



COUNTRY PROFILE, DENMARK

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Introduction and Country Background

Nearly a third of the Danish population reside around the country's capital

Key Facts

Capital - Major Cities	Copenhagen - Aarhus, Odense, Aalborg
Area	43,094 km ² (excluding Greenland and Faeroe Island)
Population	5.511 million (12-2008)
Languages	Danish (Faroese, Greenlandic, small German minority)
Currency	DKK (Danish kroner)
Telephone Code	+45
National/ Bank Holidays	2009 – 1 Jan; 9, 10, 13 Apr; 8, 21, 22 May; 1, 5 Jun; 24-26, 31 Dec
Bank Hours	10:00-16.00 Mon-Fri, to 18.00 Thu
Business Hours	9/10.00-17:30/18.00 Mon-Thu, to 19/20:00 Fri Small (large) shops close at 13:00 (17:00) Sat
Stock Exchange	Copenhagen Stock Exchange (NASDAQ OMX Group)
Leading Share Index	OMXC20, OMX Copenhagen 20
Overall Share Index	OMXC, OMX Copenhagen

Denmark is a modern and prosperous nation, although some 20% of the population is dependent entitlement benefits

Economic Performance

	2005	2006	2007	2008
Exchange Rate - DKK/EUR ¹	7.45	7.45	7.45	7.45
Exchange Rate - DKK/USD ¹	6.00	5.94	5.445	5.099
Money Market Rate (%) ¹	2.38	3.56	4.62	5.423
Consumer Inflation (%) ²	1.8	1.9	1.7	3.4
Unemployment Rate (%) ³	5.1	3.9	2.78	1.8
GDP (DKK billions) ⁴	1,377	1,431	1,455	1,470
GDP (USD billions) ⁵	229.5	240.9	267.2	288.3
GDP Volume Growth (%) ²	2.5	3.9	1.7	1.0
GDP Per Capita (USD)	47,717	50,815	57,137	67,387
Current Account (% of GDP)	4.4	2.9	1.1	1.3

Sources: International Monetary Fund, Statistics Denmark, Central Bank of Denmark

¹ Period average

² Year on year

³ Per annum (seasons adjusted)

⁴ Constant prices: index, 2000=100

⁵ Per average exchange rate

The country participates in the EU, with reservations

Government

Legislature Regime

Denmark is a constitutional monarchy. The parliamentary structure is unicameral. The Parliament (Folketinget) consists of 179 members elected for a four year term via a proportional representation system. The next elections are due by No-

vember 2011.

Head of State

Queen Margrethe II, since 1972

Political Leader

Prime Minister Lars Løkke Rasmussen, Head of the Liberal Party (Venstre), since April 2009, taking over for Anders Fogh Rasmussen, who was appointed General Secretary for NATO. The Prime Minister leads a minority government coalition of the Liberal Party and the Conservative People's Party (KF), supported by the right wing Danish People's Party (DF). The ruling coalition has lead parliament since 2001, and was most recently elected in 2007.

European Union

Denmark has been a member of the EU since 1973. A referendum in 2000, however, rejected the adoption of the euro in Denmark. Furthermore, Denmark secured three additional opt-outs from the EU *acquis*, of which two remain in force: Denmark does not participate in the EU's foreign policy nor a significant portion of Justice and Home Affairs matters. Nonetheless, the current government has signalled that it is interested in a referendum to remove all of Denmark's opt-outs and thereby participate fully in the EU.

Banking Environment

The banking market is seen as but one part of a larger Nordic market by large players

Overview

Introduction

The Danish financial sector is heavily concentrated with only a few dominant market players. The two biggest banks have a combined average market share of around 70% and even more when it comes to larger corporations and multinationals. In addition, the building society market is dominated by two major players, one of which is owned by the biggest Danish bank, Danske Bank. Foreign banks are primarily targeting larger corporations and multinationals although in recent years a few of them have changed business strategy to also offer personal loans, e.g. GE Money.

As regards the rest of Scandinavia, Denmark is considered to be in the forefront with regards to the development of its banking sector. Hence, a wide variety of banking products and services are offered. Banks saw substantial increases in profits in 2006 and 2007, driven by considerable growth in lending, historically low losses, and an increase in fee driven income. The low loss level is attributable to the favourable economic situation, but also to the introduction of new accounting rules (the International Financial Reporting Standards) as of 1 January 2005. This did not continue into 2008 as lending losses increased and the Danish economy slowed down.

Sector Figures

There are two main types of banks on the Danish market: commercial banks and savings banks; the co-operative banks are not a factor. At the end of 2007, the latest year for which the Danish Banker's Association has published figures, Denmark (including Greenland) had 146 domestically incorporated banks, with 1,962 branches, and 14 foreign branches, totalling 164 continuing the downward trend of recent years. The number of domestically incorporate banks is even lower today following the financial crisis in 2008 and into 2009.

Recent Years

The past years have seen few, but significant in size in the Danish market, mergers and acquisitions. In March 2000 Unidanmark merged with The Finnish-Swedish bank MeritaNordbanken (eventually forming the region's largest bank, Nordea, after the acquisition of a Norwegian bank). Effective 2001 Danske Bank bought RealDanmark with its subsidiaries BG Bank (at that time the 3rd biggest bank) and RealKredit Danmark (2nd largest building society), which made Danske Bank by far the largest bank in Denmark. The Swedish bank, Svenska Handelsbanken, acquired the medium-sized bank, Midtbank in January 2002. In 2003 the building society TotalKredit, owned by a large number of local banks, was acquired by the Nykredit Group, the 2nd biggest player on the financial services market and now the biggest building society. In 2004 FIH Erhvervsbank (6th biggest bank) was bought by the Icelandic Kaupthing Bank, the 7th biggest banking group in the Nordic Region.

While the Danish Competition Authority has expressed concern that the domestic

banking market is too concentrated, the results of the financial crisis in 2008 have led to a number of acquisitions and an expectation that the Danish banking market shall continue to consolidate, although most likely by small local banks merging to form larger regional banks. Roskilde Bank, the eight-largest retail bank by market share was nationalised after failing to find a buyer following a larger than expected write-down from real estate loans. The bank was subsequently spilt up and the pieces acquired by three banks. Other events include: Sydbank acquired Bank Trelleborg, Nykredit acquired Forstædernes Bank, Swedish Handelsbanken acquired Lokalbanken, Vestjysk Bank acquired Bonusbanken, Ringkjøbing Bank and Vestjysk Bank announced their intention to merge, and FIH is for sale following the seizure of Kaupthing Bank by the financial authorities in Iceland.

Continued consolidation in the industry is expected following the financial crisis in 2008. The Danish parliament passed an act, effective from 5 October 2008, which unconditionally guarantees, for a period of 2 years, creditors' claims against losses in Danish banks thereby securing deposits- regardless of the amount. In contrast to many other countries bank rescue plans, Danish banks are liable for losses on the first 35 billion kroner, together with a security payment of 15 billion kroner to the Danish Liquidation Company (Afviklingselskabet) payable over a two year period. Some 18 billion kroner is estimated to have been lost to date on banks that have been taken over by Afviklingselskabet. To prevent a credit crunch, a follow-up act was passed in the January 2009, providing 100 billion DKK in credit to Danish banks, 25% of which is earmarked for the building sector.

While national mergers or acquisitions among the biggest banks will probably not be allowed, the Danish banks are in play with regards to further European and Nordic consolidation of the banking industry. Nordea, the largest Nordic bank, is also in play as the Swedish state will at some point sell its 20% stake in the bank.

Sector Wide Agreements

The banking supervisory authorities, central banks and finance ministries of the European Union in 2005 concluded a memorandum of understanding (MoU) on cooperation in financial crisis situations. The Danish authorities have also entered into an MoU on financial supervision, supplemented by a bilateral MoU between the Danish Financial Supervisory Authority and the Central Bank.

The directive on capital-adequacy rules, known as Basel II, has been implemented in Denmark.

Central Bank

Background

As early as 1936 Denmark's Nationalbank (Nationalbanken) gained its independency from the political system. The legal framework that currently regulates the tasks of Nationalbanken was outlined the same year. The decision making body of Nationalbanken is the Board of Directors. The day-to-day management, including interest rate decisions, is conducted by the Board of Governors (consisting of three individuals), chaired by Mr. Nils Bernstein, Governor since 2005.

The Danes voted no to the use of the euro in a referendum in 2000, although the Danish krone remains tightly pegged to it

Currency

Denmark is part of the European System of Central Banks (ESCB) but opted-out of stage three of the Economic and Monetary Union, i.e. Denmark has retained its national currency, the krone (DKK, kr). Still, monetary policy focuses on keeping the Krone stable against the Euro within the framework of the ERM2-system. The central rate for Denmark is 746.038 DKK per 100 Euros and in fact the ECB has agreed on a tighter band of +/-2,25%. The main goal of monetary policy within the Euro-zone is to keep inflation low, which also provides for stable prices in Denmark.

Objectives and Responsibilities

The overall objectives of Danmarks Nationalbank are:

- Stable prices / a stable exchange rate
- Safe settlement of payments
- A stable financial system

The banks responsibilities are to:

- Produce and distribute Danish banknotes and coins
- Conduct monetary and foreign-exchange policies to ensure the stability of the krone vis-à-vis the euro
- Manage the foreign-exchange reserve
- Be a banker to the banks and mortgage-credit institutes and to the central government
- Handle overall tasks in relation to payment systems
- Analyse financial stability
- Collect, collate and publishe financial statistics
- Represent Denmark internationally in a number of areas

Financial Authorities

The national debt is expected to be paid off in entirety before the end of the decade

Ministry of Finance

Among other ministerial responsibilities, the Ministry of Finance (Finansministeriet) manages the Danish government's debt. While Nationalbanken handles the administrative tasks, the Ministry of Finance is responsible for borrowing and debt management, including relations with the parliament.

The Ministry of Economic and Business Affairs proposes legislation that have a bearing on the general business environment

Ministry of Economic and Business Affairs

The Ministry of Economic and Business Affairs' (Økonomi- og Erhvervsministeriet) responsibility covers several matters that have a bearing on the general business environment. This includes business regulations, e.g., covering the financial sector. The Danish Financial Supervisory Authority (Finanstilsynet) is an Agency under the responsibility of the Minister for Economic and Business Affairs. Other selected agencies are the Danish Competition Authority (Konkurrencestyrelsen), the Danish Commerce Companies Agency (Erhvervs- og Selskabsstyrelsen) and Statistics (Danmarks Statistik).

Denmark has an integrated financial supervisor authority

Danish FSA

The Danish FSA (Finanstilsynet) is an integrated supervisor. It covers three areas: regulation, supervision, and information on financial institutions and securities markets. Its mission is to create future oriented conditions for growth for citizens and companies in an increasingly globalised world. Finanstilsynet is an agency under the Ministry of Economics and Business Affairs, but is overseen by independent Councils.

The Danish Bankers' Association represents some 138 entities

Danish Bankers' Association

The Danish Bankers' Association (Finansrådet) is a trade organisation for the Danish financial institutions. Its members consist of commercial banks, savings banks, cooperative savings banks and the Danish branches of international banks.

Its 131 member institutions (as at April 2009) have a decisive influence on national financial development, and the Danish Bankers Association's principal object is to create sound operating conditions for the sector, which accounts for approximately 40,000 employees. Essentially, the work of the Danish Bankers Association is to influence the political decision-making process. This is achieved through direct contact with politicians and authorities, and through participation in societal debate.

Some 110 local banks focus on areas of importance for

Association of Local Bank, Savings Banks & Co-operative Savings Banks in Denmark

smaller financial institutions

Lokale Pengeinstitutter (The Association of Local Banks, Savings Banks and Cooperative Banks in Denmark) is an association of 106 local banks, savings banks and cooperative banks in Denmark, the Faroe Islands, and Greenland. The circle of members includes practically all the Danish local banks with a distinctive local presence. By far the greater number of the association's members are also members of Finansrådet (The Danish Bankers' Association).

Taken as a whole the circle of members provide services in more than 860 branches and employs more than 10,000 staff. In the Danish private customers market, the Lokale Pengeinstitutter's market share is currently more than 25 per cent. Among the small and medium-size commercial businesses, the market share is approximately the same.

Legal & Regulatory Issues

The market for financial services is deregulated

Introduction

Under the European Single Market's objective of free movement of capital the Danish financial environment and the rules regulating it have been harmonised with the rest of the EU, e.g. within money laundering. As such the market for financial services is deregulated. Still, Central Bank reporting requirements for transactions between residents and non-residents are maintained. This should be one of the factors in the decision for any (Danish) corporation with plans to set-up e.g. in-house banking schemes within the country.

Residency is determined by incorporation or effective management location

Resident and Non-Resident Status

A resident company is defined as a company, which is incorporated with the Danish Commerce and Companies Agency (Erhvervs- og Selskabsstyrelsen) or has its place of effective day-to-day management in Denmark.

Account ownership is independent of residency

Account Ownership

Any type of account can be owned by a resident as well as a non-resident company.

Most cash management practices are allowed

Cash Pooling Regulations

Cash concentration and notional pooling are allowed domestically as well as cross-border. Cash pooling across legal entities, but within the same group, is permitted. A company is considered being part of a group if the parent company directly or indirectly owns more than 50% of the subsidiary or has a decisive influence. Cross-guarantees for all pool participants (if across legal entities) may apply. Resident and non-resident companies domiciled in the EU/EEA can participate in the same cash pool, but Central Bank reporting requirements must be adhered to and withholding tax regulations must also be observed. Danish legislation permits multicurrency cash pooling, which is offered by the leading cash management banks in the market as notional pooling.

Loans to shareholders

The regulations in section 115 of the Danish Act on Public Limited Companies (similar rules for Private Limited Companies applies) generally prohibits Danish companies from providing loans (or security) to its shareholders. However, the rule exempts loans to parent companies within the European Union and European Economic Area. Further, the authorities' official view is that in practice the exemption can be applied beyond the above group of countries, i.e. to the whole world. Another practical exception to the rule (not stated directly in the Bill) is that "loans or security provided by companies are not subject to section 115 of the Bill if the transactions involved are commercially justified and of a usual nature both to the company and to the industry in general". Cash concentration under a cash pool is not in itself

commercially justified. However (when adhering to transfer pricing rules, considering distribution of benefit to all participants etc.), Danish companies can normally participate in such set-ups without conflicting with section 115.

A wide variety of account types are available with cross-border payment fees regulated at the EU level

Account Types and Charges

Current accounts can be held in all exchangeable currencies and are offered with or without overdraft limits. DKK accounts are convertible into foreign currency. Interest rates can be either fixed using a basic rate of the bank or based on a market rate (e.g. CIBOR) less a spread. For larger corporations the latter method is the most common. Account maintenance fees will normally not apply. Lifting fees (per mille of transferred amount) on foreign payments are not a factor for medium-sized to large corporations. However, for customers with smaller business volumes such fees could still apply on some international payments.

Payment Fees

A flat fee will be charged for domestic payments – a per mille charge could be charged for some foreign payments, but the standard is a flat fee as well. Following the EU regulations on cross-border transfers in EUR, from 1 July 2003 the charge for a cross-border transfer of up to 12,500 EUR must be equivalent to the charge for a domestic payment in EUR. The increase to a maximum of €50,000 took effect on 1 January 2006. The payer must provide the receiver's International Bank Account number (IBAN) and the receiving bank's Bank Identifier Code (BIC, the SWIFT code). If such information is not provided – or the information is wrong – an additional charge will be levied.

No FX controls apply

FX Controls

The Danish Krone flows freely. The Danish Central Bank, in coordination with the European Central Bank, can intervene or coordinate an intervention with other European Central Banks in order to stabilise the exchange rate (see the aforementioned comments under the Central Bank). There are no exchange controls.

Reporting is required for select companies

Central Bank Reporting Requirements

Where as it was previously required that companies reported each transaction separately, it is now a monthly reporting of summarised balances. The ambition of this change is among other things to ease the administrative burden for companies, as many of the required balances can be extracted directly from the companies' accounting systems. As at January 1, 2005, no company in Denmark is required to report to the Danish Central Bank, unless they are asked directly to do so by the Central Bank itself.

However, to replace all companies' reporting of cross border payments, netting of payments with foreign companies, etc., new reporting requirements were established for a number of selected companies. The companies are selected on the basis of historically "significant" cross border transactions and/or balances. Whether the flow/balances are "significant" or not, is decided by the Danish Cen-

tral Bank. Approximately 600 enterprises/groups are required to report information on a monthly basis to the Central Bank electronically, via the Central Bank's reporting system STINA (STatistisk Indberetning til NAtionalbanken, Statistical reporting to the Central Bank). Approximately 450 enterprises/groups that hold significant accounts with non-residents report on an annual basis.

In addition, Statistics Denmark gathers information on cross border goods and services.

The third EU directive on money laundering has been implemented

Money Laundering

The Third EU Money Laundering Directive has been implemented in Denmark by the new Act on Measures to Prevent Money Laundering and Terrorist Financing (MLA), which entered into force on March 1, 2006. It builds on existing EU legislation and incorporates into EU law the June 2003 revision of the Forty Recommendations of the Financial Action Task Force (FATF), the international standard setter in the fight against money laundering and terrorist financing. The Directive is applicable to the financial sector as well as lawyers, notaries, accountants, real estate agents, casinos, trust and company service providers. Its scope also encompasses all providers of goods, when payments are made in cash in excess of 15.000 EUR.

Those subject to the Directive need to:

- Identify and verify the identity of their customer and of its beneficial owner, and to monitor their business relationship with the customer;
- Report suspicions of money laundering or terrorist financing to the public authorities -usually, the national financial intelligence unit; and
- Take supporting measures, such as ensuring a proper training of the personnel and the establishment of appropriate internal preventive policies and procedures.

The Directive introduces additional requirements and safeguards for situations of higher risk (e.g. trading with correspondent banks situated outside the EU). For the sake of clarity, the existing 1991 Directive, as amended in 2001, will be repealed and replaced by this Directive, upon its effective entry into force.

E-signature and -transactions legislation is in place

Regulations Applicable for Electronic Transactions

Electronic invoices are allowed by law subject that the origin and integrity of the invoice is secured via electronic signature or electronic data interchange (EDI). As market standards have evolved today, this also includes XML. Electronic signatures are equivalent to handwritten signatures under Danish law (Act No. 417/2000). Denmark has implemented EU Directive on electronic signatures into national law.

Market Dominant Banks

Danske Bank and Nordea together control some 70% of the market

Introduction

Denmark has three dominate players in the market for financial services: Danske Bank, the pan-Nordic group Nordea, and Nykredit Group. The latter is, however, primarily a building society, although the banking division of the group has been growing rapidly during the past few years.

Market Dominant Banks per 31 Dec. 2008

Bank	Assets (USDm)
Danske Bank	695,033
Nordea	697,290
Jyske Bank	47,285
Nykredit Bank *	38,690
Sydbank	31,144
Handelsbank	328,080

* Part of the Nykredit Realkredit Group with total assets of USDm 243,188.

Note: Figures are total group consolidated assets in millions USD.

Source: Banks' annual reports.

Denmark's largest bank and increasingly present in other Northern European markets

Danske Bank

Measured by total assets, the Danske Bank Group is the largest financial enterprise in Denmark and one of the largest in the Nordic region offering services in banking, insurance, mortgage finance and asset management. The vision of the Group is "One platform - exceptional brands" and its mission is to be "the best local financial partner". In total, the Group serves 5 million retail customers and a large number of public sector and institutional organisations. Some 2 million customers use the Bank's online services.

In the mid 1990s it expanded its operations into the rest of Scandinavia, and in 2005 via acquisition in the Republic of Ireland and Northern Ireland, marking its first move out of Scandinavia. In November 2006, the Danske Bank Group acquired the Sampo Bank Group, for approximately USD 5 billion in cash. Sampo Bank is Finland's third-largest bank with a market share of 16% and 121 branches; subsidiaries in Estonia, Latvia and Lithuania; and a recently acquired bank in Russia.

In Denmark, the Group is a market leader with a market share of 50%, offering banking services, mortgage financing, insurance leasing, real estate agency, and asset management. Danske has reached this position by merging with BG Bank and Realkredit Danmark (the second largest building society) in 2000 and with Kjøbenhavns Handelsbank and Provinsbanken in 1990 - and by acquiring Danica Pension in 1995. The bank offers nation-wide coverage through nearly 500 branches and corporate banking centres.

The Nordic's largest banking group

Nordea

Nordea is the biggest Nordic banking group. It is the result of the successive mergers and acquisitions of the Swedish, Finnish, Danish and Norwegian banks of Nordbanken, Merita Bank, Unibank and Kreditkassen (Christiania Bank), respectively, that took place between 1999 and 2000. The bank's vision is "to be the leading Nordic bank, acknowledge for its people, creating superior value for customers and shareholders" and its mission is "making it possible". Nordea has approximately 10 million retail and 700,000 thousand corporate customers, and more than 1,400 branch offices. Over half of Nordea's customer base are electronic customers and actively use the bank's electronic tools and services.

There are approximately 350 branches in Denmark and Nordea has an estimated 15-30% market share, depending on the product and business area. Nordea announced the acquisition of the larger part of Roskilde Bank on 29 September 2008, acquiring 9 of the former bank's branches, including 42,000 private customers and 6,000 corporate customers.

Nordea is also present in Russia, the Baltic Sea countries (Estonia, Latvia, Lithuania) and Poland with a combined number of 260 branches. The bank expanded into the former in 1989 and then divested its minority stake in June 2006 in order to acquire a majority stake in Orgresbank in November of the same year. Nordea expanded into Poland in August 2005 through its purchase of Sampo's Polish life and pension companies, which was merged into Nordea's Polish life company. Besides banking it provides insurance, mortgage banking and real estate agency services to its customers.

The bank's largest shareholder, the Swedish state is expected to sell its 20% stake in 2008 putting the bank in play for either a Nordic or European acquisition. Furthermore, the Sampo Group, following its sale of its banking operations to Danske Bank in 2006, acquired 10% of Nordea in open-market operations. Sampo has continued to increase its stake in Nordea and owns some 15%. To date the stake is purely financial (e.g. eventual gain from future M&A activity) in purpose.

Denmark's second largest domestically owned bank

Jyske Bank

Jyske Bank is the third largest bank in Denmark, with 121 branches in Denmark and subsidiary banks and branches in other countries, among them Switzerland, Gibraltar, France and Poland to primarily service its private banking clients. The target customers are private clients and small and medium sized corporations.

The bank aims to be "Denmark's most customer-oriented bank". To realise this vision, Jyske Bank presents itself as a visible and distinct alternative to more traditional providers of financial services, with regard to distribution channels, products, branch layout and communication forms. For example, the bank takes pride in having its headquarters located outside of Copenhagen, and in being the "second largest independent bank in Denmark".

A regional bank focusing on south-western Denmark

Sydbank

Even though Sydbank has over 116 branches in Denmark, it is a bit more regionalised than Jyske Bank. The bank is headquartered in the southern part of Jutland, which is where it has its most significant presence. The bank has 4-7% market share in Denmark, depending on the product and business area, and recently established a subsidiary in Switzerland, plus Germany. Main customer segments are private clients and small and medium sized corporations, 375,000 and 25,000, respectively. Sydbank's vision is based on the one-liner 'What can we do for you' - and in this respect the bank wants to be 'perceived as competent, accountable, available and competitive'.

Denmark's largest mortgage lender and expanding into banking services

Nykredit Group

Nykredit is first and foremost a building society. After the merger with Totalkredit in 2003 its market share comprises just over 40% of total Danish mortgage lending as at year-end 2007. The Nykredit Group is also the second largest lender and the largest mortgage provider in Denmark as well as one of the largest private bond issuers in Europe. The group also provides real estate agent, bank and insurance services.

Nykredit acquired Forstændernes Bank in 2008 during the financial crisis. The bank will continue to operate independently within the Nykredit Group and provides Nykredit with a stronger footprint in the capital region, Copenhagen.

Nykredit Bank consists of the bank, asset management and leasing. The bank focuses on private clients, agricultural clients, and small and medium sized corporations. The Retail Banking area supplies Nykredit Bank products through the distribution channels of the Nykredit Group, including 49 retail centres, the website nykredit.dk, two call centres and one central customer service centre. Due to the very limited branch network the bank is largely built on e-banking.

Nykredit aims "to be the preferred financial partner to all decision-makers in relation to financing solutions".

Handelsbank focus on being perceived as the Nordic's "most international local bank"

Handelsbank

Handelsbanken (Svenska Handelsbanken, SHB) has more than 461 branches in Sweden. From the 1990s the bank has also expanded in the Nordic region via acquisition and by opening branch offices, with 130 branches outside of Sweden in the other Nordic countries, and 49 in Great Britain, where the bank has been present since 2000, and 35 branches in 17 other countries. Stadshypotek, Handelsbankens' wholly owned mortgage credit institution, belongs to the largest players on the Swedish mortgage credit market. Handelsbanken also has extensive operations in the fund management, finance company and life insurance sectors, where it in 2004 acquired SPP Life Insurance.

In Denmark, Handelsbanken opened its first branch office in 1996. The opening of

the Copenhagen office was soon followed by further openings in other parts of the country. In 2001, Handelsbanken purchased Midtbank, which had a very strong presence in the Jutland area of Denmark. With this acquisition, Handelsbanken became the fifth largest bank in Denmark with 54 branch offices. Most recently in October 2008, Handelsbanken acquired Landsbanken in Denmark, a bank based North of Copenhagen during the midst of the financial crisis. The bank is expected to be run locally.

Handelsbanken's corporate philosophy includes five points: a strongly decentralised organisation - the branch is the Bank; customer, not the product, in focus; profitability always has higher priority than volume; a long-term perspective; and the bank's profit sharing system.

Clearing Systems

The Central Bank is the cornerstone of a unified technical infrastructure

Overview

A key feature of the Danish payments infrastructure is the high degree of cooperation within the financial sector in relation to the technical infrastructure. This cooperation has resulted in unified systems handling all types of retail payment (card payments, direct debits, credit transfers and cheques). Danmarks Nationalbank plays a key role in the Danish payments infrastructure, since payments between credit institutions to a large extent involve transfers between accounts held at the central bank, i.e. settlement in central bank money. Danmarks Nationalbank's operational role in the infrastructure is not subject to specific legal obligations.

Besides developing and operating the RTGS system Kronos (which handles payments in Danish kroner and in euro), Danmarks Nationalbank also settlement facilities for the two privately operated systems, namely the VP Securities Services (Værdipapircentralen; VP) and the Sumclearing, through which nearly all retail payments are cleared and settled. Over and above its operational tasks Danmarks Nationalbank also has an important role in ensuring the smooth functioning of the payments infrastructure, overseeing as it does the safe and efficient operation of the country's systemically important payment and securities settlement systems.

KRONOS is Denmark's RTGS system with a link to TARGET

High Value Clearing — KRONOS

The Real Time Gross Settlement (RTGS) system, KRONOS, was implemented in November 2001 subject to the European System of Central Banks' (ESCB) requirement to have a clearing system that could provide domestic clearing of the home-currency as well as euro. Further, KRONOS is linked to the high value, cross-border settlement system of the EU, TARGET, enabling individual, real-time settlement of foreign payments in EUR as well. The commercial banks use KRONOS as their 'e-banking system' to transfer amounts to each other and keeping track of payments received and sent in real time. Some large-value transfers are initiated via the SWIFT network. Danmarks Nationalbank does not distinguish between these and ordinary RTGS transfers, as they are all settled in real time. Transfers on the basis of SWIFT instructions are therefore not described separately.

- Participants: 126 direct participants in the DKK clearing
- Transaction types: Individual, urgent, same-day-value domestic payments in Danish Kroner unlimited in amount.
- Price indication: The maximum charge for a payment transaction is DKK 1, while the minimum charge is DKK 0.10.
- Operating hours: For DKK the operating hours are 7:00 (changed from 8:00 with the introduction of CLS - see below) until cut-off at 15:30.
- Clearing cycle details: The clearing takes place with immediate finality for each individual payment instruction. Payments can be instructed via SWIFT or via the KRONOS 'e-banking' solution. The larger banks usually transact via SWIFT to avoid re-keying of data. The banks must have sufficient funds in their ac-

counts with Nationalbanken, or they can provide collateral in the form of securities approved by Nationalbanken.

- Scandinavian Cash Pool (SCP): In 2003, a Scandinavian agreement was made, allowing branches or subsidiaries in Denmark of Swedish or Norwegian banks to use balances (in SEK or NOK) in the Central Banks of Sweden or Norway as collateral for KRONOS clearing in Denmark.

Denmark acceded to TARGET2 on 19 May 2008

TARGET2

The current pan-European RTGS system, TARGET, migrated to a single shared platform (SSP) called TARGET2 making the 16 decentralised RTGS systems of individual Eurosystem countries and the ECB's payment mechanism (EPM) obsolete. The changeover took place in three migration waves, starting 19 November 2007 and ending 19 May 2008 (15 September 2008 is reserved for contingency needs).

Denmark acceded to TARGET2 in the third wave on 19 May 2008 with Estonia, the ECB, Greece, Italy and Poland. The Swedish Central Bank and the Bank of England will not migrate to TARGET2.

- Participation: options include direct and indirect participation, "addressable BICs" and "multi-addressee access" to the system, also known as "technical BIC access". Direct participation criteria for TARGET2 is the same as for the current TARGET system. Only supervised credit institutions established within the EEA can become indirect participants.
- Transaction types: focus on large-value payments related to inter-bank operations
- Price indication: between €0.125 and €0.80 depending on type of participation.
- Operating hours: the operational day in TARGET2 will be longer than that of the current TARGET system. TARGET2 will start the new business day on the evening of the previous day. The night-time window will be available from 19:30 to 6:45 the next day, with a technical maintenance period of three hours between 22:00-01:00. Daytime hours for customer payments 07:00-17:00 CET with the day ending at 18:00 + 30 minutes for the use of standing facilities on the last day of a minimum reserve period.
- Transaction details: Direct participation: For the exchange of payments information, TARGET2 will use the SWIFTNet FIN service, while the SWIFTNet services "InterAct", "Browse" and "FileAct" will be used for information and control services.

Three netting systems handle low value clearing

Low Value / Net Clearing - Sumclearing

In Denmark there are three netting systems whereby net amounts are settled via banks' accounts with Danmarks Nationalbank. Net amounts cannot be settled unless there are sufficient funds on the banks' accounts with Danmarks Nationalbank. Sumclearing is described below. Information regarding the other two netting systems - VP System for Securities and FUTOP (futures and options) - can be found on the Central Bank's website.

- Participants: Sumclearing has around 68 direct participants. In addition, close to 98 indirect participants clear through the direct participants. The participants must adhere to the technical and financial standards set out by Finansraadet at all times
- Transaction types: The Sumclearing handles all low-value payments in DKK e.g. credit transfers, debit cards (Dankort), cheques and direct debit (BetalingsService). Further, the Sumclearing handles low-value payments in EUR, but such are restricted to credit transfers only. That is, a direct debit through BetalingsService can not be debited in Euro. No amount limits exist
- Pricing indication: The fee for participation in the Sumclearing consists of several components and will vary depending on how much of the common infrastructure a participant chooses to subscribe to. No distinction is made between fees for participation in the payment instruments that are cleared and settled in the Sumclearing and fees for participation in the Sumclearing per se.
- Operating hours: The Sumclearing operates around the clock. The normal settlements via the participant's account with Nationalbanken takes place during the night and the last one for DKK is at 3.30 a.m. For EUR payments the last normal settlement run is at 7.30 a.m.
- Clearing cycle details: In a netting system payments between banks are accumulated stating the individual bank's claim or liability. Per bank a net amount is calculated and at a fixed time, normally once a day, the amounts are exchanged. In the two big netting systems the net amounts are settled via KRONOS. To settle the net amounts the banks must have sufficient funds in their accounts with Nationalbanken, or they can provide collateral in the form of securities approved by Nationalbanken. If all payments are not cleared through the normal settlements early in the morning (e.g. due to lack of funds on one of the participants accounts) extra settlements will be run:
 - Cut-off, EUR: Extra settlements can be run until 14.30 for same day settlement at the receiver's (client's) account
 - Cut-off, DKK. Extra settlements can be run until 9.00 for same day settlement at the receiver's (client's) account.

Payments & Collections Methods & Instruments

Denmark is for all intents and purposes a cash-less society

Introduction

Debit card transactions continue to dominate the market in both volume and value terms, while credit cards are gaining in popularity. Cheques as a means of payment continue to decline. Regarding business-to-business transactions, electronic credit transfers have been the preferred means of payment for more than a decade.

Danish banks have been implementing SEPA (Single Euro Payments Area) standards for EUR-denominated payments. The country's banks now issue SEPA-compliant debit cards (although the country-standard Dankort debit card is not SEPA compliant) and also now offer pan-European SEPA credit transfers. SEPA direct debits however will not be available until 1 November 2009 at the earliest.

Volume of Transactions (millions)

	2005	2006	2007	% change
Debit cards	620.57	722.31	794.93	10.1
Credit cards	44.63	49.39	80.38	62.7
Credit transfers	254.55	266.29	277.63	4.3
Direct debits	168.09	175.33	185.51	5.8
Cheques	25.8	19.4	11.9	-38.7
Total	1,117.32	1,232.75	1,338.45	9.5

Value of Transactions (DKK billions)

	2005	2006	2007	% change
Debit cards	237.46	272.35	297.58	9.3
Credit cards	30.38	32.96	45.24	37.3
Credit transfers	3,828	4,253	4,580	7.7
Direct debits	490	523	567	8.4
Cheques	512	368	247	-32.9
Total	5,097	5,449	5,737	5.3

Note: Percentage change calculated from 2006-2007

Sources: ECB Statistical Data Warehouse

The nation-wide debit card, Dankort, dominates card payments

Card Payments

The number of credit cards in circulation passed the million number mark for the first time in 2006, although saw a decline in 2007. Despite this, this form of payment saw a significant increase in the volume and value of credit card transactions. Debit cards in circulation also continued to grow, reaching 4.5 million. Debit cards saw the largest increase in usage during the past year. The nation-wide standard Dankort dominates the debit market. Almost 95% of all Dankort transac-

tions are made as electronic payment for purchases in shops in Denmark. The main reason for the success of Dankort is the utilisation of the EMV system in Denmark – which was fully enabled on 1 January 2008. EMV is now both secure and fast enough for the average transaction, and in combination with the PIN, consumers use Dankort for a wide range of payments.

Compared to its population size of just over 5 million, Denmark has an extraordinarily large number of debit card transactions. Part of the reason is that debit cards are used for paying smaller amounts; the average value of a debit card transaction is approximately DKK 260 – 60% higher in Germany and 20% higher in the U.K. The major factor is, however, the fact that the Dankort, backed by the entire banking industry, was introduced more than 20 years ago. The Dankort was migrated to a Chip & Pin-code based system in 2004 to enhance security.

The number of credit card transactions reached an all-time high in 2007. As many Danish banks are now offering loyalty programmes, including subscription-free MasterCard or Visa cards, many Danish household have a credit card available. As credit cards represent a common method of payment via the Internet, online credit card transactions increased heavily in 2007.

At the end of 2007 Denmark had nearly 83,500 Point of Sales terminals, a decline of more than 15% from the previous year and over 20% decline from the high in 2004. There were 3,129 ATM-machines.

Close to 100% of all salary and wage payments are effected via credit transfers

Credit Transfers

Continuing the trend from previous years, the average size of a credit transfer increased in 2007 year-on-year, as the aggregate value of this means of payment grew faster than the volume.

Non-urgent credit transfers are extensively used for person-to-business and business-to-business payments heavily supported by the rapid adoption of home / e-banking solutions both for persons and corporations. From a client's perspective the payment float is day + 1 (debit sender's account day 0, credit recipient's account day 1). The cut-off for transmitting non-urgent credit transfers to the banks is usually around 6 or 7 p.m.

Further, Denmark has a system of paper-based transfer forms: A giro form (GIK) and a bank form (FIK). Historically, the transfer form (giro) was offered solely by the postal service (the GIK). Nowadays, the two forms have the same functionality / sub-types and the same float (2 days). The functionality includes different payment advice possibilities; one sub-type of the form is without a unique identifier of the customer – this can somehow be compared to a credit transfer with remittance advice stating the payer's name, address and a message. The other sub-type of the form offers automatic reconciliation as it provides for a unique payment reference. The GIK transfer form is offered solely by Danske Bank (following its merger with BG Bank). The FIK form is offered by all banks.

Urgent credit transfers (same day settlement) are primarily used for high-value payments between banks and to a limited degree by larger corporations.

Direct debit is the most widely used means of bill payment

Direct Debits

The direct debit scheme is free of charge to debtors, whereas creditors are charged according to the number of transactions. There are no formal rules limiting the types of payment which can be handled in the scheme. The direct debit scheme has become the most widely used means of paying bills in Denmark, and most Danish households are connected to the scheme. Direct debits have seen steady increases in their usage over time. In the latest period their volume growth was 5.8% and value growth was some 8.4%.

Cheques are still used for B2B payments though their decline continues

Cheques

Cheque payments are almost an unknown phenomenon for person-to-business payments. Debit cards, credit transfers via home-banking and BetalingsService has completely taken over. The volume and value of transactions decreased by over 30%.

The cheque still plays a role for business-to-business (including business-to-public, i.e. government) payments, at least in value terms. Especially, settlement of VAT and taxes is to some extent still done via cheques. Probably due to the fact that larger corporations can save a number of float days by submitting a cheque instead of transferring the amount via a credit transfer. Activities to change the process are however ongoing, as both consumers and corporates in the future will have their account number registered for all payments from public authorities via a NemKonto (EasyAccount). As a result of this development, the use of cheques is expected to decrease further.

Electronic Banking

E-banking services are widespread and highly utilised

Introduction

In recent years almost all sorts of banking services suited for electronic processing have been migrated to the internet. There are no country-wide standards or any multi-banks offerings on the Danish market - besides the major Treasury Management Systems, which are only used by a handful of multi-national corporations.

There are more than 3.3 million private net banking agreements and over 228,000 corporate net banking agreements established in Denmark. According to Analyse Danmark, a market research consultancy, nearly all Danes with net banking agreements use them at least once monthly. This trend has resulted in many banks changing their branch networks to focus more on advisory services rather than transactions, although the latter can still be performed at most, but not all, locations.

Web-based platforms provide the majority of services

General Functionality of EBS Offerings

Many banks have shifted the focus from PC based electronic banking systems to web-based platforms. The services offered through the World Wide Web include payment transactions, account information, inter-company netting solutions, FX dealings and information etc. Even though the web-based solutions are becoming more and more advanced, a number of banks still offer more sophisticated services via PC-based tools as well.

Standard and more advanced host-to-host solutions are widely available

EDIFACT / Host-to-Host Solutions

The corporations' growing efforts of streamlining payment processing is supported by a number of Danish banks. Host-to-host solutions are provided for domestic as well as international payments. Usually, the major cash management banks - i.e. Danske Bank, Nordea and the international players - will accept payment instructions in their own proprietary formats as well as in the EDIFACT format. The most common EDIFACT messages are supported.

In addition to providing standard host-to-host connections vis-à-vis the major ERP systems on the Danish market, the banks also provide standard PC-upload solutions - e.g. CSV file extract from the ERP-system and upload to the electronic banking solution for approval and processing. This service is also offered by the mid-sized Danish banks.

Dankort is the card of choice for paying over the internet

E-payments

Card payments over the Internet are increasing dramatically. In general, micropayments (electronic purse) are offered by a number of 'global' players. Such solutions usually rest on two important prerequisites: 1) Prepayment and 2) Set-

tlement via debit or credit cards. There are also some local Danish providers, however, none has significant market share. The majority of online payments are completed using debit and/or credit cards like Eurocard and MasterCard, however, the vast majority of customers use their regular Dankort or Visa/Dankort. In March 2006 PBS (operators of the sumclearing payment system) announced a price reduction in fees charged for the use of the Dankort over the internet. Industry estimates point to an expected reduction of 10 million Danish krone yearly.

Invoicing to government since February 2005 must be presented electronically

E-invoice / EBPP

The Danish banks do not offer proprietary electronic bill present and payment solutions. However, Danish Payment Systems Ltd, PBS (owned by the banking industry) markets a bank independent solution called 'E-faktura' (e-billing). E-faktura is based on transfer forms and is integrated with some medium scaled ERP-systems and the e-banking solutions from a number of banks. The E-faktura solution will convert invoices into e-mails, which can then be uploaded to the ERP-system of the recipient to be approved and paid following the standard procedures of the payer.

As of February 1, 2005 public authorities are by law entitled to postpone a payment, if the invoice was not forwarded by electronic means. This resulted in total chaos in the beginning since neither corporates nor government entities were prepared for sending / receiving e-invoices. Nonetheless, the system is now up and running smoothly and has resulted in an increase in the use of e-billing solutions. E-faktura now offers a total solution which can handle all types of customers, from corporate to private and public/governmental, allowing the end-customer to decide if the invoice shall be electronic or paper.

Cash Pooling Solutions

Leading Danish banks provide a wide variety of cash pooling solutions

Notional pooling (on a domestic basis) is only available from the major cash management banks

Zero or target balancing, as well as Single Legal Account Pooling, is available

Multicurrency and/or cross border liquidity optimisation solutions vary

Introduction

In terms of products and services the environment for a smoothly running cash pool solution is in place. A drawback, however, is the Central Bank's reporting requirements for payments between residents and non-residents. The reporting requirements might have been a reason for development of the quite sophisticated notional, multi-currency cash pooling solutions offered.

Notional Pooling

On a domestic basis, only the major cash management banks offer notional pooling. The solutions offered to avoid co-mingling of funds include interest enhancement / interest apportionment schemes and more rarely, pure interest netting. Such solutions all retain the autonomy of the individual participant and distribute the benefit of the set-off of balances according to agreement with the bank. As the bank cannot set-off the account balances in its own books due to Capital Adequacy Regulations a spread between the debit interest rate and the credit interest rate will be charged.

Cash Concentration

Domestic cash concentration in the form of zero or more rarely target balancing is offered and used by larger corporations in Denmark. Another instrument where funds physically are co-mingled is the Single Legal Account Pooling. This solution is based on a single, external bank account where all physical payments take place. Each participant (could be separate legal entities) will then have a virtual reference account, where the payments of that participant are mirrored. Hence, each legal entity will perceive the solution as if they have had their own physical bank account. The advantage for the bank compared to notional pooling schemes is that balances can be off-set for the purpose of calculating capital adequacy ratios.

Multicurrency and Cross Border Pooling

On a cross-border basis notional as well as cash concentrating pooling schemes are offered on a single currency basis. However, the primary tool for pooling is zero-balancing. A few banks offer multi-currency zero-balance solutions on a cross-border basis by way of standing orders. These solutions however, do not include interest calculations, intercompany loans/deposits etc. Multi-currency notional pooling schemes are provided by the major banks in Denmark, offering interest compensation / enhancement. These highly sophisticated products will normally target the larger Nordic multinationals or subsidiaries to international corporations with a significant Nordic presence. Other means of optimising liquidity is via inter-company netting or leading and lagging of supplier payments.

Tax Issues

Tax information is general and individual advice should be sought

Resident companies' income is subject to the territorial principle

The corporate tax rate is 25%

Introduction

The following tax information, last updated by PricewaterhouseCoopers in April 2009, should be considered general and individual advice should always be sought.

Tax Liability

A company is considered resident and thus liable to tax in Denmark if it is either incorporated in Denmark or if its day-to-day management is carried out in Denmark. Resident companies are subject to tax on their Danish income only (territorial principle) and foreign companies are limited liable to tax only on Danish source income.

Under certain circumstances, Danish private limited liability companies may be classified as transparent entities for Danish tax purposes and thus not regarded as tax residents in Denmark. Limited and general partnerships are treated as transparent entities for tax purposes.

Tax Base

In general, taxable profits are determined on the basis of a profit and loss account prepared in accordance with Danish accounting principles, which follow international standard accounting principles, taking into consideration differences between accounting and taxation principles.

The corporate tax rate is 25 %. Companies, branches and permanent establishments are subject to the same tax rules, while life insurance companies, pension funds, oil companies and shipping companies are subject to special tax regimes.

The income year corresponds to the calendar year unless a different income year is elected. Companies are required to prepay a part of the income tax during the income year in question corresponding to 50 % of the average tax paid in the 3 preceding income years. Additional voluntary payments can be made. Any underpaid tax is payable in the following year and charged with an interest of 6.1 % for 2009, which is not deductible for tax purposes. Any overpaid tax is compensated with a non-taxable interest of 2.6 % for 2009.

Annual depreciations on assets are generally made under the declining method, but the straight-line method is used for e.g. buildings and acquired goodwill. Any depreciation recapture in connection with the sale of an asset will be subject to corporate income tax. For certain assets different depreciation rates have been reduced as of income year 2008.

Restructuring, i.e. mergers, divisions, transfer of assets and share for share exchanges may be carried out tax exempt provided the conditions therefore are met.

Tax losses from 2002 onwards can be carried forward for an infinite period of time. There is no possibility for carry back of losses.

Tax consolidation is available

Tax Consolidation

Danish tax law provides for compulsory domestic tax consolidation for all Danish companies and Danish branches within a Group. However, cross-border tax consolidation with all Danish and foreign Group companies and branches can be elected, generally for a binding period of 10 years. The group definition for tax consolidation corresponds to the Group definition in the Danish accounting standards, which follow international standard accounting principles. The consolidated taxable income is calculated for the income year the companies and branches have been Group related. Danish tax consolidation provides for immediate loss utilization by means of pooling the taxable income and losses of the companies involved. The result is an offset of losses of one Group member against profits of another. Tax losses incurred before the tax consolidation cannot be utilized in the new tax consolidation.

When a foreign subsidiary steps out of the group tax consolidation, previous losses that have been offset against income in other Group companies will be recaptured to some extent.

Under certain conditions, tax exempt group contributions are allowed from a parent company to its direct or indirect subsidiaries or between sister companies. It is a requirement that the companies can be consolidated for tax purposes. The group contribution is not deductible for tax purposes for the contributing company.

Tax exemption of inbound and outbound dividends is available provided certain conditions are met

Inbound and Outbound Taxation of Dividends

A Danish company is not taxed on inbound dividends received from Danish or foreign subsidiaries provided the Danish company holds at least 10 % of the shares for a continuous period of 12 months and the dividend distribution takes place within that period. Further, it is a condition that the distributing company is resident within the EU or in a double tax treaty state. If these conditions are not met, an amount corresponding to 66 % of the dividend will be taxed at a corporate income tax rate of 25 %. With the reduction of the corporate tax, dividend from such companies will be taxed at 16.5 %. For shareholdings under 10 %, only 66 % of the distribution would be taxable.

Tax exemption only applies to dividend from:

- subsidiaries resident in Denmark, in an EU/EEA member state, the Faroe Islands, Greenland or a country with which Denmark has concluded a double tax treaty
- subsidiaries participating in international joint taxation under Danish rules
- subsidiaries controlled directly or indirectly by the parent company itself.

In principle, dividend payments to foreign companies are subject to a 28 % with-

holding tax, unless the recipient is entitled to the benefits of a double tax treaty or the EU Parent-Subsidiary Directive and holds at least 10 % of the share capital of the Danish company for a continuous period of at least 12 months. If these conditions are not met, dividends could be subject to a reduced withholding tax rate according to a double tax treaty.

Taxation on gains and losses depends on the holding period, other special rules may apply

Taxation of Capital Gains and Losses on Shares, Bonds, Debts, Receivables and Financial Contracts

A Danish company can dispose of shares tax-free after a 3 year holding period, irrespective of participation. Losses from the disposal of such shares cannot be deducted.

Losses from the disposal of shares held for less than 3 years can only be offset against gains realized from the disposal of other shares held for less than 3 years. Any losses incurred from 2002 onwards exceeding the gains can be carried forward infinitely and offset against such gains in later income years.

Special rules apply to shares in Danish and foreign companies, which are considered investment companies, i.e. companies that invest in securities and the units of which are, at the request of the holders, repurchased or redeemed out of the company's assets. As for the income year 2009 the special rules generally also apply if the company has more than 8 shareholders. Capital gains or losses on such shares are taxed on a mark-to-market basis.

Capital gains and losses on bonds, debts, receivables and financial contracts are taxed at a corporate tax rate of 25 %. Special rules apply with respect to the deductibility and taxation of gains and losses on intra-group debts and receivables. Furthermore, special rules apply to certain financial contracts.

Companies which - under the old joint taxation rules - have used foreign losses which have not been recaptured will not be able to take advantage of the reduced corporation tax rate in relation to the recapture. This is because under the transition rules existing recapture balances were converted to tax value according to the rate at the time, i.e. 28 %.

New CFC taxation entered into force in July 2007

CFC Taxation

The former Danish CFC-rules have been considered to be in violation of EU law based on the Cadbury Schweppes ECJ judgement and cannot therefore be applied. Therefore, a new Bill was passed that applies to 1 July 2007 and later. According to the new rules, a Danish parent company has to include the CFC income of a foreign subsidiary in its Danish income tax return, if

- the Danish parent company directly or indirectly holds shares in the subsidiary and has controlling interest (typically controls more than 50 % of the voting rights) in the subsidiary (Danish or foreign),
- the subsidiary's CFC income exceeds 50 % of the subsidiary's total taxable income, and
- the subsidiary's financial assets on average amount to more than 10 % of the

subsidiary's total assets in the income year.

The CFC-rules now include subsidiaries in any countries irrespective of the subsidiary being low taxed or not. CFC income is taxed at a rate of 25 % with relief for foreign taxes.

Withholding taxes of up to 30% can apply

Withholding Tax

Interest payments on intra-group debt (i.e. more than 50 % direct or indirect ownership including shares held by other group companies) can be subject to a 25 % withholding tax. However, in principle, withholding tax on intra-group debt is only imposed on interest paid or accrued to a non-EU/non-double tax treaty state creditor.

Royalty payments are subject to a 25 % withholding tax on the gross amount. However, royalty payments to associated companies resident in the EU are exempt from withholding tax. By associated companies is meant that the payer has a 25 % holding of shares or voting rights in the recipient or vice versa or that both the payer and the recipient are jointly held by the same parent company by at least 25 % of the shares or voting rights. It is a condition that the holding period is at least 1 year and that the payment takes place within that period. Further, royalty payments can be subject to a reduced withholding tax rate according to a double tax treaty.

Transfer pricing rules are mainly based on OECD guidelines

Transfer Pricing and Thin Capitalisation

According to Danish transfer pricing rules, which are mainly based on the OECD guidelines, all inter-company transactions must take place on an arm's length basis. Written documentation substantiating that transactions have been performed at fair market value must be prepared and presented to the Danish tax authorities on request.

The Danish thin capitalisation rules apply to Danish companies or Danish permanent establishments controlled by Group companies (i.e. more than 50 % direct or indirect ownership including shares held by other Group companies) with debt to either Danish or foreign group companies ("controlled debt").

If the debt/equity ratio of the Danish entity exceeds 4:1, calculated at fair market value on the last day of every accounting year, part of the interest expenses (and to a certain extent capital losses) on the controlled debt may not be deductible for tax purposes. The limitation of interest deductibility only applies if the controlled debt exceeds DKK 10 million and only to the part of the controlled debt which should be converted into equity in order to meet the 4:1 ratio. However, a conversion of debt is not required.

If it is possible to justify that the interest rate and other conditions to the loan arrangement have been concluded on an arm's length basis, the thin capitalization rules would not apply.

As of 1 July 2007 net financial expenses such as interest income and expenses, taxable gains and losses on receivables, payables, bonds and financial contracts etc. are deductible only to the extent they do not exceed 6,5 % (for income year 2009) of the tax value of a company's assets. The qualifying assets are the taxable values of depreciable assets, acquisition price incl. any improvements on non-depreciable assets, taxable losses to be carried forward, 20 % of the value of shares in foreign non-consolidated companies. Shares in Danish companies and intra-group goodwill do not qualify. Net financing expenses up to DKK 21,3 million (for income year 2009) are always deductible, whereas any net financial expenses exceeding the 6,5 % limitation is irrevocably lost.

Further, also as of 1 July 2007, the taxable income before interest deduction (EBIT) cannot be reduced by more than 80 % as a result of net financial expenses. Net financing expenses up to DKK 21,3 million (for income year 2009) are always deductible. Any net financial expenses subject to limitation according to this EBIT rule can be carried forward.

There are no capital or stamp duties

Capital or Stamp Duties

There is no capital duty when establishing a Danish company or share transfer duty upon the transfer of shares in a Danish company. Nor is there stamp duty on the transfer of e.g. goodwill and assets.

Together with Sweden, Denmark has the highest VAT in the EU at 25%

VAT and Payroll Duty

VAT is levied on the supply of goods and services at a rate of 25 %. All companies with an income exceeding DKK 50,000 are required to register for VAT. Certain services are VAT exempt, e.g. the transfer of real estate, insurance and reinsurance, certain financial services and passenger transport. VAT exempt activities reduce the right to deduct input VAT relating to the activities.

Most VAT exempt activities are liable to a specific payroll duty. The calculation of the payroll duty depends on the nature of the VAT exempt activity. Financial companies will be liable for 9.13 % of the payroll covering the persons working with the VAT exempt activities. Other companies will be liable for 3.08 % of the payroll plus/minus 3.08 % of the profit/loss relating to the VAT exempt activities. Profit and losses do not include interest and foreign exchange gains and losses.

Income taxes are withheld on a monthly basis

Employer Obligations – Tax and Social Security Withholdings

Employers are required to withhold income tax on wages on a monthly basis. Employers are also liable for contributions to a supplementary pension fund and payment of work and accident insurance. These contributions are deductible for tax purposes. Danish social security annual rates for the employer are labour market supplementary pension of DKK 2,160 for 2009 and work and accident insurance. The contribution to the latter is determined by the nature of the specific employer's work, e.g. the annual rate for clerks is approx. DKK 3,000.

Source and Contacts

Sources used for this country profile

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The Danish Financial Supervisory Authority	www.finanstilsynet.dk
Legal Information Online	www.retsinformation.dk
Ministry of Finance	www.fm.dk
Ministry of Economic and Business Affairs	www.oem.dk
The Danish Commerce Companies Agency	www.eogs.dk
Danish Payment Systems Ltd	www.pbs.dk
Association of Local Banks	www.lokalepengeinstitutter.dk

Contact Danske Bank for cash management services

Danske Bank Contacts

See www.danskebank.com/corporate for contact persons for all countries.

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Country Research

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