed to the calculation for accounting purposes, unutilised credit approvals, guarantee commitments and offers (off-balance sheet items) are included in the basis of the calculation of the capital adequacy requirement. Lastly, exposures calculated under counterparty risks are included in the total calculation of the credit risk.

The value of off-balance sheet items is adjusted in the process of calculating risk-weighted assets and the final capital adequacy requirement under the provisions of the Danish Executive Order on Capital Adequacy.

RWA (DKK million)	FIH Group	FIH Erhvervsbank A/S	FIH Kapital Bank A/S	FIH Realkredit A/S
Assets with no counterparties	2,034	119	0	1
Central government or bank	1	1	0	0
Business exposure	60,597	53,998	9,717	313
Institutional exposure	1,007	4,080	89	0
Public unit	4	4	0	0
Regional or local authority	0	0	0	0
Arrears or overdraft ²	4,848	3,342	1	32
Secured by mortgage on real estate	2,658	2,072	528	57
Total	71,152	63,619	11,519	403

Table 20

² All exposures in default are collected in this category.

4 Market risk

Market risk is the risk of financial loss arising from adverse changes in the market value of FIHs assets, liabilities and off-balance sheet items. Market risk includes interest rate, foreign exchange, equity risk and volatility risk. FIH aims at having a limited exposure to listed equity, foreign exchange and volatility.

FIHs market risks are primarily associated with FIHs investment holdings and FIHs loans to customers, as well as Capital Markets' positions.

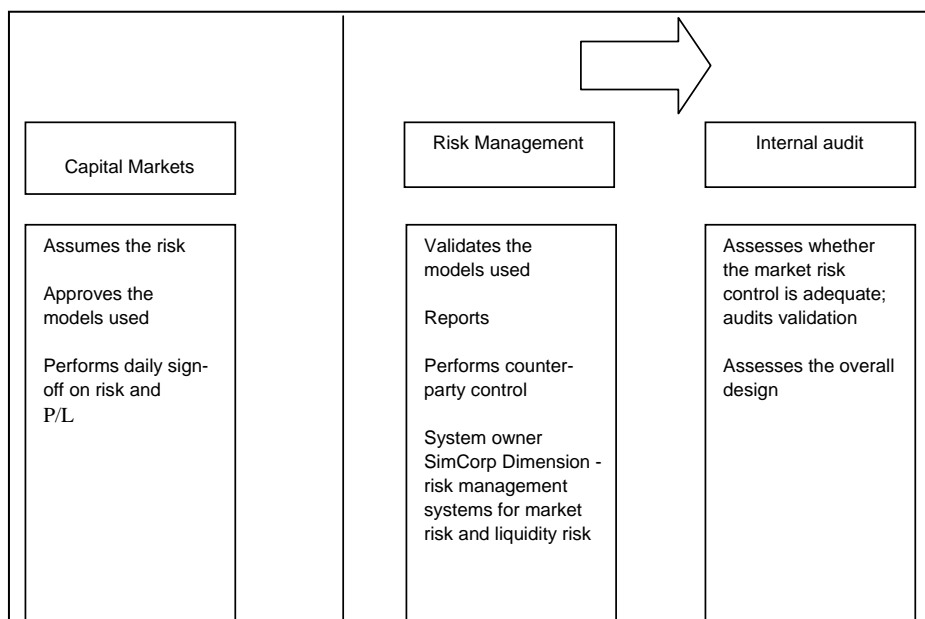


Figure 11 process for market risk

The Board of Directors determines the limits of FIHs overall risk exposure, expressed as targets for overnight and intraday exposures.

After the Board of Directors has set the overall limits, the Risk Committee sets further limitations and provides guidelines for the business units that reflect the strategic priorities for risk exposure.

Derivatives are included on a delta-equivalent basis. All new types of derivatives must be approved by the Executive Board, the Board of Directors and the Risk Committee prior to trading.

The Executive Board is in charge of implementing the market risk policy, while Risk Management is responsible for supervising risk policy compliance.

FIHs policy for market risk represents a low to moderate market risk for the Group as a whole. This is, for example, reflected by a Value-at-Risk (VaR) limit for the Group of no more than 0.50% of the capital base. End of 2009 0.50% of the capital base was equal to DKK 59 million.

The VaR is in FIH calculated as the maximum loss that FIH may be expected to suffer in a single day, at 99 percent probability.

As at further restriction, the VaR limit for the Group is set at DKK 50 million. If the VaR amount exceeds 0.25% of the capital base more than 10 times in a quarter (January-March, April-June, July-September,

Market risk

October-December), this must be stated in the subsequent Risk Management Report and the Board of Directors must actively assess the risk level.

Risk Management submits daily reports, including, among other things, all trades, day-to-day gains/losses and risk exposure. The calculation of risk exposure includes volatility and scenario-based targets, such as Value-at-Risk and stress tests based on current positions. The daily risk reports are sent to the Heads of Risk Management, Capital Markets, Risk & Legal, and the Executive Board.

Positions and utilisation of the lines and limits provided are reported to the Board of Directors as part of the quarterly risk report.

Any instances of non-compliance with limits or lines are reported to the Heads of Risk & Legal, Risk Management, Capital Markets as well as the Executive Board and the Board of Directors.

4.1 Interest rate risk

Interest rate risk is the risk of financial loss arising from changes in interest rates. A bank such as FIH is usually exposed to some interest rate risk, as the maturity of liabilities is usually shorter than the maturity of assets. Interest rate risk is associated with virtually all assets and liabilities, as well as derivatives.

In practice, FIH manages the overall interest rate risk by changing the composition of the bond portfolio and through positions in financial instruments.

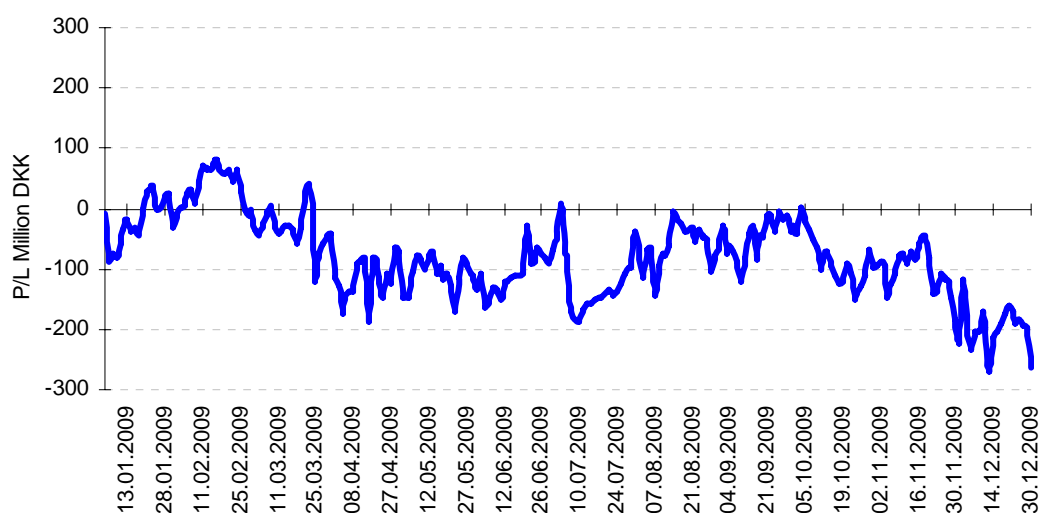
At the overall level, FIHs interest rate risk is managed, in part, by setting a target for FIHs P/L in case of a one percentage point interest rate change for all maturities (delta vectors) and, in part, by Value-at-Risk and stress-test limits. FIH also sets limits for the interest rate risk for each currency.

The interest rate risk is calculated by Risk Management for the overnight positions on a daily basis and samples are taken on a daily basis of the intraday interest rate risk.

FIH calculates the interest rate risk for the entire balance sheet - that is also for balance sheet items that are not included in the trading portfolio. Loans are included in the calculation of interest rate risk under the assumption that the repayment profile complies with the agreement. Deposits with FIH usually have a fixed maturity and a fixed interest rate. Any deposits with a fixed rate of interest are usually subsequently swapped by FIH to a floating interest rate.

Interest rate risk, calculated using the calculation method of the Danish Financial Supervisory Authority as the risk in case of a one percentage point parallel shift in the interest rate level of all currencies, amounted to a total of DKK 263 million at the end of the year.

Interest rate risk



Market risk

The increased interest rate risk end of 2009 is primarily caused by an increased position in mortgage bonds.

4.2 Foreign exchange risk

Foreign exchange risk is the risk of financial loss arising from adverse changes in foreign exchange rates. All assets and liabilities denominated in foreign currencies are included in the calculation of foreign exchange risk, including current positions, forwards, binding commitments, FX derivatives calculated using delta positions, and the market value of foreign exchange derivatives.

Most of FIHs funding is raised in foreign currencies, which are subsequently swapped to the currency in which loans are denominated.

The exchange rate risk is monitored e.g. on the basis of exchange rate indicator 1 of the Danish Financial Supervisory Authority, supplemented by limits on open positions in individual currencies and a limit on the total foreign exchange position. Exchange rate risk indicator 1 is the greater of the sum of liabilities (long positions) in foreign exchange and the sum of all receivables (short positions) in foreign exchange.

The foreign exchange risk, along with other market risks, is included in the Value-at-Risk calculations. FIH aims at having a limited foreign exchange risk. FIHs foreign exchange risk, based on Value-at-Risk for foreign exchange (calculated at a one-day horizon and 99 per cent probability) was DKK 3.7 million at the end of the year.

4.3 Equity risk

FIHs equity risk is managed using limits for total market value and limits for the market value of short positions. Equity derivatives are included at the market value of the delta-equivalent position in the underlying asset. Equity risk from listed equities, along with other market risks, is included in the Value-at-Risk calculations.

FIH aims at having a limited exposure to listed equities. Limit set by the board is DKK 200 million. End of year the portfolio of listed equities was DKK 151 million.

At year-end, the portfolio of private equities and unlisted equity holdings was DKK 1581 million. Private equities and unlisted equity holdings are not included in the trading portfolio.

Investment in private equities is valued using two methods. One method uses price indications provided by external sources believed to have extensive knowledge of the value of the equities. The other method uses generally accepted valuation models based on financial data, future expectations (budgets) and multiples.

Equities are divided into a trading portfolio and an investment portfolio. The investment portfolio comprises holdings that do not have a short-term investment horizon. The portfolio is measured using the fair value option under IAS 39 in the same manner as the trading portfolio.

Investments in associates comprise shares and other equity holdings in companies in which the Group holds a minimum of 20 per cent and a maximum of 50 per cent of the voting rights and, at the same time, exercises significant influence over the company's operational and financial management. For investments planned through holding structures, the significant influence is assessed in relation to the company ultimately acquired. On initial recognition, investments in associates are recognised at cost. Subsequently, investments in associates are measured under the equity method. The proportionate share of the companies' profits or losses, adjusted for goodwill impairment, if any, and unrealised intercompany gains and losses, is included in the item "Profit/loss on investments in associates and group enterprises".

FIH recognises unrealised gains or losses in core capital or supplementary capital if the amounts have been confirmed by FIHs external auditors. Latent gains and losses according to measurement are not recognised in core capital or supplementary capital.

Market risk

Positions in listed shares and private equities (DKK million)	31 December 2009
Trading portfolio	151
Investment portfolio (private equities)	1,581
Total	1,732
Total realised and unrealised gains during the period (DKK million)	
Unrealised capital gains	213.1
Realised capital gains	-1.4
Total	211.7

Table 21

Value-at-Risk

In addition to traditional risk targets, an overall VaR figure is calculated each day and used in the management of FIHs market risks. VaR adopts a portfolio approach in the calculation of market risks for financial assets. Thus, in the calculation of asset risk, allowance is made not only for the risk applying to the individual asset, but also for the inter-correlation of assets.

Based on historical data relating to changes in the price and co-variation of the individual transaction types, VaR indicates the maximum loss that FIH may be expected to suffer in a single day, at 99 percent probability.

In 2009, the average VaR figure was DKK 19 million. During the year, the figure fluctuated between DKK 13 million and DKK 33 million, and at year-end, the VaR figure was DKK 27 million.

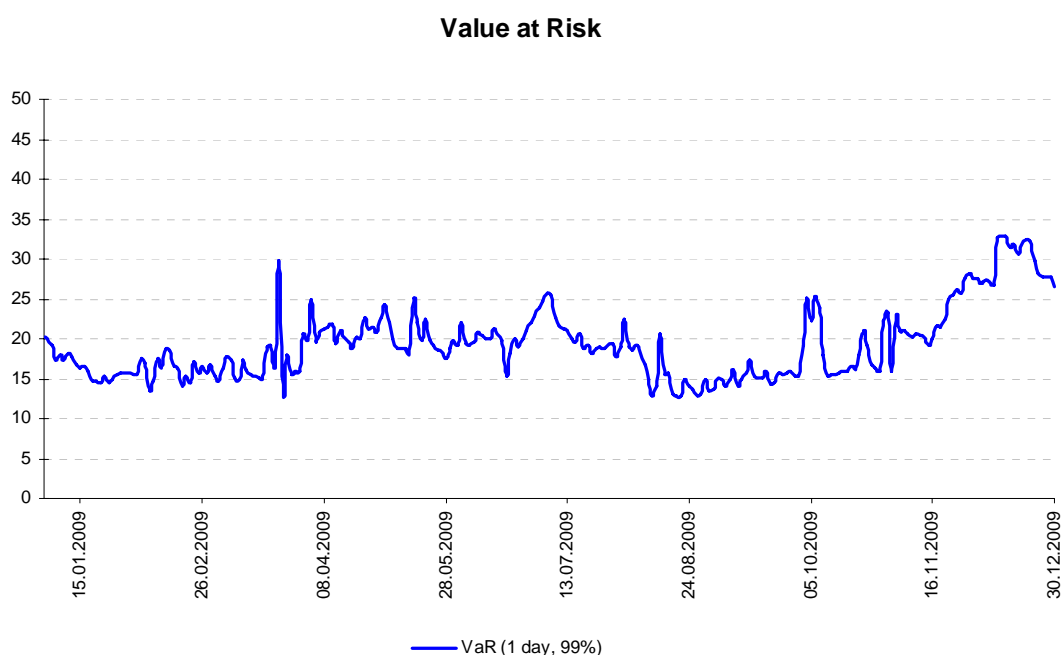


Figure 12 Development in Value-at-Risk 2009

Market risk

4.3.1 Back testing

FIH conducts daily back testing of the internal model for market risk. Back testing shows whether the loss predictions of the model match observed daily gains/losses.

Each day, FIHs VaR model calculates the maximum loss for a one-day horizon, at a confidence level of 99 per cent. The back testing compares the maximum loss with FIHs actual and hypothetical loss. The hypothetical loss is calculated by keeping FIHs positions unchanged over the day, thus disregarding losses/gains resulting from transactions entered into on the day of calculation.

As the confidence level is set at 99 per cent, the actual/hypothetical loss should exceed the calculated VaR once every 100 banking days, i.e. 2-3 times a year. In 2009, the number of instances of non-compliance was 3 and thereby at the expected level.

VaR, supplemented by an expected shortfall calculation, provides a good risk target for “normal” market events. The expected shortfall is FIHs expected loss size, given that VaR is exceeded. Year-end, the expected shortfall in FIH was DKK 49 million.

Stress testing is used to handle more “extreme” market conditions.

4.3.2 Stress testing

The Risk Committee has set up stress-test limits at Group level and for different business and product levels in Capital Markets. The Risk Management department conducts and reports stress tests for market risk on a daily basis.

Risk Management conducts stress testing based on historical events for interest rates, exchange rates and equities to show the implications of changes in interest rates, exchange rates or equity prices, equivalent to the largest observed change for a given number of years on the current market risk positions.

Risk Management also uses standard stress-test scenarios for selected areas. Under these scenarios, interest rates are changed by 0.1 percentage points, 0.5 percentage points, 1 percent point and 4 percentage points in each direction, while exchange rates are changed by 1 percentage point, 2.5 percentage points, 5 percentage points, 10 percentage points and 15 percentage points in an unfavourable direction.

Stress testing provides an important contribution to underpinning FIHs overall risk assessment and risk management. Therefore, the scenarios are reviewed regularly and modified to reflect changes in the risk profile and developments in the financial markets.

The graph below is an example of a daily stress test off FIHs interest rate risk. In the case where FIH uses data from March 2001 until presents, and identify the largest single day increase in the 1-year Danish interest rate. On the day this occurs the interest rate change for all currencies will be fixed. For each currency and each maturity on the term structure a volatility factor is calculated as the ratio between the volatility on the interest rate for any given maturity and the 1-year interest rate. For each currency and maturity the term structure is stressed with the volatility factor compounded with the historic changes in the 1-year interest rates.

Market risk



Figure 13 Interest rate risk stress

The increased interest rate stress end of 2009 is primarily caused by an increased position in mortgage bonds.

4.4 Minimum capital requirement for market risk

RWA (DKK million)	FX	Equity	Raw materials	Interest rate	Delivery risk	Total
FIH Group	109	224	0	11,231	0	11,564
FIH Erhvevsbank A/S	105	0	0	10,463	0	10,568
FIH Kapital Bank A/S	12	0	0	281	0	293
FIH Realkredit A/S	0	0	0	24	0	24

Table 22

5 Operational risk

Operational risk is the risk of financial loss arising from inadequate or failed internal processes, people and systems, or from external events, adversely affecting FIHs business or reputation and causing direct or indirect loss. All of FIHs business areas are, by nature, subject to operational risk.

FIHs Board of Directors recently adopted a more detailed operational risk policy, explicitly stating that

- The Board wishes the level of operational risk to be low to moderate
- Each business unit owns the operational risks connected with its areas of business and the overall responsibility for identifying and managing the operational risks lies with the head of the business unit
- FIH uses loss data distribution analysis, self-assessment and key risk indicators to determine its operational risk level and adequate capital to hold at a 99.97% level of confidence
- Approval of new products, processes and projects is conditional on identification and minimisation of the corresponding operational risks
- Every business area must conduct self-assessment of operational risk annually, in cooperation with Risk Management. The business area must implement measures to reduce risk in the areas identified as having high or very high operational risk
- Key Risk Indicators. Each business area must annually consider whether to set measurable Key Risk Indicators to identify and reduce operational risk.

FIH uses an internal model for estimating future operational losses. The model makes predictions about losses due to personnel incidents, failed processes, system failures and external events. Each of these loss types is treated separately. The model is based on historical data from FIHs loss database, where expected future losses are calculated.

The maximum loss at a 99.97% level of confidence, predicted by the model and based on data from 2003-2009, is DKK 400 million. This is the amount FIH considers as the adequate capital to hold for operational risk purposes.

The adequate capital can be compared to the regulatory amount of capital calculated in accordance with the Standard Indicator Method: DKK 170 million. The Standard Indicator Method is a function of net interest revenue, and since FIH does not issue loans to non-corporate customers, this method is expected to underestimate the amount of operational risk capital.

While the collection and analysis of loss data is a necessary step towards obtaining the permission to use the Advanced Measurement Approach (AMA) under the Basel II rules, it is of even greater importance to promote awareness of operational excellence. The reason is that while operational risk in the vast majority of cases is negligible compared to credit or markets risks, a few exceptional operational risks may lead to very serious losses, and the answer to this lies not in increasing the capital buffer, but in trying to prevent such losses by setting up controls and optimising processes.

The operational risk status is reported as follows:

- Quarterly report to the Operational Management Forum with a focus on and status of high-risk areas and identified operational losses
- Quarterly solvency requirement/ICAAP reports to the Executive Board and the Board of Directors
- Semi-annual detailed and comprehensive operational risk report to the Executive Board and the Risk Committee
- Annual comprehensive operational risk report to the Board of Directors.

Operational risk

5.1 Minimum capital requirement for operational risk

Risk Weighted Assets (DKK million)	Operational risk
FIH Group	2,581
FIH Erhvervsbank A/S	2,349
FIH Kapital Bank A/S	190
FIH Realkredit A/S	42

Table 23

6 Compliance

For the purposes of this report, compliance means compliance with the provisions of:

- The Danish Financial Business Act
- The Danish Securities Trading Act
- The Danish Act on Measures to Prevent Money Laundering and Financing of Terrorism
- The Danish Act on Personal Data Protection
- Marketing rules
- Consumer legislation
- as well as regulations, guidelines, etc., issued under these acts.

FIH Compliance is an independent department reporting directly to the Executive Board. The department assists the Management in ensuring compliance with applicable laws, regulations and guidelines.

The department provides advice on and instruction in the above provisions. It also participates in the Bank's projects and monitors and assesses the controls established by the Bank.

As part of this work, Compliance assesses whether the Bank's business processes, job descriptions, etc., are in compliance with Danish law, whether they are adequate and effective, and whether they are applied.

In the securities trading area, it is continuously checked that the processes and controls established to ensure compliance with Danish law are effective and adequate.

In addition, Compliance maintains a register of potential and current conflicts of interest, registers companies of which the Bank has internal knowledge, approves employee transactions in securities, etc., and assists in publishing equity research.

Anti-money laundering processes have been established in cooperation with relevant departments, and it is checked, by means of random samples, whether the procedures are complied with and are adequate to ensure that the Bank complies with current rules in the area. Moreover, instruction is provided, largely tailored to needs of the individual departments.

7 Contingency plan

A contingency plan is a plan that outlines how critical business activities can continue in the event of a man-made or natural disaster/event. Examples of such disasters could be power failure, systems failure, fire, flooding, terrorism, hacker attacks, etc.

FIHs contingency plan is continually developed.

FIH has opted for a so-called multi-centre strategy. Thus FIH, in addition to its headquarters on the Langelinie waterfront in Copenhagen, has established workplaces in other locations where critical business activities can be performed, should its headquarters or other key elements of the infrastructure fail.

Liquidity risk

The contingency plan e.g. sets out procedures for activities to be carried out and the persons to be in charge of these activities, including handling of minor operating disturbances, e.g. in software and hardware. To that end, service agreements are entered into with suppliers and partners.

To strengthen the IT Security area and processes within, IT Security has become part of IT Governance. IT Security's primary field of responsibility is BCM (Business Continuity Management), including contingency plans.

8 Liquidity risk

Liquidity risk reflects the risk of losses due to insufficient liquidity to cover the obligations of the Bank in due time.

Liquidity risk is defined as losses arising from:

- Funding costs increase disproportionately
- Lack of liquidity prevents the Bank from undertaking its ongoing business or engage in new business
- Adverse market conditions prevent the Bank from realising its assets at adequate prices
- Lack of liquidity prevents the Bank from paying or meeting its obligations with immediacy.

The general funding policy of FIH is to:

*Secure sufficient liquidity with respect to legal and Board requirements
at the lowest possible funding costs,
taking into account an acceptable liquidity risk*

Sufficient liquidity is defined broadly as a number of requirements, including holding sufficient liquidity reserves to enable settling obligations with immediacy. The settlement of obligations encompasses scheduled/foreseeable obligations as well as unexpected obligations.

Liquidity risk is a balancing act of monitoring a broad range of cash flow generating transactions of the Bank. The liquidity situation is monitored in a number sensible control and management measures. The time horizon is an important parameter and payments are grouped in time buckets or using actual payment dates.

The general funding policy has an embedded contradiction. Minimising costs with no further restrictions would result in short-term liquidity accounting for the majority of funds. Any initiative reducing liquidity risk comes at a cost.

Stance on liquidity risk

Liquidity risk is incorporated in section 152 of the Danish Financial Business Act. This section states that a bank's liquidity must be at least 10% of its total debt and guarantee obligations and 15% of its liabilities which could become payable within the coming month. At FIH, the 10% requirement is normally the limiting factor and the 15% threshold only in rare occasions becomes a restriction.

As a cautionary measure, FIHs Board of Directors has raised the legal requirement of 10% by 50% to an internal liquidity threshold of 15%.

The ambition of the Bank is to ensure sufficient and adequate liquidity at all times, taking into consideration sufficient funding diversification and acceptable funding costs.

Liquidity risk

Organisation and management

Functions dealing with Liquidity Management

Liquidity Management is divided in two distinct organisational functions, both reporting to the Head of Capital Markets:

- Liquidity function
- Funding function

The Liquidity function monitors and measures all daily liquidity cash flows and ensures that positions in major currencies are covered and current accounts are balanced. Liquidity instruments used include money market loans and placements, issuance of Commercial Papers, executing foreign exchange operations and keeping track of repoable assets. Another task is monitoring current Central Bank regulation and initiatives.

The Funding function is responsible for updating all major funding programmes, issuance of debt, budgeting funding, contact to rating agencies, investor relations and maintaining bank relationships. This function is in charge of strategic liquidity, i.e. making sure liquidity needs are met in the longer time horizon.

The instruments used include lending programmes (EMTN and Guaranteed MTN), bonds as well as loan facilities, which can be bilateral or syndicated.

An overlap exists between the two functions. This is natural and encouraged. Operational views and topics are coordinated on a continuous basis and at the above-mentioned formal meetings.

Segregation of duties

The two organisational units managing liquidity are located in the Capital Markets department and report to the Head of Capital Markets.

Personnel with mandates to execute payments are located in Capital Markets Operations (back office). The Head of Capital Market Operations reviews, ensures formal requirements are met and authorises all external cash transfers and refers to the Head of Capital Markets.

Risk Management (reporting to the Head of Risk & Legal) is responsible for generating daily reporting for each group entering into financial transactions. The daily reports are in different electronic formats, and either linked online to the Treasury System or with drill-down functions to reveal the underlying transactions.

All major transactions and flows with liquidity effects are produced by centralised IT systems. Authorisations are used allowing or prohibiting certain operations at defined points in time. This process governs the operations available and ensures that transactions with cash flows are accessible for continuous monitoring.

Both the Liquidity and the Funding functions verify the reported figures and must sign off the daily liquidity reporting.

Balance sheet structure

Transactions with liquidity effects originate from a range of sources including on and off-balance sheet transactions.

Measuring the mismatch of assets and liabilities is important, as this mismatch represents the difference in duration between the asset and the liability side of the balance sheet. If assets have a short-dated pre-payment profile, a shorter duration of liabilities is also acceptable.

Liquidity risk

In addition to the mismatch between assets and liabilities, a certain level of liquidity reserves is used as a buffer against unforeseen factors potentially influencing future cash flows.

<i>Funding sources</i> (%)	2009	2008
Central banks	13%	22%
Repo transactions	10%	0%
Deposits from credit institutions	1%	2%
Deposits (Corporate)	1%	2%
Term deposits - Corporate	15%	15%
Term deposits - Netbank Pro	2%	2%
Commercial Papers	5%	1%
Draw downs on credit facilities	0%	11%
Short-term funding	46%	54%
Medium Term Notes	34%	22%
Other issued bonds	4%	6%
Credit institutions	5%	8%
Subordinate debt	4%	3%
Shareholders' equity	7%	7%
Long-term funding	54%	46%
Total	100%	100%

Short-term funding

Short-term debt is normally transactions with a maturity of up to 12 months. Short-term debt includes deposits, Commercial Papers, money market transactions and certain bonds.

Deposits at year-end accounted for DKK 19.2 billion. As these deposits are term deposits, clients can, to a limited extent, request a breakage before final maturity. Therefore, a run-on-the-bank scenario is perceived as a limited risk factor for FIH.

Deposits are categorised by FIH as a short-term funding source, given that a significant part of the current deposit base is considered as being price sensitive and therefore of a volatile nature.

Commercial Papers are, from a price perspective, an attractive alternative to time deposits and ensure funding diversification. The maturity is typically 1 to 3 months but access requires a high short-term rating, preferably Moody's short-term rating of P-1 or similar from alternative rating agencies. Thanks to its participation in Bank Package I, FIHs short-term debt currently enjoys a backed P-1 rating, thereby ensuring access to Commercial Papers.

Throughout 2009, FIH met the Danish Financial Supervisory Authority's liquidity requirements. At year-end 2009, FIHs liquidity position was DKK 23.2 billion, equivalent to an excess cover relative to the statutory requirements of 176.7 per cent.

Longer-term debt

Longer-term debt is defined as funding raised through Medium Term Notes, other bonds and bank loans.

European Medium Term Notes (EMTN) are our main source of long-term funding and outstanding debt amounts to DKK 27.6 billion at year-end 2009. Of that amount, DKK 18.2 billion matures before the expiry of Bank Package I. These bonds are issued to a broader group of investors. As procedures, templates and responsibilities are agreed upon in advance, the documentation allows the issuance of bonds efficiently

Liquidity risk

and within a short execution time. This efficiency is associated with maintaining and updating the documentation on an annual basis.

The *Guaranteed MTN Programme* (GMTN) was established in July 2009 for the purpose of issuing debt under Stage II of the Danish Government Guarantee Scheme. DKK 13.2 billion was issued under the GMTN at year-end 2009. This funding programme is Rule 144a compliant and therefore provides access to the US bond market. In the second half of 2009, USD 3.5 billion was successfully issued by FIH in that market.

Other bonds were issued using other funding programmes or utilising stand-alone documentation. Stand-alone documentation is relatively expensive but can give access to investor segments not otherwise available. DKK 4.7 billion was issued in that category of bonds at year-end 2009.

Bank loans are bilateral agreements and terms and loan documentation are not publicly available. Some of these are transferable within defined limitations. Others are syndicated to a group of lenders. DKK 6.1 billion in Bank loans were outstanding at year-end 2009.

Subordinated debt include the DKK 1.9 billion hybrid capital injection received from the Danish government in June 2009. Uncertainties concerning the ownership structure of FIH and well as credit ratings assigned by Moody's do not enable FIH to access the subordinated debt market.

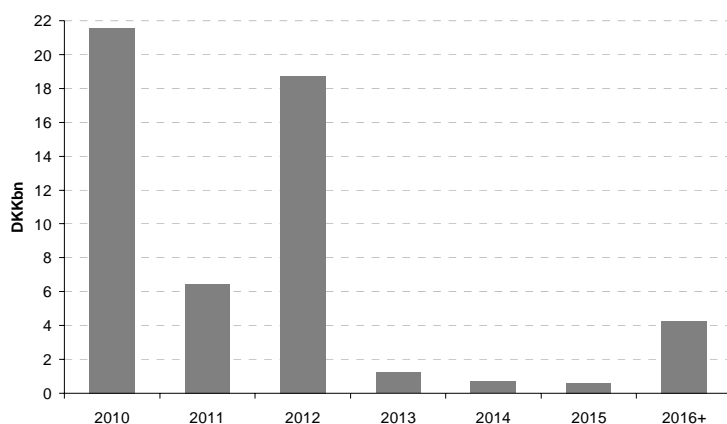
Hence, FIH is not in a position to replace certain subordinated debt for which FIH has the right to exercise call options. In order to preserve a satisfactory solvency, FIH has decided, for the time being, not to exercise call options in its subordinated debt contracts.

Debt redemption profile

The figure below illustrates the redemption profile of FIHs debt (senior and subordinated) which was issued with an initial final maturity of one year or longer.

FIH will have to refinance DKK 21.6 billion of maturing debt in 2010, of which 50% matures in the second half year. In order to handle refinancing risk, FIH started a prefunding activity in 2009.

Debt redemption profile at year-end 2009



Liquidity risk

Credit facilities

The DKK 15 billion FIH Kapital Bank A/S facility.

In 2006, FIH entered into an agreement with ATP, (the largest pension fund in Denmark), effective from 2007, on a credit facility of DKK 15 billion, which was hedged using a portfolio of loans to FIHs core customers through FIH Kapital Bank A/S (wholly-owned subsidiary of FIH, established for the purpose of carrying the credit facility). At year-end 2009, the facility was undrawn.

The function of this facility is twofold:

- Funding diversification and
- Liquidity back-up facility

The facility matures in September 2010. It is the intention of FIH to negotiate an extension of the facility so that FIH will maintain a sufficient liquidity buffer to cope with instances of no access to international capital markets over a 365-day time horizon.

DKK 3 billion Back-stop facility

A DKK 3 billion liquidity back-stop facility was entered into with a leading Nordic bank in 2008. The facility matures in June 2010 and FIH intends to negotiate an extension of the facility. At year-end 2009, the facility was undrawn.

Liquidity forecasting

The primary tool for daily liquidity management is based on online access to the treasury system, consolidating scheduled payments at any future point in time. These cash flows are aggregated to any specified time horizon or segmentation and are normally illustrated in either table format or graphically.

A daily graph is produced including four pre-defined scenarios. The base-case scenario (worst case) projects liquidity with conservative assumptions whereby maturing assets (lending) are rolled over according to the budgeted lending activity and all liabilities fall due at maturity.

The second scenario assumes that a defined portion of short-term funding (deposits, money market and CPs) is rolled over, thereby adding liquidity compared to the worst-case scenario. In the third scenario, the Bank stops new lending, and the fourth scenario takes into account reserves and liquidity buffers (Kapital Bank facility etc.).

The following scenarios are included in FIHs Daily Management Report:

- 5 day run on FIH (defined as maturing assets and liabilities are not rolled over).
- 30 days run on FIH, with the undrawn portion of the FIH Kapital Bank facility assimilated as source of liquidity
- 365 days without access to international capital markets, with the undrawn portion of the FIH Kapital Bank facility assimilated as source of liquidity

As at end of 2009, FIH did not fulfil the "365 days without access to international capital markets" stress test. An extension of the FIH Kapital Bank facility maturing in September 2010 would restore compliance with the test. FIH has been approved for the individual state guarantee with a limit of DKK 50 bn. This limit could be used to cover the gap in the 365 days test. However since FIH faces some large redemptions in 2010, FIH has chosen to place the issuing of bonds optimal to cover the redemptions rather than to focus on the 365 days test.

The ownership situation

As FIH is owned by Iceland's Kaupthing Bank, credit developments in Iceland have had an indirect negative effect on FIH. At times, it proved difficult to access market funding at reasonable costs and, more recently, the uncertainty in the ownership situation of FIH added to the funding challenges.

Liquidity risk

In the past couple of years, the duration of liabilities has decreased and the Kapital Bank A/S facility had partly to be drawn in the first quarter of 2009 to ensure liquidity. The facility has proved to be an efficient buffer and ensured funding diversification.

Kaupthing Bank hf. was placed in moratorium in October 2008. However, being completely ring-fenced by regulation from its Icelandic parent and having no Icelandic exposure, FIH managed to cope with the Icelandic turmoil.

Government support

In line with the vast majority of Danish banks, FIH benefits from the different support schemes to the banking sector in Denmark established by the Danish government as from October 2008. Three governmental schemes formed the basis of this support:

- Stage I of the Danish Government Guarantee Scheme (the so-called Bank Package I): On 7 October 2008, FIH decided to apply for membership of the first government guarantee scheme. Under this Scheme, all depositors and lenders (with the exception of subordinated debt lenders) are fully covered until 30 September 2010 – irrespective of the size and nature of their loan or deposit.
- Stage II of the Danish Government Guarantee Scheme: Stage II constitutes an amendment to Bank Package I, passed in Parliament on 3 February 2009. On 3 July 2009, FIH entered into an agreement with Finansiell Stabilitet A/S (acting on behalf of the Kingdom of Denmark) for a DKK 50 billion government guarantee facility. Under the terms of the agreement (and until 31 December 2010), FIH can apply for a government guarantee on selected senior unsecured debt issues with a tenor of up to 3 years.
- Hybrid Tier 1: On 25 June 2009, FIH Erhvervsbank A/S entered into an agreement with the Danish Government regarding a hybrid Tier 1 capital injection of DKK 1.9 billion according to the Act on State-Funded Capital Injections.

Credit ratings

Moody's had assigned the following credit ratings on FIH at year-end 2009:

- Bank Financial Strength Rating (BFSR): D- with negative outlook. In their credit opinion dated 27 November 2009, Moody's commented: "The lower BFSR reflects the rating agency's expectation of a continued deterioration in the asset quality of the Bank's loan portfolio due to its exposure to the Danish corporate sector and property finance. Also, its exposures to private equity and structured finance remain a concern. In addition, Moody's notes the Bank's high single-name exposure. Although improvements have been made, the concentration remains among the highest of the rated Nordic banks".
- Senior unsecured debt (long-term): Baa3 stable
- Senior unsecured debt (short-term): P-3 stable
- Government-backed Senior unsecured debt (long-term): Aaa
- Government-backed Senior unsecured debt (short-term): P-1
- Subordinated debt: B-1

The above short-term and long-term credit ratings assigned by Moody's are considered by FIH as being suboptimal for raising sufficient senior unguaranteed and unsecured funding at an acceptable price under the capital market conditions prevailing at year-end 2009. In 2010, FIH will strive to improve its credit ratings by continuing to conduct a proactive dialogue with Moody's. A condition precedent for such improvement will be the ability for FIH to deliver satisfactory performance metrics going forward, especially with regard to the concentration and quality of the lending portfolio.

Fitch Ratings assigns credit ratings on the government guaranteed debt issued by FIH.

Liquidity risk

Funding strategy

In 2009, FIH experienced a comfortable liquidity situation but liquidity is expected to become a scarce resource towards the expiry of Bank Package I. As from 30 September 2010, short-term funding will not benefit from the government guarantee any longer and will carry a suboptimal P-3 rating by Moody's.

Considering that there is a significant degree of volatility in the short-term funding base of FIH, the Bank's funding mix is anticipated to change gradually in the first half of 2010, whereby new medium-term funding is expected to refinance discontinued short-term funding as well as maturing long-term funding.

FIHs overall funding strategy for 2010 is:

- To ensure diversification of funding sources in order to increase duration. This will be achieved through:
 - Debt issuances under Stage II of the Danish Government Guarantee Scheme, primarily with a 3-year tenor.
 - Raising new senior secured funding with a tenor of more than 3 years. This funding source will aim at reducing the dependence on government guaranteed funding and reduce refinancing risk in 2013.
 - Raising new senior unsecured funding with a tenor of less than 3 years, including increasing the volume of retail time deposits collected through FIHs Webbank established in 2008. As from 1 October 2010, such collected deposits in an amount of up to EUR 100,000 will be covered by the Danish Guarantee Fund for Depositors and Investors.
 - Prefunding of debt scheduled to mature in 2010 and 2011.
- To extend/increase credit facilities (e.g. the Kapital Bank credit facility). These facilities will enable FIH to absorb fluctuations in short-term liquidity needs.
- Focus on investor relations in order to promote the FIH credit story towards investors and rating agencies.