Annex 1 2 March 2012

Demerger of the FIH Group

Background
The FIH Group received individual government guarantees in 2009 and 2010 totalling DK 42 billion. The loans mature in 2012 and 2013.

This poses a substantial funding challenge to FIH Erhvervsbank A/S. If the repayment of these government-backed loans is to be handled by phasing out existing loans and associated derivatives, this would lead to a drastic trimming of the bank's balance sheet.

It is unlikely that balance-sheet trimming of this nature – if that is even possible – could happen without contagion to other banks.

To avoid the inexpedient spillover effect of having to trim FIH's balance sheet, etc., the State has therefore discussed possible solutions with FIH in an effort to help resolve the bank's funding challenges.

The Model
Based on these discussions, the parties have agreed on a model whereby the State, represented by the Financial Stability Company, takes over FIH's property portfolio, thereby re-establishing FIH as a commercial bank specialising in the funding of SME investments.

Specifically, this model entails the Financial Stability Company taking over a property portfolio valued at approximately DKK 16 billion from FIH Erhvervsbank A/S and its subsidiary FIH Kapital Bank A/S. At the same time, the Financial Stability Company also takes over the funding of these assets, thus infusing FIH Erhvervsbank with liquidity that will be used to repay an equivalent portfolio of loans with individual government guarantees.

This model has two stages (see the illustration in annex 1). The first involves the spin-off of the property portfolio – to be taken over by the State represented by the Financial Stability Company – into a new company owned by FIH Holding A/S, the parent company of FIH Erhvervsbank A/S.

The second stage involves selling this company to the Financial Stability Company at market value.

After the sale, the company will be a subsidiary of the Financial Stability Company. As a result, the Financial Stability Company will be responsible for running (under the Financial Stability Company's restrictions governing operation), liquidating and financing the new company with a view to ultimate liquidation.

One provision of the agreement is that this new company must be liquidated or divested by 31 December 2016. This may be postponed for two years, at the request of FIH Holding A/S or the Financial Stability Company and, if so agreed, for up to an additional year up to the end of a financial year (i.e. not later than 31 December 2019). This means that any assets not liquidated before this date will be sold in an open, transparent process. This will enable the final determination of the combined value of the company.

The company can thus be liquidated or divested, after which the purchase sum must be repaid to the Financial Stability Company, including any injected capital carrying interest from financing costs, as well as incurred transaction costs (consultancy costs).

For the purpose of identifying the State's risk of loss, the Financial Stability Company will receive an unlimited indemnity bond from FIH Holding A/S.

Finally, it is agreed that the State will receive 25% of any upside that arises, if the liquidation goes better than expected.

The model is contingent on the Finance Committee's approval of a Finance Committee Document authorising the Financial Stability Company to enter into the agreement.

On a case-by-case basis, it will be possible for other banks in the same situation as FIH, which can meet the requirements for an indemnity bond, etc., to enter into similar agreements.

Assessment

By entering into the agreement at present, it is assessed that the negative derivative consequences described in the above can be reduced without incurring risks to the Financial Stability Company and the State that are greater than those existing at present.

The agreement concerning the takeover by the Financial Stability Company of assets and liabilities from FIH does not put the State in any worse position than the present situation.

The model adheres to the same principles of valuation, funding, etc., for the new company as Bank Packages III and IV.

As FIH Ervhvervsbank – by contrast with liquidation under Bank Package III or IV – is not distressed, the impaired assets (the “bad” segment) will be liquidated at the FIH Group’s own expense and risk. This explains why FIH Holding will be responsible for issuing the indemnity bond – and not the Deposit Guarantee Fund, as would have been the case under a Bank Package III or IV solution. As an indemnity bond issued by FIH Holding does not have the same creditworthiness as a guarantee issued by the Deposit Guarantee Fund, the payment received by FIH Holding for the bond is lower in proportion to the payment that the Deposit Guarantee Fund would have received.

With this agreement, the State:

- is covered against loss by an indemnity bond issued by the parent institution;
- is ensured a share of any subsequent upside;
- is ensured that its position will not be worse than the present situation (including in possible liquidation under Bank Package III or IV).

The assets are valued at a price that is consistent with EU’s state-support regulations and at estimated market values. The model is assessed as being in conformity with the EU’s state-support regulations.

The agreement also means that the Financial Stability Company has acquired genuine ownership of the property company and, thus, its assets. Payment in the form of a share of the profit does not mean that FIH receives title to the assets.

Other banks

On a case-by-case basis, it will be possible for other banks in the same situation as FIH, which can meet the requirements for an indemnity bond, etc., to enter into similar agreements. The FIH model will set a precedent for the Financial Stability Company’s handling of such situations.

Thus, other banks will also be able to use this model. For instance, the Alm. Brand Group has publicly stated that it wishes to take a closer look at the model.

Another scenario in which the model could be used would be if a specific bank (Bank 1), whose liquidity is at risk, has a possible merger partner (Bank 2) which is incapable of managing the liquidity challenge. In this scenario, one option would be for Bank 1 to transfer its bad exposures to the Financial Stability Company for liquidation and subsequently be taken over by Bank 2, which issues an indemnity bond to the Financial Stability Company.

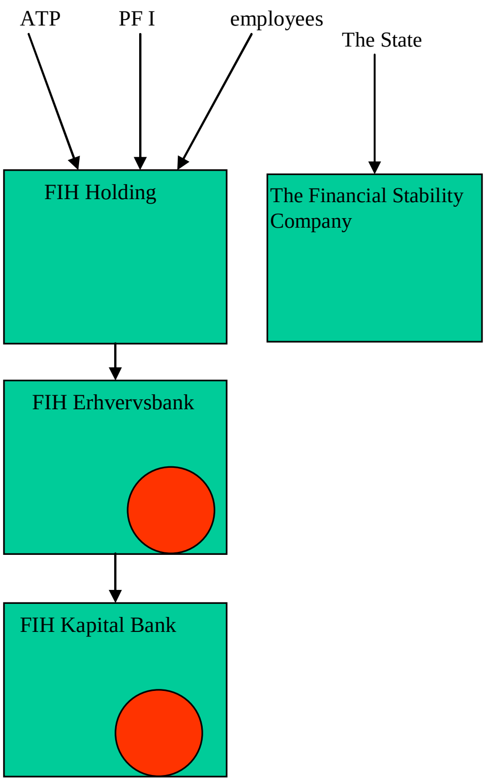
In each instance, an agreement will have to be entered into between a bank and the Financial Stability Company. For technical appropriation purposes, a legal document will have to be submitted to the Finance Committee.

Consequences
The model helps FIH to regain the option of actively taking part in SME financing in Denmark. It will enable FIH to return to its role as a commercial bank which helps to fund the SME segment.

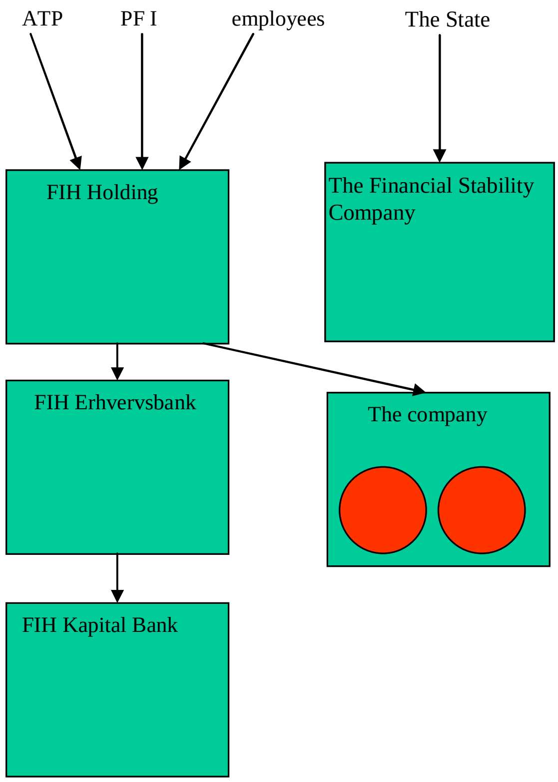
The agreement with the Financial Stability Company includes provisions whereby FIH Erhvervsbank A/S must draw up an action plan and liquidity plan concerning future operations, which, among other things, must focus on precisely this SME segment.

Demerger of FIH

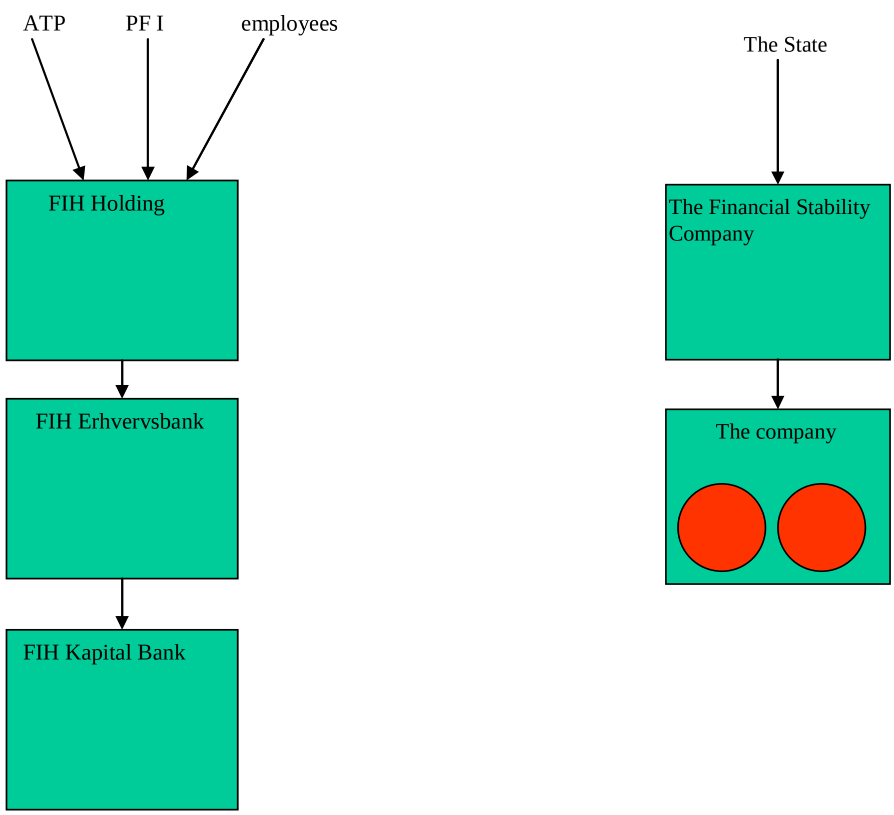
Annex 1



Stage 1: Demerger



Stage 2. Selling the company to the Financial Stability Company



Annex 2

Establishment of a farm financing institute

Background

At present, it is difficult for many farms to obtain financing for new activities. In addition, the Financial Stability Company has been unable to transfer the viable farming exposures it has taken over to other banks.

Although there are signs of improvement of operating economies in the agricultural sector, agriculture's inflexible financial situation prevents structural adjustments and development within the industry.

Initiative

For this reason, a model is being developed to set up a specialised farm financing institute (LFI).

The purpose of the LFI will be to grant investment capital to farms, led by effective managers and fledgling farmers, to make it possible to re-establish structural adjustments. It is assessed that the LFI should have a capital base of around DKK 300 million to start with. Operations will continue to be financed by the banking sector. The role of the mortgage banking sector will also remain unchanged.

The farm exposures that the LFI receives from the Financial Stability Company and other banks must, in LFI's assessment, be viable. The farm exposures will only be transferred with the agreement of the farmer in question and his bank.

The LFI shall operate on market terms on a par with other financial enterprises. The LFI model will be designed so that it is not anti-competitive in relation to banks or between farmers who obtain financing from the LFI and farmers who obtain financing from other banks.

If the Financial Stability Company or another bank wishes to transfer an exposure to the LFI, the LFI will use these same guidelines to make a specific assessment of whether the exposure is viable.

The establishment of a farm financing institute will not only benefit the individual banks and farms, but will also contribute to stabilising both the agricultural sector and a number of small banks with high agricultural exposure.

The LFI model will also be able to contribute to promoting structural adaptations. The divestment of farms from the Financial Stability Company, for instance, will be easiest in a situation where demand for agricultural assets has increased, e.g. as a result of the establishment of the LFI. It is also worth noting that in order to duly consider the State's financial interests, etc., the liquidation activities of the Financial Stability

Company will avoid a “fire sale” situation, i.e. prevent the market from being flooded with farms so quickly that this would depress farm prices.

Efforts relating to the LFI model will involve the financial sector, Danish Agriculture and Food Council, the Financial Stability Company, and DLR (Danish Agricultural Mortgage Credit Fund).

It is intended that the LFI be established as soon as possible.

Annex 3

Increasing the Export Loans facility by DKK 15 billion

Since the start of the crisis, the EKF (Denmark's official export credit agency) has seen a striking increase in its combined exposure, which has more than doubled since 2007. As part of the Credit Package in 2009, an export loan scheme was introduced which created a loan facility for export financing, by means of government-backed relending, totalling DKK 20 billion. The purpose is to support Danish enterprises' international competitiveness and to assist Danish exports during the financial crisis. Originally, it was possible to apply for export loans up until the end of 2011, but the 2012 Appropriation Act extended the export loan facility by four years until the end of 2015. Export loans can be granted at variable and fixed interest rates.

Many countries with which Denmark competes have similar schemes, which, in addition to guarantees, supplement the schemes with export funding.

At present, the EKF has granted relending worth approximately DKK 8 billion. In addition, the EKF has entered into commitments for another DKK 12 billion. For this reason, the EKF will not be able to accept new export loan applications. In the second half of 2011, virtually all inquiries concerning export credit guarantees were accompanied by inquiries concerning associated funding.

Initiative

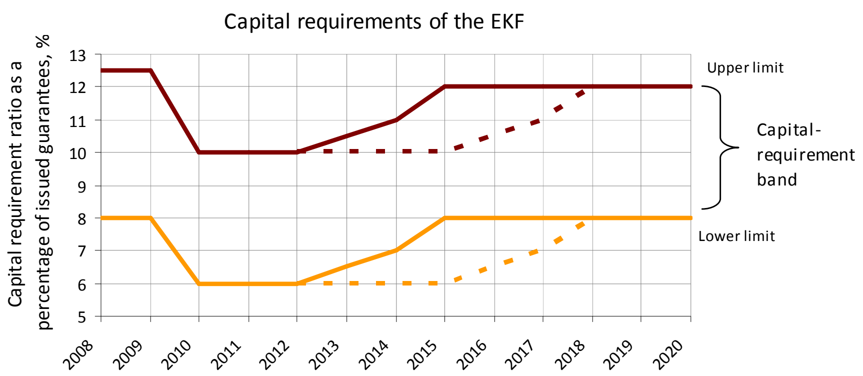
The export loan facility scheme under the EKF will be boosted by the infusion of an additional DKK 15 billion, thus increasing the total to DKK 35 billion. This will increase exports and create new jobs. The primary users of the export loan facility are large enterprises, but studies show that roughly 4 out of every 10 export *kroner* relating to lending to large exporting enterprises end up at SMEs, as external suppliers, in Denmark. This initiative will be financed by drawing on the government-backed relending scheme. The initiative will be implemented by means of a Finance Committee Document.

Annex 4

The EKF's capital-requirement band is extended to continue to support exports worth at least DKK 20 billion

Since 2009, the EKF (Denmark's official export credit agency) has seen a sharp rise in demand for guarantees for Danish export transactions, and its total exposure was around DKK 65 billion at the end of 2011. To avoid a situation where the EKF is forced to reject Danish export businesses due to the capital adequacy requirement, it was decided in 2010, as a result of the financial crisis, to increase the EKF's equity capital and temporarily reduce the requirement for the free equity's share of the total adjusted guarantee liability (capital-requirement band) after which this has slowly increased again (see Figure 1).

Figure 1. Capital requirements of the EKF



If the capital-requirement band rises again from 2012, as planned, this will force the EKF to reject export orders that it would otherwise be able to support with guarantees, etc. It is assessed that this would result in a loss of export orders by Danish enterprises worth at least DKK 20 billion in 2014–15.

This would also impact the exports of many SMEs, which are increasingly being supported by the EKF: in 2011, the EKF supported 300 SMEs with export guarantees, almost triple the number in 2009. At the same time, studies shows that roughly 4 out of every 10 export *kroner* for major exporting enterprises end up at Danish SMEs, as external suppliers.

Initiative

The EKF's capital-requirement band can be extended at its present level until the end of 2015 to ensure competitive export financing for Danish enterprises in the years ahead. This will enable the EKF to continue supporting the export orders of many Danish enterprises, including many Danish SMEs, with at least DKK 20 billion in the years ahead. This initiative will be implemented by means of a Finance Committee Document, but does not entail additional expenditure.

Annex 5

Increasing the credit facility of the "Vaekstkaution" loan guarantee scheme by more than DKK 550 million

The Vaekstkaution scheme guarantees bank loans granted to SMEs. If an SME cannot repay its loan, Vaekstkaution covers 75% of the loss up to DKK 10 million, and 65% of additional financing up to DKK 25 million. Vaekstkaution can be granted to fund business development, e.g. as part of changes of ownership, investment in plant (commercial construction), the development of new and improved products, and entrepreneurship. All sectors, including agriculture, have access to the Vaekstkaution loan guarantee scheme.

As a result of the financial crisis, the demand for and level of Vaekstkaution guarantees has substantially increased. Since 2009, loan-guarantee commitments have been issued to 705 enterprises for a total loan amount of DKK 2.6 billion.

As part of the venture capital agreement and the 2011 Appropriation Act, it was decided to extend the present scheme to include large Vaekstkaution guarantees for loan amounts of up to DKK 25 million. The purpose of the amendment was to increase the number of established SMEs covered by the scheme. Primary businesses gained access to these larger loan guarantees in January 2012.

The funds allocated for small loan guarantees of up to DKK 10 million are only expected to meet the demand up to the autumn of 2012. The funds allocated for large loan guarantees of up to DKK 25 million are expected to meet the demand up to the end of 2013.

Initiative

An additional DKK 80 million will be allocated to cover losses on guarantees issued under the Vaekstkaution scheme. These target small loan guarantees where currently the need is greatest. These extended loan guarantees will increase support for business-development lending by more than DKK 550 million. The initiative is funded by resetting the priorities at Vaekstfonden and will be implemented by means of a Finance Committee Document. This will enable a flexible application of the combined funds allocated for small and large loan guarantees, according to demand.

Annex 6

The Vaekstfonden state investment fund is given the option of providing subordinated loan capital within a credit facility of DKK 500 million

It is difficult for many SMEs, including proprietor-managed enterprises, to obtain capital. As this shortage of capital often makes banks reluctant to grant loans, this could mean that enterprises are unable to implement their growth plans. Equity investors, like venture companies, are basically not relevant here, as these SMEs – in spite of reasonable growth scenarios – are incapable of meeting investors' tough demands for spreading the business model to international markets. In addition, there is no efficient market for ownership shares in SMEs.

Initiative

A new scheme will be established to give Vaekstfonden the option of granting subordinated loans to SMEs within a credit facility of DKK 500 million. The subordinated loans will enable growth and change of ownership and contribute to higher solvency ratios that can increase enterprises' prospects of entering into a sustainable growth process. The granting of subordinated loan capital will be contingent on the enterprise receiving other loans from lending institutions for at least the same amount. It is estimated, however, that other loan financing – in addition to the subordinated loan capital of DKK 500 million – will be an additional DKK 1 billion.

The advantage of subordinated loans is that they give these enterprises access to capital that is otherwise inaccessible to them. This enables a growth rate that is otherwise impossible for them to achieve.

The issuance of subordinated loan capital is not currently of interest to lending institutions, as banks – partly because of the difficult funding situation – do not regard the forecast returns as being worth the risk. However, the Vaekstfonden does not expect a scheme involving the issuance of subordinated loans to incur losses for the State, in spite of the higher risk of loss than is the case with ordinary loans.

The initiative will supplement initiatives under the auspices of Dansk Vaekstkapital, which primarily targets equity investments.

By contrast with ordinary loans, no security is required for subordinated loan capital, and for this reason tougher requirements will be imposed on the enterprises and the maturity of their products, as well as on their corporate management. At the same time, the loan interest will be relatively high due to the risk. This scheme will require an amendment of current law. The intention is to try to cover any loss by means of Vaekstfonden's risk premium.

Annex 7

Involvement of banks in SME financing

The financial crisis and tighter bank regulation have prompted banks to tighten their lending practices. These difficulties of accessing credit and more expensive loans are unlikely to be a short-lived phenomenon. Therefore, there may be a need to supplement banks' lending to SMEs with new financing instruments through public-private partnerships (PPP).

In recent years, two schemes have been established to channel capital from pension funds into equity financing of SMEs and export financing respectively.

Dansk Vaekstkapital
The establishing of Dansk Vaekstkapital (DVK) in 2011, together with the pension sector, secures approximately DKK 5 billion for equity investments in SMEs. The capital comes from Danish pension funds. Of this, 75% is provided as a loan to Vaekstfonden. Thus, DVK is an alternative to the more direct state funding in the equity investment market through Vaekstfonden. Since it was established, Dansk Vaekstkapital has issued commitments to funds for approximately DKK 1.3 billion.

Export guarantees with pension financing
The EKF has concluded an agreement with PensionDanmark concerning the procurement of financing for export credit of up to DKK 10 billion. Through this scheme, foreign enterprises are eligible for loans from PensionDanmark for the part-funding of purchases of investment goods in Danish enterprises, which strengthens Danish exports.

Initiative
Efforts will be initiated to find models in which the financing needs of SMEs in particular can match the placement needs of pension funds. In addition, the EKF is continuing its dialogue with other Danish pension funds in order to give them the option of making financing available to Danish enterprises' exports as well.

These discussions take place *inter alia* in connection with meetings of the committee for corporate bonds as a source of financing for small and medium-sized enterprises, whose final report will be issued by autumn 2012 at the latest.