Department of Business Administration
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Connection between current financial position and risk disclosure in annual reports: example of six European banks

BUSP03, Degree Project

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Abstract

Title:
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Key words:
Banking, Risk, Disclosure, Financial position, European banks

Purpose:
The aim of this research is to find out if there is connection between current financial position of banks and level of risk disclosure in their annual reports.

Methodology:
The thesis is based on an abductive approach. Research strategy of this research is a qualitative method. Learning of annual reports is used as a method of collecting empirical data. Comparison was based on a selected model.

Theoretical Perspectives:
The theoretical perspectives of the thesis are mainly based on review of existing points of view on disclosure in publicly available information of banks, including disclosure of risk-related information. Agency theory was used as well.

Empirical Foundation:
The empirical data was collected by studying of the participants’ annual reports, especially parts related to risk and risk management. Comparison of that data was realised by using a comparison model.

Conclusions:
Obtained during the investigation empirical evidences let conclude that there is positive connection between current financial position of banks and level of risk disclosure in their annual reports: banks with high financial positions disclose more risk related information than banks with lower financial positions. However, the result of the research cannot be easily generalized beyond its scope.

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Abbreviations

AICPA American Institute of Certified Public Accountants
AMA Advanced measurement approaches
CEM Current exposure method
CCR Counterparty credit risk
EAD Exposure at default
ECA Export credit agency
ECAI External credit assessment institution
EITF Emerging Issues Task Force
EL Expected loss
HVCRE High-volatility commercial real estate
IAA Internal assessment approach
IFRS International Financial Reporting Standards
IMA Internal models approach
IMM Internal model method
IRRBB Interest rate risk in the banking book
IRB approach Internal ratings-based approach
I/O Interest-only strips
FASB Financial Accounting Standards Board
GAAP Generally accepted accounting principles
LGD Loss given default
PD Probability of default
RBA Ratings-based approach
SEC Securities and Exchange Commission
SL Specialised lending
SFA Supervisory formula approach
SM Standardized method
SME Small- and medium-sized entity
SPE Special purpose entity
VaR Value at risk

1. Introduction

This chapter includes discussion of the current financial crisis as a background for the research. Furthermore, I discuss the problem of transparency and disclosure in banks' reporting and state the aim of the investigation.

1.1. Background: the financial crisis of 2008

The financial crisis, which all of us are living through nowadays, is a severe test for the modern economical system. It is hardly possible to find a country or a sector of the economy, which would be not effected by negative influence of the crisis. The extent of the financial crunch is, probably, difficult to overvalue, so it let us talk about the financial crisis as a really global event. Many experts agree that there is no quick and effective solution to change that situation. (Altman, 2009; Hane, 2009; Schramm, 2009)

The present crisis is a very difficult one for both economically developed countries, such as European countries and United States, and for developing countries for the last decades. While countries with traditionally strong economies try to keep balance and use their resources for own needs, they don't provide economical support and investments in other countries. So economy of many developing countries, which had a material benefit of foreign capital, became significantly weaker. (Altman, 2009)

The first negative results of the crisis became visible a long time ago. The least favourable news we hear from USA, where the crisis initially started. According to some prognoses from professionals, U.S. has really difficult times, so the country is on its way to loose the status of economical centre of the world. One of the most difficult problems here is the household sector. (Altman, 2009; Turner, 2008). During only one and a half year value of Americans home equity sank dramatically. And this happens in circumstances, when "Americans' largest single asset is the equity in their homes. Total home equity in the United States, which was valued at $13 trillion at its peak in 2006, had dropped to $8.8 trillion by mid-2008 and was still falling in late 2008."(Altman, 2009, p.2) However, the crisis in USA has spread much further than to the housing sector. Lack of consumer confidence as well as high level of unemployment became an unavoidable part of American reality. (Graves Jr., 2009)

One of the most negative consequences of the current crisis, which can have a harmful impact on global economy, is fear of consuming of different levels, including private and businesses consuming. (Altman, 2009; Schramm, 2009). According to Schramm (2009), the Royal Bank of Canada's recently presented some results of RBC CASH (Consumer Attitudes and Spending by Household) Index for USA, which showed that "U.S. consumer confidence dropped 32 points in October-the largest single-month decline in overall sentiment since the Index began in January 2002" (Schramm, 2009, p. 5). The situation is similar for European consumers as well, who are spending less and less. Obviously, that fact can lead to a chain reaction with more negative consequences for the economical situation in different countries and the economy in general.

The financial sector has a period of dramatic changes as well. In circumstances of current financial crisis banks prefer a very conservative approach in doing business. It leads, in its turn, to more and more strict rules concerning lending. There is high possibility that this tendency will be the main one in the nearest future (Altman, 2009). Those facts are highly harmful for global economy in crisis environment today.

When experts try to find out an answer for the question Who caused the crisis?, there are always several versions: Banks, which were not careful enough in evaluation of paying ability of their clients; Financiers, who thought just about short-term earnings; Regulators with lack of regulations and so on. (Holmes, 2009; Turner, 2008). Another question here is if the financial crisis was really so unpredictable, as it is often described, and the shock was understandable. Or financial analysts missed some warning signs in reported information, including reporting of the banking sector. Was it possible to find some useful information?

1.2. Problem: disclosure in annual reporting of banks

The problem of transparency of publicly available financial information in the banking sector is one of the most widespread topics for discussion today. Many experts underline the importance of higher level of disclosures of financial information for stabilisation of the economy in circumstances of the current crisis and for reducing its negative consequences in the future. (Gardner, 2009; "Finance And Economics: Full disclosure, Economics focus", 2009; Laux, 2009; Homölle, 2009; Wild et al, 2008; Jenkinson, 2008)

It is difficult to overvalue the significance of grater transparency for risk related data in banks' reporting. High level of disclosure assists in efficient monitoring and control of all types of banking activity, including lending, since it becomes easier to analyse the information, to get the correct conclusion and to respond in a proper way. (Gardner, 2009) Obviously, the importance of everything mentioned above, becomes at least double in a critical case.

Financial information that is disclosed in financial reports is the main source, which investors use to learn about a certain bank. It is widely recognized that effectiveness of market discipline depends on how banks disclose information about their financial condition, risks and risk management for other market participants. A lot of attempts have already been done in order to improve transparency in banking financial data. (Staff Study, 2000)

Nowadays financial reports are prepared according to very detailed rules and shall be presented in a certain fixed format. There is a certain legal risk if the bank does not disclose material information, which "has caused banks to become more proactive in disclosing supervisory issues such as board resolutions and memorandums of understanding". (Rosengren, 2007, p. 37)

Anyway, banks today have a large degree of flexibility in how they meet different disclosure requirements. Banking organisations often disclose some information voluntarily, which responds to needs of market participants of supplementary disclosure and let banks discreetly choose what to disclose. The flexibility allowed by regulators leads to differences in the level of disclosure in financial reporting of different banks. (Staff Study, 2000)

The essence of any bank is that it is a risk taking enterprise. It is expected that relevant risk-related information will be released to the marketplace. Homölle (2009) argues that financial reporting does not disclose all sufficient information about the risks that are accepted in a certain banking organisation. However, this information is very important for making an investment decision, so it shall be disclosed in a proper way.

In addition to discussion of importance of high transparency, there is not less active consideration concerning quality of disclosure. Of course, transparency can be effective only if useful information is disclosed. “When information is relevant, standardised and public, it fosters intelligent decision-making. Some behavioural economists call this "simplified transparency", and think similar requirements should be imposed on complex financial products.”(“Finance And Economics: Full disclosure; Economics focus”, 2009, p. 78).

However, increasing transparency doesn’t mean expansion of reporting complexity. Companies are supposed to be concentrated on the most suitable for users information (Laux B., 2009) To summarise, disclosed information shall be understandable, informative, relevant and credible. Those characteristics of reported information could help banks to support investor’s confidence. That would definitely assist in resisting to harmful influence of the crisis. (Dobrisan D, 2008)

1.3. Aim of the research: Differences in risk disclosure in annual reports of banks

The aim of this research is to find out, if annual reports of banks, that have today different financial positions, have differences in the level of disclosure, related to risk exposure and risk assessment. I will analyse to what extent banks are open in their publicly available information for investors. That will help to understand, if there is any connection between the level of disclosure of risk-related information in banks annual reports and their current financial position.

2. Methodology

This chapter starts from discussion of general approach and research strategies of the investigation. Further I describe how I selected participants and a model for comparison to achieve the aim of this research. Then I make a description of the method I use for the process of data collection. Finally I discuss reliability and validity of the research.

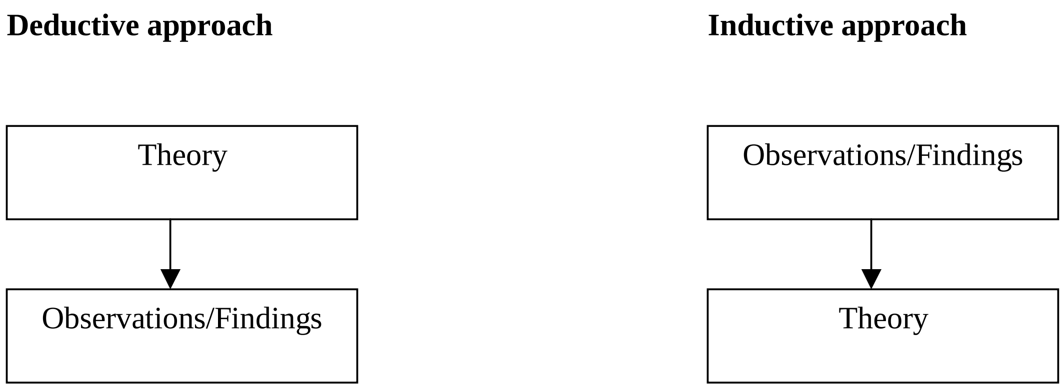
2.1. General approach

A starting point for any research is a logical connection between theory and practice, between theoretical knowledge about the topic of a specific research and empirical evidence, collected during investigation. There are two general approaches to the logical connection mentioned above: a deductive method and an inductive method.

The deductive approach is based on developing a hypothesis from theoretical knowledge and following confirmation (or not) of this hypothesis by empirical data, collected in an observation stage of the research. Inductive method is the opposite of the deductive. It moves from observation and collection of empirical evidence towards general hypothesis and theory. In that sense, the inductive method is more investigative than the deductive, because it doesn't try to "predict" the situation by developing a hypothesis. On the other hand, the deductive method is more exact and closer to theory (Bryman, 2008).

Figure 1 demonstrates the difference between the inductive and the deductive methods in a connection theory – research.

Figure 1. Deductive and Inductive approaches to the relationship between theory and research*



* Bryman (2008), p.11

This research is based on a mixed approach. On one hand, I start the investigation with studying theory, related to the topic of the work. That helps to comprehend the nature of the subject and assists in understanding its details during the work. On the other hand, I don't develop any hypothesis to confirm, just collect the empirical evidence for further analysis and making of an appropriate conclusion.

As it was mentioned earlier in the paper, disclosure of banking financial data is a highly disputed item today, especially in circumstances of financial crisis. So it is very interesting to show the quality of risk disclosure in publicly available information of banks in practice.

The research started with a review of some theoretical information, related to my aim: banking operations; banking regulation concerning disclosure; risk disclosure in banks. Furthermore, I collected empirical data by detailed studying of annual reports of chosen banks. Then I compared information about those banks with help of a comparing model to understand, if there is a connection between banks' financial position and the level of disclosure of risk-related information. Finally, I analyse the results of the comparison and make a conclusion.

2.2. Research strategy

There are two basic research strategies for data collection: quantitative and qualitative methods. Concerning the relationship between theory and research, quantitative method has a strong connection to the deductive approach, "testing of theory", while qualitative method entails the inductive approach, "generalization of theory" (Bryman, 2008)

Bryman (2008) discuss the principle differences of those two research strategies. First, the qualitative method intends using words, while the quantitative method suppose using numbers. Second, the qualitative method provides participants' point of view, while the quantitative – researcher's point of view. Third, the quantitative approach presents often a static picture of investigation, while the qualitative method shows a process, changes. Forth, the quantitative method based on using "hard" data and reliable facts, while the qualitative approach use "rich" data, deep information.

The quantitative approach is characterized as well by relatively large number of participants and collecting fixed facts about them. The qualitative approach, unlike the quantitative, suppose to use relatively few number of participants, but deeper and more detailed work with them, for instance, studying the whole of their environments and reasons for a specific situation.

Since the aim of this research is risk-related disclosure in financial statements of banks, the qualitative approach is more appropriate. The method I use for collecting information for comparison is based on a watchful review of annual reports of chosen banks. Hence, detailed descriptions are an essential part of my work, so I mainly apply "words", not "numbers". I also use deep and detailed information about banks' risks disclosure, because it is the only way to find out if there are any differences in reporting of the banks. I investigate disclosure of risk related data not as a fixed image, but as a process with changes, when the banks show less or more detailed information about what they have changed during the reporting period and plan to change later.

2.3. Choice of banks

To reach the aim of the thesis, I make a comparison of annual reports of six banks with different current financial positions from different countries for the reporting period 2008. I was interested in that period because it was the time when many banks declared bankruptcy in a situation of the financial crisis. All chosen banks offer broad financial services, work with both individual and corporate clients and have international branches.

The banks for investigation were chosen according to several criteria. First, all of participants should have publicly available annual reports for 2008 on their official websites. Second, it was necessary that all of the banks publish an English version of their annual reports. Obviously, these two criteria are principally essential for realization of the research.

Furthermore, the selected banks should be from the same region. It is well known that different reporting practice can be caused by diversity of business, accounting and auditing traditions, differences in interpretation of different kind of standards and capability of enforcement in specific countries (Nobes et al, 2008). Also, every country has its own laws and political issues, which can influence financial reporting as well. To minimize differences in disclosure of risk-related information by banks, caused by mentioned above factors, and to be more concentrated on the quality of the disclosure itself, I decided to focus the research on European countries. Despite some differences in financial reporting traditions in different parts of Europe, it is one economical area and banks are following the same regulations, including Basel II. So all chosen banks are European, although they are from different countries.

A next criterion was that banks should have different financial positions, so it was possible to realize the aim of the research. My original idea was to select six banks and to divide them into three groups: banks with strong financial positions, banks with weak financial positions and banks with middle positions compared to the first two groups. Surprisingly, it was much easier to find two European banks with undeniably stable financial positions, than banks with very similar weak or middle position. However, I selected banks and divided them into groups as it was planed, even if banks inside the weak and the middle groups had some differences in financial positions between each other.

The current financial positions of chosen banks were assessed by comparison their ratings, prepared by the largest rating agencies today:

- Moody's
- Fitch Ratings
- Standard & Poor's.

According to all mentioned above criteria, the following banks were selected:

1) Handelsbanken, Sweden
2) UBS Bank, Switzerland
3) KBC Bank N.V., Belgium
4) Deutsche Bank, Germany
5) DNB NOR Bank, Norway
6) NIBC Bank N.V., Netherlands

Table 1 demonstrates ratings of each rating agency that were given to the banks on the date 30th of May 2009. Ratings' definitions for long-term, short-term and outlook are explained in Appendix 1 for Moody's, Appendix 2 for Fitch Ratings and Appendix 3 for Standard & Poor's.

Table 1. Ratings of chosen banks

Bank	Country	Ratings								
		Moody's*			Fitch Ratings**			Standard & poor***		
		Outlook	Long-Term	Short-Term	Outlook	Long-Term	Short-Term	Outlook	Long-Term	Short-Term
1.Handelsbanken	Sweden	STA	Aa1	P-1	Stable	AA-	F1+	Stable	AA-	A-1+
2.UBS AG	Switzerland	STA	Aa2	P-1	Stable	A+	F1+	Stable	A+	A-1
3.KBC Bank N.V.	Belgium	NEG(m)	Baa1	P-1	Stable	A	F1	Stable	A	A-1
4.Deutsche Bank AG	Germany	NEG	Aa1	P-1	Rating Watch Negative	AA-	F1+	Stable	A+	A-1
5.DNB NOR ASA	Norway	NEG	Aa1	P-1	Stable	A+	F1	Negative	AA-	A-1+
6.NIBC Bank N.V.	Netherlands	NEG	Baa2	P-2	Negative	BBB+	F2	Negative	BBB+	A-2

* Official website of Moody's rating agency.
** Official website of Fitch Ratings rating agency.
*** Official website of Standard & poor rating agency.

As we can see, Handelsbanken has the highest ratings from all three agencies. UBS AG bank has a bit lower ratings than Handelsbanken, but its financial position is still strong. KBC Bank N.V. position is a bit lower than the two previous banks. Deutsche Bank's ratings for long- and short-terms are quite similar to relative indicators of the strongest banks in the list. However, two rating agencies of three assessed negatively its outlook. DNB NOR Bank has got negative outlook from two agencies and the stable from one of them. The last NIBC Bank N.V. has gotten negative outlook from all three agencies.

The participants were divided into following groups:

- **Group 1**(strong financial position) includes Handelsbanken and UBS Bank
- **Group 2** (middle financial position) includes KBC Bank and Deutsche Bank
- **Group 3** (weak financial position) includes DNB NOR ASA and NIBC Bank N.V.

2.4 Model for comparison

To compare disclosure risk related information in annual reports of chosen banks I decided to use a model for comparison, which would let me take the same criteria for all six participants. Following those criteria step by step, I got comparable information for further analysis.

As a model for comparison I chose the Basel II model. This model is the newest, the most actual and detailed for today. According to opinions of many professionals, Basel II is notable for increased risk-sensitive approach. It is based on new risk management methods in banking system and can be used for internal models by banks for calculating risk. Level of risk disclosure, required by Pillar 3 of the Basel II, is often described as an improvement in the banking industry (Rosengren, 2007; Furlong, et al, 2007; Jenkinson, 2008; Linsley et al, 2005; Staff Study, 2000).

It is necessary to mention that there are some critical opinions about effectiveness and usefulness of Basel II approach (Wahlström, 2009; Estrella, 2004), for example that Basel II looks interesting in theory, but not everything really works in practise. Despite those discussions, I think that Basel II is an appropriate model for the research, because it is widely used in practice by banks and it is the best option for risk disclosure so far. Some more details concerning Basel II I describe in the theoretical part, paragraph 3.2.3 The Basel Committee on Banking Supervision: Basel II.

To reach the aim of the research I don't use as a model the entire Basel II document, only its part related to risk disclosure: the Third Pillar – Market Discipline, part II: The disclosure requirements, point D: Risk exposure and assessment. This part includes disclosure requirements concerning credit risk, market risk, operational risk, equities and interest rate risk in the banking book. Since the model has quite large volume, I don't place it here. The full version of Basel II document is available from official website of the Basel Committee on Banking Supervision.

2.5 Data collection

The process of collecting information for the comparison model went in several steps. I started with reading that parts of an annual report that included risk-related information, whether it was a separate chapter about risk or notes to consolidated financial statements. During reading, I made notes in an appropriate table of the model about the fact of disclosure itself and how detailed the disclosed information was. If I found some additional information in annual reports, that was not mentioned in the model, I made a note about it in a separate part. After I have studied the risk related parts of the annual report, I looked through the whole report and made notes in the model if I could find some more information there. The final step of collection information process was searching information by key words in pdf-file of the annual report for those points of the model, where I couldn’t find any information.

For types of risks that were not included in Basel II I used as a model the paragraph 824 of the third Pillar of Basel II. That paragraph describes general qualitative disclosure requirements, which banks shall follow in disclosure of each separate risk. For instance, banks shall disclose for each type of risk, which they have to deal with, their strategies, organisation of risk management function, the scope of risk reporting, measurement systems, mitigating risk policies and other information related for that specific risk area. It seems to be logical to use as a model requirements of paragraph 824 for all types of risks, even for those of them that were not included in the Basel II model.

I worked with annual reports one by one. I began to learn an annual report, read it following all steps mentioned above. When it was ready, I started with next one and so on. In a process of writing the analytical part, I could come back to the annual reports from time to time, when it was necessary, to be sure that I didn’t miss or misunderstood anything. For example, to be sure that I found the same type of information in annual reports of all six banks for a specific point of the model and so on. So the exactly same method was used for all six participants.

In my opinion, for fair evaluation of risk disclosure by the banks it is important to consider both the fact of disclosure itself and that the data it clearly disclosed in terms of the model. Thus, registering the data for the chapter Empirical evidence, first I took note, if information disclosed or not disclosed and second, how informative the disclosed information was. If it was clear, that a certain point of the model is not disclosed, I made a note “no information”. In a case when bank used a certain term, which should be disclosed, but not in the same context as in the model and there was not any other information, I regarded it as not disclosed information and made a note “not clear”.

According to the aim of the research, I compared disclosure of risk-related information in annual reports of the chosen banks. Some of the participants also refer to other sources of data related to risk – separate risk or quarter reports. To understand if those separate reports include information, which could affect the results of the investigation, and to be able to make fair comparison of risk disclosure, I looked through the risk reports as well. I didn’t write the same detailed way about information from the separate risk reports as from the annual reports in the chapter Empirical evidence, just mentioned it. Although those separate risk reports included some additional data, I found that it could not seriously affect the results of the research.

2.6 Reliability and Validity

Reliability and validity are the most common criteria of any research. The reliability of a research means that the research is possible to repeat and to come to the same conclusion, as its author. Validity in context of research basically means that its conclusion is truthful. It is supposed, for instance, that the researcher use an appropriate measurement method concerning a concept of the research and present correct and fair facts. It means that it is possible to generalize the conclusion of investigation further over that specific research (Bryman et al, 2003).

Regarding reliability of this investigation, I can say that I tried to give as accurate explanations as possible of everything I have done. First, I discussed the topic of the research, its actuality and importance. Then I explained in details how and why I chose the participants for that work, including the criteria for banks and sources of rating information. Then I described step by step how the information was collected for comparison model. The analysis of carefully collected information let come to reliable conclusions. In my opinion, the research would be easy to recreate and to get a very similar conclusion, if one decided to follow mentioned in the methodological part description step by step.

Besides, all information that I used for introduction, methodological part, as well as for theoretical and practical parts, was taken from reliable sources: course books, electronic books from LOVISA-system and articles from ELIN-system of Lund University, official websites of the banks and trustful rating agencies. I described where and how I used that information in the thesis.

Validity of this investigation is supported first of all by reasonable choice of the participants and an appropriate model for comparison. However, I think that generalization of the conclusion of this specific research over its context seems to be problematic. It is difficult to expect, that the results of comparison of disclosure risk-related information in annual reports of only six banks would be fair for all banks in Europe or other regions.

Also, I would like to underline that I realised this research from point of view of a usual user of financial information with basic economical knowledge. Since annual reports are designed to fulfil needs of wide range of users of financial information, they should provide data, which is understandable even for users without specific banking knowledge. However, I admit that the result of this research could be different, if it was made by a specialist in the banking sphere.

3. Theoretical part

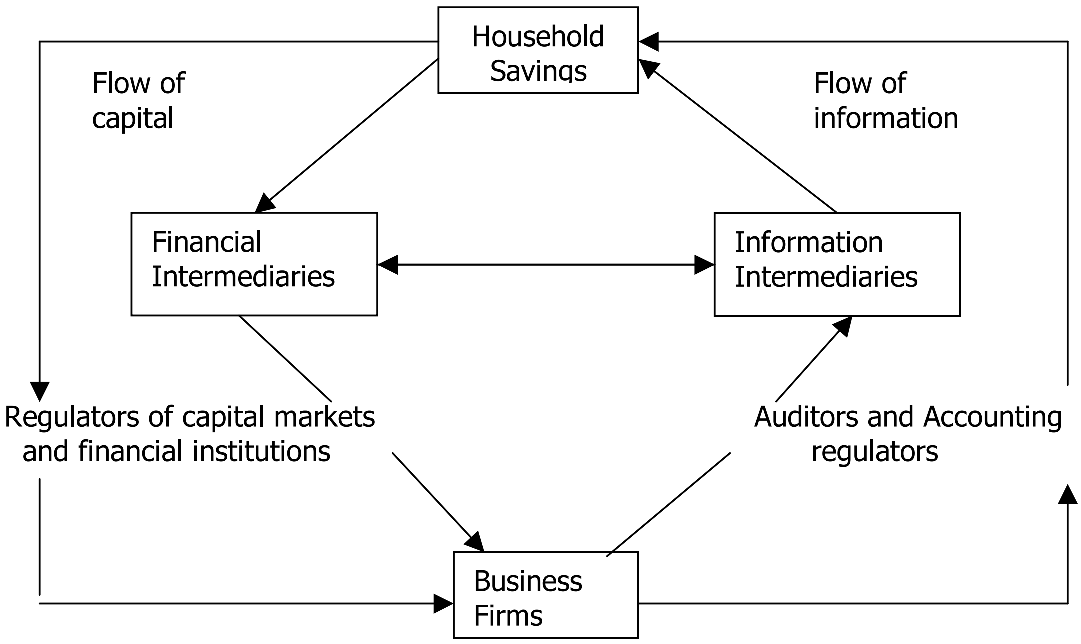
This part provides the theoretical base for the research. First, I discuss banking operations, including the role of banks on the modern capital market, types of banking and risks that banks deal with. Then I argue about banking regulation concerning disclosure in USA and EU, as well as the role of Basel II. Finally I discuss some aspects of risk disclosure in banks, such as regulatory and voluntary disclosure, disclosure in banking and risk reporting in banks.

3.1 Banking operations

3.1.1 Banks' role on the modern capital market

A bank is a type of financial intermediary that offers wide amount of financial services. The role of banks in the economy is possible to understand with the following example. Exchanging of information and financial resources between entrepreneurs and investors can happen directly or through financial intermediaries, for instance banks or insurance companies and information intermediaries, for instance, financial analysts. Figure 2 demonstrates the role of financial intermediaries in the modern capital market.

Figure 2. Financial and information flows in a capital market economy.*



* Healy et al (2001), p.408.

As we can see, basic banks' activity is to be a middleman between a saver and a borrower. Theoretically, a lender (saver) and a borrower don't need any intermediaries, as in case of direct finance. But practical problem arise here, because their wishes are just opposite: a lender wants to get high profit in short period of time, while a borrower prefers low cost for long period of time. A bank helps them to meet their expectations and assists in more effective allocation of financial resources. (Casu et al, 2006).

Of course, this is a very simplified schema of banking services. Modern banks offer much wider products. They can be divided into four groups (Casu et al, 2006):

- Payment services, which include cheques, plastic cards, credit transfers and others;
- Deposit and lending services, that includes current or checking accounts, consumer loans, mortgages and others;
- Investment, pensions and insurance services
- E-banking, which includes e-money, remote payments.

3.1.2 Types of banking

Modern banking system includes many different types of banking. Casu et al, (2006) discusses the main of them:

- Retail or personal banking, which specialises on such personal financial services, as payments, insurance, saving and so on. Retail banking includes Commercial banks, Saving banks, Co-operating banks, Building societies, Credit unions and Finance houses. Almost all of them offer similar types of services and differ from each other by form of ownership;
- Private banking. It is similar to retail type of banking, but it specialises on wealthy customers and prefers long-time relationship and individual contact;
- Corporate banking. Its speciality to work with firms, most often with quite large companies. Services for small companies are similar to offers of retail banking, while for large companies they are different: cash management, debt financing, guarantees, securities and other;
- Investment banking. It specialises on work with large firms, institutional customers and offers a wide range of financial service;
- Islamic banking. It differs from mentioned above Western type of banking by following non-interest principle and using the idea of profit-sharing instead.

3.1.3 Banking risks

Since banks are risk-taking enterprises, it is important to study risks, their nature and ways to resist them. Lets look at how risks are defined in general practice, which is a base for understanding the risks descriptions in an annual report of a certain bank. It is especially important in a sense that definition of the risk is a base for both the qualitative and quantitative assessment of the risks.

Credit risk

Credit risk or counterparty risk can be defined as a possibility that a debtor or financial instrument issuer will be unable to pay interest or will not be able to fulfil all the specific terms mentioned in a credit agreement. Credit risk is an essential part of banking. (van Greuning et al, 2003) It is considered to be the single largest factor affecting the soundness of financial institutions. Credit risk can arise when a bank's funds are: extended, invested, committed or exposed.

Credit risk can appear while the bank provides such banking services, products and activities as: customer credits, bonds, derivatives, credit cards, cash management services, trade finance and so on. (Schroeck, 2002)

Since loans are the largest part of assets of a bank, it is very important to control the quality of the loans. To reduce credit risk it is necessary to make previous investigations of a borrower's paying ability and to continue the monitoring of the situation after the lending (Casu, 2006). The bank can as well try to avoid taking credit risk by choosing the assets with the low level of default risk. However, the profit in banking depends on taking the risk. These assets with the low level of default risk can provide only low return. If the bank's management accepts more medium to low quality loans on its books, credit risk will definitely arise, but at the same time the return will become higher. So the bank's management should form a portfolio of assets, which have different degrees of risk, and always remember that a higher expected return follows higher default risk. (Heffernan, 2005)

Operational risk

The consciousness of facing the operational risk has increased in recent years. It has happened due to a number of well-publicized operational risk failures and a decision by the Basel Committee on Banking Supervision to introduce a capital charge to protect banks against this form of risk. (van Greuning et al, 2003)

The Basel Committee gives a definition for the operational risk as "the risk of loss from inadequate or failed internal processes, people and systems, or from external events". (van Greuning et al, 2003, p. 117)

There are seven risk event types of operational risk, which cause the risk. They are: internal fraud; external fraud; employment practices and workplace safety; clients, products and business practices; damage to physical assets; business disruption and system failures; execution, delivery and process management. (Casu et al, 2006)

Market or trading risk

Market risk is the risk of losses, which are coursed by unpredictable changes in the market price of some factors. These factors are for example: equity prices, interest rates or exchange rates. When the price of one of these factors decreases, a bank's the mark-to-market value of trading portfolio decreases as well. At the same time it affects all on- and off-balance sheet assets of the bank's trading book. So in the worst case it can even lead to a bank's default. (Schroeck, 2002)

Market risk can be divided to general market risk and specific market risk. “General or systematic market risk can appear as a result of the sudden movements in the prices of all market instruments due to some macroeconomic factors. Unsystematic or specific risk appears as a consequence of the uncommon change in price of one of the instruments because of the events related to the issuer of the instrument” (Heffernan, 2005, p 107)

Liquidity or funding risk

Liquidity risk is the disability of the bank to meet its liabilities when they become due. There are two dimensions to liquidity risk. The first dimension is funding (cash) liquidity risk. This risk appears when the bank is unable to raise funds in the market at a cost of equivalent to that of other similar banks. The second dimension of liquidity risk is asset (market) liquidity risk. It is the inability to sell or unwind asset positions in the market. These two dimensions of liquidity risk can be related. For example, the bank that is not able to obtain funds and the market who meets its obligation may have to sell its assets at a lower price or plugging them as a collateral for the loans. (Heffernan, 2005)

Additionally, liquidity risk can be two types. Day-to day liquidity risk, which associates with daily bank’s activity and is quite usual. The second one is a liquidity crisis, which can happen when banks’ withdrawals are unexpectedly high. (Casu et al, 2006)

Interest rate risk

Interest rate risk is another form of price risk as the interest rate is possible to define as the “price” of money. Interest rate risk arises as result coming from the interest rate mismatches. “Banks engage in asset transformation and their assets and liabilities differ in maturity and volume. The traditional focus of an asset-liability management group within a bank is the management of the interest rate risk”. (Heffernan, 2005, p. 109)

Interest rate risk increased dramatically in last years. Since this type of risk can be caused by unpredictable changes in level of interest rates, the current situation was a reason for increasing interest rate risk. (Casu et al, 2006)

Foreign exchange or currency risk

Foreign exchange risk is the risk that is caused by the unfavourable exchange rate fluctuations. These fluctuations will adversely impact the value of the bank’s positions. Foreign exchange risk arises from: spot foreign exchange positions, forward foreign exchange positions, future income or expenses or any other item representing a profit or loss in foreign currencies. (Heffernan, 2005)

Similar to interest rate risk, foreign exchange risk becomes more and more important. Globalisation of business in general, including banking, wide using of foreign investments make companies dependent on changes of foreign exchange rates (Casu et al, 2006).

Equity risk

Equity risk is the risk that occurs when one's investments are depreciated because of the stock market dynamics. The measure of the risk that is used in the equity markets is the standard deviation of a security's price throughout a number of periods. The standard deviation will present the normal fluctuations that one can expect in a particular security above and below the mean, or average. Nevertheless, most of the investors would not consider fluctuations above the average return as "risk", some economists find it necessary to use other means of measuring it. (Heffernan, 2005)

Commodities risk

Commodity is a physical product that can be traded on a secondary market. Commodities are raw or partly refined materials that can be ranked under some general headings such as: *grains, wheats, metals, oils, powers or energy*. Banks apply forward or derivative contracts, while dealing in commodities they face the following risk: basis risk, interest rate risk and forward gap risk. When dealing in spot or physical trading of commodities directional risk is of the main concern. (Heffernan, 2005)

Country and Sovereign risk

Country risk is defined as a risk that banks' financial benefit will be negatively affected by economical or political events in a foreign country. In a rare case when a foreign government is not able to pay its debts, Sovereign risk arises. (Casu et al, 2006)

Risk management

There are different techniques for managing different types of risks (Casu et al, 2006):
- Credit risk management, for instance, includes such procedures as credit checking and credit scoring concerning potential borrower, calculation credit ratios and credit indexes (Expected loss, Loss given default and others).
- Interest rate management includes several analytical procedures as gap analysis, duration analysis and others.
- Liquidity risk management is usually based on liquidity gap analysis and financing gap.
- Managing market risk supposes calculating Value-at-risk (VaR) indicator.

3.2. Banking regulation concerning disclosure

Banking organisations are highly regulated business entities. But the bank regulations, both on disclosure and auditing, vary a lot across countries. In the context of enormous variations in national reporting regimes it is very hard to make a judgement on which banking system is more stable. (Tadesse et al, 2006) It is necessary to look at the specific regulations that form the requirements for the preparation of the financial statements in a certain country. I will briefly look at the regulatory agencies influencing the rules on financial disclosure in the USA and European countries.

Since my research is focused on six European banks, I don't use disclosure requirements for American banking organisations in the analytical and conclusive parts of this thesis. However, I think it can be useful to look at it, because transparency of publicly available information, including risk disclosure, in the banking sector is a highly discussed problem on the international level nowadays. Although USA has its own regulation system, the Basel Committee has influence with it as well.

3.2.1 USA. The role of regulatory agencies in disclosure

In the US the main body that regulates financial disclosure is Securities and Exchange Commission (SEC). The SEC demands from the banking organisations and other firms, which have publicly traded securities, periodical preparation of financial reports. In the United States financial reports are prepared according to the generally accepted accounting principles (GAAP). These principles concern both accounting and disclosure requirements. GAAP is used for financial reporting purposes such as preparation of quarterly or annual financial statements. (Staff Study, 2000)

The disclosure standards in GAAP are mainly based on requirements of the FASB and the American Institute of Certified Public Accountants (AICPA). For the publicly traded companies the disclosure requirements are influenced and set by SEC. At the same time some requirements may come from of organisation Emerging Issues Task Force (EITF). This organisation consists of accountants from different industries, including banking, and is appointed by FASB. (Staff Study, 2000)

There are three main parts of annual or quarterly reports through which publicly traded companies in the USA are to disclose financial information. These sections are:

1. Management's discussion and analysis (MD&A)
2. The financial statements
3. The explanatory notes to the financial statements

Financial statements consist of: the financial position (balance sheet), income, cash flow, and changes in equity and comprehensive income. These documents are the main source of quantitative data. Qualitative information concerning accounting polices and relevant risk management function can be found in MD&A and the notes to the financial statements. At the same time these sections also provide such quantitative information as risk exposures and some details related to balances of financial statements. (Staff Study, 2000)

Not only national bodies influence disclosure requirements in banks in the United States. The Basel Committee on Banking Supervision is one of the international agencies that sway on the banking regulation in the United States. (Staff Study, 2000)

However, American banking organisations are allowed to use flexible approach concerning some of the reporting requirements, including disclosure, by the Securities and Exchange Commission. Banks sometimes make some voluntary public disclosures. These disclosures are made in order to show the market participants how well the bank performs. These disclosures will make a favourable effect on bank's performance. Sometimes the banking organisations make some extra disclosures to show that they are not affected by specific economic events or financial development. (Staff Study, 2000)

3.2.2 European Union

It is not same easy to describe banking regulation in Europe, including all regulatory agencies and regulations. Since Europe consists of many countries, where business and accounting traditions still vary to some degree, each of them can have their own regulations and regulatory bodies.

However, the last years tendency of globalisation of the economy unavoidably has influenced the banking sector, first of all banking legislation. The main purpose of the process of harmonization regulation in European banking sector was developing a single financial market inside the European Union. One of the firsts legislations, which had a great influence on European banking, was the Second Banking Co-ordination Directive of 1993. This directive presented two new rules for that time (Casu et al, 2006):

- A single European banking license, which let European banks, authorized in its home country, work in other EU countries and organize own branches there;
- Home country supervisors, who became responsible for controlling registered on their territory bank’s activity in all EU-countries.

The Second Banking Co-ordination Directive presented some other rules, which should reduce differences in banking regulation between European countries: Minimal capital requirements; Requirements related to accounting and Requirements related to banks’ activity in non-banking industry. (Casu, 2006)

Reporting of the banking sphere in EU follows requirements of International Financial Reporting Standards (IFRS) as well. Although there are some differences in using of IFRS on practice between European countries, its basic principles regarding the form of reporting and its content (including disclosure requirements) are the same. (Nobes et al, 2008)

3.2.3 The Basel Committee on Banking Supervision: Basel II

One of the most important organisations, which play today an important role for the banking sector on the international level, is the Basel Committee on Banking Supervision. The Basel Committee was established in 1974 by the Group of Ten consisted of the eleven largest developed countries in the world (Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the UK, USA). The main aim of its work is developing of supervisory standards and recommendations for implementation of those standards, maintaining the process of convergence in the banking sector. At the same time the Committee doesn’t have any legal force, hence implementation of its decisions needs further support of national legislation. (Basel Committee on Banking Supervision’s official website).

Among the Committee’s documents, related to banks disclosure, it is possible to mention a policy paper “Enhancing Bank Transparency” published in 1998. This report presents guidance to banking supervisors with a purpose to improve public disclosure. It was mentioned in the report that in order to achieve better transparency the banks should make meaningful disclosure in six areas, including financial performance, risk-management strategies and practices, risk exposures (including credit risk, market risk, liquidity risk, etc.) and others. (Staff Study, 2000)

Nowadays the most important document of the Committee is The New Basel Capital Accord (Basel II). At first, the Committee presented in 1988 the Capital Accord (so called Basel I), which was focused on evaluation of capital adequacy and minimum capital requirements. Despite some critic on its effectiveness, the Accord was an improvement of banking regulation not only on the European level, but internationally (Casu et al, 2006). “It involved international agreement and it became the basis for the most nations’ capital regulations for all banks” (Casu et al, p. 183)

An improved version of the Accord was presented by the Basel Committee on Banking Supervision in 1999 and published in 2003. This document is well known as Basel II. Compared to Basel I, Basel II is more advanced. Besides its orientation on process of economical globalisation, Basel II better complies with basic risks, recent innovations in the financial sphere and management practice, related to risk. It also takes into account differences between banks, for example using different measurement models for risks. (Wahlström, 2009)

The focus of Basel II is on an appropriate treatment of risks of banking activity. The document is based on three pillars:

- Pillar 1 related to internal risk rating systems of banks, risk evaluation by external agencies and capital charges.
- Pillar 2 is focused on the process of supervising
- Pillar 3 relates to improving transparency, increasing disclosure in reporting and enhancing market discipline. (Casu et al, 2006)

Apparently, Basel II is the most essential tool of disclosure of risk related information in banking sector today. It is widely recognized on both European and international level. Pillar 3 of Basel II aimed to support strong market discipline by promoting disclosure requirements of high level concerning capital adequacy, risk exposure and its management. (Casu et al, 2006)

Basel II Pillar 3 disclosure requirements are developed in accordance with international accounting standards, IFRS, which have broader scope. If managers of a bank disclose financial information under accounting or listing requirements, they shall explain the most important differences with the requirements of supervisory. For voluntary disclosures management can use Pillar 3 requirements. This disclosure is not required for auditing, except of cases required by relevant authorities. (Basel II, 2006)

Concerning undesired disclosure of confidential information, the Basel committee consider that the Pillar 3 requirements “strike an appropriate balance between the need for meaningful disclosure and the protection of proprietary and confidential information”. (Basel II, 2006, p. 177) However, in exceptional cases a bank have right not to disclose its confidential information. Instead the bank has to explain reasons for lack of disclosure and provide general relevant information. (Basel II, 2006)

As it was mentioned earlier, implementation of Basel II needs involvement of national authorities because the Basel Committee doesn't have any legislation power. It means that the Basel Committee admit possible influence of national banking systems on Basel II requirements. On one hand, "the likelihood of acceptance of Basel II regulations is increased since they can be modified to fit users' national banking systems" (Wahlström, 2009, p. 54). On the other hand, it can lead to some flexibility in practical use of Basel II.

The Basel Committee discusses different mechanisms to achieve proper disclosure. For instance, supervisors can demand banks to disclose information for the purpose of stability of the banking system. Otherwise supervisors can require banks to disclose necessary data in regulatory reports, which they can make publicly available partly or fully later. Besides, there are other possible ways to achieve desirable disclosure from conversations with banks' management to penalization, which depends on a specific country's traditions, the supervisors' power and significance of the disclosure lack. (Basel II, 2006)

The Basel II requirements can be both an advantage and a disadvantage for different banks, which depends on difference of Risk-weightings under Basel I and Basel II approaches. Big and advanced banks have more chances to benefit from using Basel II than smaller banks. Such banking firms as retail banks, highly credit-rated corporations, mortgage banks etc. are likely to benefit from the use of Basel II, while the weakest banks will probably loose. Besides, implementation of Basel II is a quite complicated and costly process. (Casu et al, 2006)

3.3. Risk disclosure in banks

It is widely recognized that disclosure has an important role in the modern capital market. It is one of mechanisms of communication between investors and companies and a core for investment making decisions. Obviously, only credible disclosure can assist in making optimal investment decisions, which will lead, in turn, to effective allocation of resources and economical stability in general.

However, there are some difficulties on the way to reach credible disclosure. It is possible to describe on an example of relationship between savers and entrepreneurs (Healy et al, 2001; Tadesse et al, 2006). Both a saver and an entrepreneur want to do mutual business. But it can be complicated to compare amount of savings and future investments opportunities because of two main reasons:

1) An "information problem" or information asymmetry, when an entrepreneur is better informed about the value of the investment opportunity than an investor and has a motive to exaggerate it;
2) An "agency problem", when an investors has already made an investment, and an entrepreneur has both motive and possibility to use that investment at least to some degree, for own benefit.

In a case of Agency problem disclosure gets especially important meaning. Investors don't tend to participate actively in the process of managing their capital that was invested. This function goes to entrepreneurs, who are responsible for making business decisions. Those decisions could be harmful to the investors' interests, for instance by taking high-risk projects, paying excessive compensations and others (Healy et al, 2001). In these circumstances disclosure assists in controlling entrepreneurs actions by investors.

3.3.1 Regulatory and voluntary disclosure

Since disclosure has a significant role in exchanging information in capital markets and protection of investors' interests, it is an item for regulation in all countries over the world. As I mentioned earlier, there are requirements for obligatory disclosure of necessary financial, operational and other additional information for all publicly traded companies. So management of companies have to follow those disclosure requirements to be allowed to use investment capital.

Besides obligatory disclosure, companies are encouraged to higher level of disclosure by voluntary will. Healy et al (2001) discussed six motives, which make impact on manager's decision about voluntary disclosure:

- Capital market transactions.

This hypothesis says that managers, who are planning some capital market transactions, for instants issuing equity or acquisition of another company, are better informed compared to outside investors about company's perspective. In that case management "have incentives to provide voluntary disclosure to reduce the information asymmetry problem, thereby reducing the firm's cost of external financing" (Healy et al, 2001, p.420).

- Corporate control contests.

In a case, when fighting for board representation shareholders use the fact of poor earnings as an argument for management changes, managers are interested in voluntary corporate disclosure. It is a way to explain their actions that led to poor earnings performance.

- Stock compensation

The hypothesis says that stock-based compensation plans lead to more detailed disclosure. In this case management are ready to increase disclosure to meet requirements concerning trading rules, to enhance liquidity of company's stocks etc.

- Litigation

According to this hypothesis, litigation can have different effects on voluntary disclosure. On one hand, managers are interested in increasing disclosure, if they want to avoid legal actions for inappropriate (untimely or inadequate) disclosures. On the other hand managers tend to reduce the level of disclosure of forward-looking information, because it can include unexpected errors.

- Proprietary costs

This hypothesis says that in a situation, when additional disclosure can lead to competitive disadvantage, companies tends to avoid high disclosure, even if issuing equity becomes more costly at the same time.

- Management signalling.

This hypothesis says that good managers are interested in higher disclosure to demonstrate their ability to manage companies successfully.

One of essential factors of voluntary disclosure is its credibility. Since managers can decide themselves what to disclose, it can be unclear whether that disclosed information is credible or not. There are two possible ways to increase its credibility: first, using third-party intermediaries assurance and second, using required financial reporting to check forecast, for example, for revenue or earnings (Healy et al, 2001).

3.3.2 Disclosure in banking system

It is widely recognised that transparency in the banking system has significant value for market discipline, which efficiency to high degree depends on awareness of market participants about risks, related to banks activity. Thereby, work of many experts was intent on studying the problem of transparency and improving adequate disclosure in the banking sector. (Staff Study, 2000; KPMG, 2008; Healy et al, 2001; Tadesse et al, 2006)

Tadesse et al (2006) discuss the role of transparency in banking system. In the relationship between a bank and its depositors information asymmetry can lead to undervaluation the bank's work and, in the worst case, to its failure. It is clear, that regulated disclosure is an appropriate solution to problem of information asymmetry in banks as well.

A great meaning has quality of disclosure. It is important that the public have access to such information about banks as " their financial condition and performance, the current value and collectibility of assets, and the value and cash flow requirements associated with liabilities, as well as information on risk exposures, risk-management processes, control procedures, and business strategies" (Staff Study, 2000, p.6).

Despite an opinion about great benefit of high transparency, its role to stability of the whole banking system can be controversial. There are two theories, describing opposite possible impacts of disclosure. First, according to "Transparency-Stability" theory, higher level of disclosure reduces information asymmetry, which improves market discipline and leads to more effective allocation of resources. In that case strong banks will benefit from greater disclosure, while weak banks will be punished for disability to manage risk appropriately (Tadesse et al, 2006; Linsley et al, 2005).

Second, "Transparency-fragility" theory says that greater disclosure can have negative effects as well. Additional specific disclosure of some banks can be understood as a pointer of wider problems in the banking system. That can lead to lack of investor confidence and, therefore, to financial instability of the whole system with negative consequences for both strong and weak banks. (Tadesse et al, 2006).

Additional disclosures can also have negative impacts, such as extra cost and competition disadvantages. Greater disclosure can be too costly for smaller companies. Hence, being not able to analyse them, investors, become more attracted by large companies and prefer them instead. Companies are also often reluctant to disclose information, because of fear of competition (Tadesse et al, 2006; Staff Study, 2000).

As we see, disclosure has both advantages and disadvantages for banks and companies in general. On one hand, more disclosure helps to attract new investors and keep the present ones (see also the motives for voluntary disclosure), which leads to investor confidence and general stability in the economy. On the other hand, additional disclosure includes extra expenses, can lead to some competition disadvantages and investors' suspicions in serious problems.

It is necessary to underline, that despite controversy of possible effects of greater disclosure on theory, Tadesse et al (2006) found out by empirical investigation that "banking systems are more likely to be stable in countries with regulations that require more comprehensive, more informative, more timely and more credible disclosure "(Tadesse et al, 2006, p.4). Furthermore, the investigators came to the conclusion that greater mandatory disclosure has positive effect not only on banking-system stability, but on economy in general as well.

3.3.3 Risk reporting by banks

The risk reporting in the banking system was recently in focus of widespread discussions. (Linsley et al, 2005; Homölle, 2009; Furlong et al, 2007; KPMG, 2008) Companies in general issue a significant volume of publicly available information, and risk reporting is an important part of it. To understand risk position of a company, investors need information about the risks, that the company meets during its work process, and the ability of management "to identify, measure, monitor and control those risks" (Basel II, 2006, p.231).

According to Linsley et al (2005), it is often argued that companies don't disclose enough information and that situation shall be changed. Furthermore it was recognised that financial institutions works more unpredictable than before, having the best risk-management techniques at the same time, but without disclosure that information for their investors.

The capital market's disciplining mechanism is organized in such way, that banks should be interested to perform greater risk disclosure (Linsley et al, 2005; Furlong et al, 2007). A bank, that disclose more publicly available risk information, will benefit from lower cost of finance, because "the providers of funds will be better positioned to judge the bank's risk level and this will remove the need for them to incorporate a risk premium within the cost of capital" (Linsley et al, 2005, p.206). Besides higher cost of financial resources, banks with inappropriate disclosure of risk-related information could have more difficulties to achieve funds (Jenkinson, 2008).

Higher level of risk disclosure can also help to discover problems or forecast potential difficulties in banks as early as possible, which will make the work of their supervisors more effective. Better disclosure of risk-related information would also motivate banks to improve their risk-management procedures to demonstrate for investors their capacities and to look attractive in comparison with competitors (Linsley et al, 2005; Jenkinson, 2008; Homölle, 2009, Study Staff, 2000). Obviously, all the above-mentioned factors would assist in stabilisation of entire banking system and economy in general.

Despite significant important positive side of risk disclosure, many experts agree that it can also have a negative effect (Jenkinson, 2008; Homölle, 2009; Tadesse et al, 2006; Staff Study, 2000).

Homölle (2009) describes the negative side of risk disclosure using the example of Germany, where national accounting principles mandate banks to report about all types of risks. During the research it was found that risk reporting could lead to both decreasing and increasing of risk exposure of banks. Homölle came to the conclusion that "if there is a pooling equilibrium, which means that an "average" return on deposits is contracted regardless of asset risk, then risk reporting increases insolvency risk in high risk exposure situations and decreases it in relatively riskless situations" (Homölle, 2009, p. 27).

It is necessary to underline, that transparency can be achieved only by disclosure of useful information. According to Basel II, useful disclosure shall be defined on base of materiality concept. It means that information can be regarded as material only in a case, if its changes will influence economic decisions, made by users of that information (Basel II, The Third Pillar, 2006). Since that definition of material information is in consistence with IFRS Framework, disclosed information in banks shall comply its Qualitative Characteristics of Financial Statements. Hence, disclosed information shall be understandable, relevant, reliable and comparable at the same time (The IASB Framework).

Comparability of disclosed information means that it shall be possible to compare within a company for different periods of time and between different companies. In circumstances of globalisation of economy today, information shall be comparable not only on national, but on international level as well (Nobes et at, 2008; Healy et al, 2001).

Despite requirements of the Qualitative characteristics sound essential and very logical, on practice they can be opposite to each other and difficult to reach (Linsley et al, 2005). For instance, preparers of financial statements often have to find a compromise between relevant and reliable information, as very new data could need confirmation of its reliability or well-tried data fast becomes irrelevant. It is especially important to keep balance between reliability and relevance of information for future prognoses as a core for investment decision, because information of great relevance can often be unreliable (Linsley et al, 2005; Staff Study, 2000).

The threat of litigation can have just the opposite effect on risk disclosure by banks. On one hand, bank managers have motives to avoid disclosure of forward- looking information, because they beware of possible claims from investors, who could make their investment decisions on the base of information with lack of reliability. On the other hand, eventual legal risk on the base of insufficient risk disclosure makes banks' management more active in providing appropriate information (Rosengren, 2007; Linsley et al, 2005; Staff Study, 2000).

Next problem here is the placement of risk related information, which has a short "useful" life and shall be updated quite often (Staff Study, 2000; Linsley et al, 2005; Basel II, 2006). Since banks issue their annual reports once a year, users of risk related information probably need another source of relevant data. There was discussion about the possibility for banks to place the most relevant risk information on their websites, while annual reports would be issued according to standard reporting requirements (Linsley et al, 2005).

On the other hand, to be easy to reach and to understand, it is more logical to place all risk related information in one place. It would help users to obtain the complete picture of risk without difficulties. According to Basel Committee, since some risk disclosure requirements are already compulsory by accounting standards, all risk disclosure shall be placed in annual reports. Otherwise users shall be informed about where and how it is possible to access that information (Linsley et al, 2005, Basel II, 2006).

As I mentioned earlier, management of companies can be reluctant to disclose some information, because they try to avoid competition disadvantages. That statement is to the full extent in suite with risk-related information (Linsley et al, 2005). Thus, it can be an obstacle for greater disclosure as well. However, Basel II offer some solution in that problem, in a case when a bank has an essential reason not to disclose required by Pillar 3 information, it must to describe that subject more general and explain why standard disclosure is not possible.

There are several groups of users available information about banks, which would benefit from better disclosure:

- shareholders, including an important group of institutional investors
- debt holders
- financial analysts
- rating agencies

Last two groups works for providing better information for shareholders and debt holders as well. Those groups need different kind of information, for instance shareholders want to know about banks' future prospective, when debt holders are interested in their capability to meet obligations (Staff Study, 2000)

We can see, that disclosure of risk information can be a quite difficult task. Of course, it is unnecessary to show all information related to risk. If required disclosure defines by relative regulations, in a case of voluntary disclosure Banks' management have to decide what information will be disclosed and how it shall be done. Managers have to keep in mind, for what purposes that information can be used, since different groups of users make different kinds of decisions. (Linsley et al, 2005).

Following publications related to risk disclosure, it possible to realise how progressive banks were on the way to provide the information. If some years ago experts generally mentioned demand of greater disclosure and what should be done for achieving it (Healy et al, 2001; Linsley et al, 2005; Staff Study, 2000), last two-three years it has been written more about improvements in that area of banking sector (Rosengren, 2007; Furlong et al, 2007, Jenkinson, 2008). Of course, perfect risk information is not achievable, but even gradual changes towards better disclosure will be supportive to discipline mechanism of the capital market.

4. Empirical evidence

This chapter includes empirical data that was collected during the investigation. I start with short introduction of the selected banks. Then I make a detailed description of what information I have found during the studying of the participants' annual reports. I follow the model for comparison step by step for all types of risks.

4.1. Introduction of selected banks

Here is a short introduction of banks chosen for the research. The choice depended first of all on the possibility of the participants to assist in realisation of the aim of this research (more details in the methodology chapter).

4.1.1. Handelsbanken, Sweden[1]

Handelsbanken is one of the largest banks in the Nordic region. It has 461 branches in different countries, including Great Britain, Denmark, Finland, Norway and other 17 countries in the would. The central office of Handelsbanken is situated in Sweden. Operating profit of the Bank was SEK 15.3bn for year 2008. Total assets of Handelsbanken are SEK 2 159bn, including public lending SEK 1 481bn.

Handelsbanken is a universal bank that offers services in the whole banking area. It provides all possible banking services: personal banking, corporate banking, investment transactions, trading and even life insurance.

4.1.2. UBS Bank, Switzerland[2]

UBS Bank is one of the largest financial companies in the world. It is leading in commercial and personal banking in Switzerland. Offices of UBS Bank are situated in more than 50 different countries, including such regions as Americas, Europe and Asia Pacific. 34 % of the employees are working in Switzerland. Operating income of UBS Bank in 2008 was CHF 796mln, while its invested assets were CHF 2,174bn.

UBS Bank provides services in such areas of banking as: Wealth Management & Swiss Bank, Wealth Management Americas, Global Asset Management, Investment banking and securities, Advisory service and all types of banking services to corporate and individual customers in Switzerland.

[1] Handelsbanken's official website.
[2] UBS Bank's official website

4.1.3. KBC Bank N.V., Belgium[1]

KBC Bank classifies itself as a bancassurance group. It provides services mainly for personal customers, private banking customers, SME (small and medium-size enterprises) and corporate customers. The main lending markets of KBC Bank are situated mainly in Central and Eastern Europe and Belgium and other European countries. The bank is also present in US and Southeast Asia. Total assets of KBC Bank were EUR 355,317mln in 2007, while loans and advances to customers were EUR 157,296mln.

4.1.4. Deutsche Bank, Germany[2]

Deutsche Bank is one of the largest investment banks in the world. The bank has offices in 72 countries with 78.896 employees. Deutsche Bank is leading in European countries, including Germany, and developing in North American and Asian Countries. Total assets of Deutsche Bank were EUR 2,202bn in 2008.

Deutsche Bank provides such banking services as corporate and investment banking, private banking and investment management, legal risk and capital, group technology and operations.

4.1.5. DnB NOR ASA, Norway[3]

DnB NOR is the largest bank of Norway. The bank's total combined assets are NOK 2,141bn. It provides personal banking service to 2.3 million customers, corporate service for over 200,000 and service of Internet bank for over 1 million customers. DnB NOR provides life and pension insurance service, asset management operations, investment banking service

DnB NOR takes part in network of 13 branches and offices on international level. The bank is also the largest foreign exchange bank in Norway. Besides, it offers different banking products in Sweden.

4.1.6. NIBC Bank N.V., Netherlands[4]

NIBC Bank is specialized on combination of financing, advising and co-investing. It works primarily in Germany and countries of Benelux. The main customers are wealthy customers, entrepreneurs, financial sponsors, mid-cap companies, institutional investors and financial institutions. NIBC Bank main services are Merchant Banking, Specialised Finance and Treasury.

[1] KBC Bank's official website.
[2] Deutsche Bank's official website.
[3] DnB NOR Bank's official website.
[4] NIBC Bank's official website

4.2. Model for comparison: Information included in Basel II

The complete model for comparison is placed in Appendix 4.

4.2.1 General comparison

First of all, it is necessary to say that all participants showed risk-related information in their annual reports, even if some of the banks disclosed that information more detailed than the other ones. Most of the participants placed risk and risk management data both on separate chapters in their annual reports and on notes to consolidated financial statements. Sometimes notes partly repeated that information, but most often them included more specific details and explanations to main chapters about risk. One exception here was Handelsbanken, which showed risk-related information only in the notes and didn't have a separate chapter for it. Of course, this fact can't be a disadvantage itself, although presence a concrete chapter makes it easier to find needed information. The most important is that an annual report includes all necessary information, independently of where it is placed.

Additionally, two of the participants, KBC Bank and DnB NOR Bank, mention that they don't disclose all risk information in their annual reports, because they have other publicly available sources for this information and referred to it. For instance, KBC Bank has a separate Risk report that is issued annually. DnB NOR Bank discloses risk information in Quarter reports to keep it updated. That is not a mistake either, since the banks clearly write where the data can be found.

Secondly, all the banks mentioned that they follow Basel II rules in capital and disclosure requirements, forming their annual reports. Further comparison is based on the chosen model for disclosure risk related information by banks.

4.2.2 Credit risk: general disclosures for all banks

a) First of all, the banks are expected to follow general qualitative disclosure requirements (paragraph 824). Concerning strategies and processes related to credit risk, it is possible to say that all of the banks disclosed basic information: definition of credit risk, discussion of general approaches to it, developments and events of 2008. Besides, some banks gave more detailed description. During discussion of credit risk Handelsbanken mentions additionally its two components, counterparty risk and payment risk, and describes their sources and further treatment. UBS Bank discusses composition of credit risk for two main business divisions, including sources of credit risk. KBC Bank shows two levels of managing the risk: transactional and portfolio. UBS Bank and Deutsche Bank also disclose different types of credit risk: in addition to settlement and country risks, which are discussed by both participants, Deutsche Bank includes discussion of default risk as well. Deutsche Bank also discusses two different ways to classify credit risk. Some of the banks, namely KBC Bank and NIBC Bank overview credit risk more detailed for specific portfolios: only loan portfolio for KBC Bank and three main portfolios for NIBC Bank (some of them are described even for two main geographical regions).

Regarding disclosure of the structure and organization of credit risk management, it is possible to divide all banks in two groups: first group describe the system of control and managing risk only in general, for all types of risks (Handelsbanken, UBS Bank, KBC Bank), while second group describe that system specifically for each type of risk, including credit risk (Deutsche Bank, DnB NOR Bank, NIBC Bank). The review of organization of management function, made by Handelsbanken, was very brief and the shortest one. More details we can find in the annual reports of UBS Bank and KBC Bank. Here participants write more about responsibilities of management on different levels and connection between them. DnB NOR Bank describes both the management system in general and for credit risk separately. Deutsche Bank and NIBC Bank disclose specifically managing of credit risk with discussion of responsibilities and aims of managers. Besides, NIBC Bank describes the credit risk management system separately for its three main portfolios.

All of the participants disclose main parameters of credit risk measurement system: Probability of default (PD), Exposure at default (EAD), Loss given default (LGD) and others. Most often there is description of how they are calculated, what they include and what they are used for. Handelsbanken, UBS Bank, Deutsche Bank and DnB NOR Bank describe the measurement system for credit risk in general, while KBC Bank and NIBC Bank disclose it for main portfolios.

There was less information concerning mitigating of credit risk. Handelsbanken, UBS Bank and Deutsche Bank discussed some techniques, which they use to reduce the risk: collateral, derivative agreements, netting, hedging. DnB NOR Bank discuss mainly collateral. NIBC Bank gives some description of the risk mitigating for two portfolios. KBC Bank doesn’t explain much about that topic in annual report (but some information is included in its separate Risk report).

Next point here is disclosure of definitions “past due” and “impaired”. Despite all of participants use these terms in different context, definitions of both “past due” and “impaired” were clearly formulated only by UBS Bank and KBC Bank. Deutsche Bank and NIBC Bank named definitions of “impaired” (to be exact, NIBC Bank doesn’t give a definition of impaired itself, but includes certain criteria for impairment), but not of “past due”. Handelsbanken and DnB NOR Bank don’t give concrete definitions neither for “past due” nor for “impaired”. Additionally, some of annual reports include definitions of other terms, which are close to past due and impaired. For example, UBS Bank defines “past due but not impaired loans”, while Deutsche Bank gives a definition of “problem loans”.

Regarding approach to credit risk (standardized, foundation Internal ratings-based (IRB) or advanced IRB), all participants disclose, which of them they use. Handelsbanken, UBS Bank and DnB NOR Bank describe portfolios, for which those approaches are used, while KBC Bank, Deutsche Bank and NIBC Bank just mention the relevant approach. Besides, NIBC Bank discuss a detailed plan of moving from standardized to advanced IRB approach and names time limits for it.

b) Quantitative disclosure of the model starts with requirement to show credit risk exposure. All participants disclosed figures for credit risk exposure broken down by its major types, but non of them explained if it was total gross credit risk exposure or not. None of the banks showed average gross exposure either. Besides, UBS Bank disclosed gross credit exposure broken down by business division of that bank. KBC Bank gives more information about it in its separate Risk report.

c) Geographic distribution of exposures, broken down by its main types was clearly disclosed by Handelsbanken, UBS Bank, Deutsche Bank and NIBC Bank. KBC Bank showed geographic exposures only for loan portfolio. DnB NOR Bank disclosed it only for loans and guarantees.

d) Industry or counterparty type distribution of credit risk was clearly disclosed by UBS Bank, Deutsche Bank, and NIBC Bank. Handelsbanken, KBC Bank and DnB NOR Bank showed it only for some portfolios: “Loan to the public”, “Loan portfolio” and “Loans and guarantees” respectively. It is necessary to add that KBC Bank gives more information in Risk report.

e) Regarding residual contractual maturity information, only UBS Bank disclosed it clearly and fully. DnB NOR Bank discloses residual maturity information in the part for liquidity risk. Handelsbanken, KBC Bank, Deutsche Bank and NIBC Bank don’t give such information in their annual reports. Again, KBC Bank mentions more about maturity analysis in its Risk report.

f) Next point in quantitative disclosure of credit risk is the amount of impaired and past due loans broken down by industry or counterparty type. None of the participants disclose that information fully and clearly. Amount of impaired loans broken down by industry or counteparty type was disclosed by UBS Bank, DnB NOR Bank and NIBC Bank. Total figures of impaired without breaking down were shown by KBC Bank and Deutsche Bank. Handelsbanken doesn’t mention amount of impaired loans, but give information for Bad debt and/or non-performing loans, by sector.

Amount of past due broken down by counterparty type is disclosed only by Handelsbanken, while other participants show that figure with other principles of breaking down or without breaking down at all. Although NIBC Bank disclose amount of impaired and past due only for corporate loans portfolio, that disclosure can be regarded as full, because of work specificity of the bank.

Disclosure of specific and general allowances and charges for it, as well as charge-offs during the period, was different with different banks. Information for both allowances and charge-offs was given only by Deutsche Bank. UBS Bank showed information just for allowances. Other banks didn’t provide any of this information.

g) Amount of impaired loans breaking down by geographic areas was disclosed by UBS Bank, KBC Bank (more details in its Risk report), Deutsche Bank and NIBC Bank. Handelsbanken gave similar figures for Bad debts and/or non-performing loans. Besides, Deutsche Bank gives briefly information for geographical distribution for allowances. None of banks provide information for past due loans.

h) Concerning reconciliation of changes in allowances for loan impairment, non of the participants gave clear information. UBS Bank and Deutsche Bank disclose figures for changes in allowances and movements in allowances respectively, but they don’t mention reconciliation of them. All other banks don’t show this information at all.

i) Amount of exposure for each portfolio, which is subject to different credit risk approaches (standardized, foundation IRB or advanced IRB), was disclosed by Handelsbanken, UBS Bank and DnB NOR Bank. Other participants don't show that information clearly in their annual reports, although KBC Bank discloses it to some degree in its Risk report.

4.2.3 Credit risk: disclosures for portfolios subject to the standardised approach and supervisory risk weights in the IRB approaches

Handelsbanken, KBC Bank and Deutsche Bank don't show much information here, since they don't use or use very limited (as Deutsche Bank) standardized approach for credit risk.

a) All of banks, which use standardized approach fully or partly for their credit risk portfolios, disclose information about External credit assessment institution (ECAI) or Export credit agency (ECA) they use. However, non of them show clear information about types of exposure that is used for each agency separately. Description of the process of transferring public issue rating into comparable assets was disclosed most detailed by UBS Bank. DnB NOR Bank and NIBC Bank gave just brief description of it. Additionally, UBS Bank and DnB NOR Bank disclose quite detailed the alphanumerical scale of used agencies (at least most of them), while NIBC Bank gave just a brief description for it.

b) Quantitative information was not enough disclosed by the banks here. There was no clear information in the annual reports that could fulfil requirements of this point of the model. The only exception here is a data about distribution of outstanding amounts per rating category in annual report of NIBC Bank.

4.2.4 Credit risk: disclosures for portfolios subject to IRB approaches

a) Almost all of participants disclose information about supervisor's acceptance of used approach and named it. The only exception here is KBC Bank that mentions some nation authority, but not in the connection to its IRB approach.

b) Information about structure of internal rating system and its relation to external ratings was clearly disclosed by UBS Bank, DnB NOR Bank and very briefly by NIBC Bank. Handelsbanken and Deutsche Bank describe their internal rating systems, but not the connection between internal and external ratings. KBC Bank doesn't provide any clear information for this point.

All of the participants mention in their annual reports that they use internal information for purposes of internal audit, internal reporting and management process, accounting purposes and some other.

Concerning process of managing and recognising credit risk mitigation, UBS Bank, Deutsche Bank and NIBC Bank give some description of its mitigation system. Handelsbanken, KBC Bank and DnB NOR Bank don't disclose that information clearly.

Control mechanisms for the rating system were shortly described by Handelsbanken and UBS Bank. Other participants didn't show that data in their annual reports.

c) Description of internal rating process was not very detailed in all annual reports of the participants. None of them used a classification of portfolios, which was described in the Basel II model. Handelsbanken uses its own classification, which was not very detailed. UBS Bank and KBC Bank described internal rating process generally for all credit risk portfolios. NIBC Bank disclosed similar information only for one portfolio. Deutsche Bank and DnB NOR Bank don't give any clear description at all.

Concerning discussion of PD, EAD and LGD, Handelsbanken describes all of them for its own classification of portfolios. UBS Bank shows data about all of them as well without breaking down for portfolios. All other participants disclose that information very shortly: DnB NOR Bank discuss all of those figures, KBC Bank and NIBC Bank mention only PD and LGD, while Deutsche Bank mentions only PD in description its internal ratings. None of the banks clearly discuss relevant for this point if the model deviations.

d) Quantitative information of this part of the model was disclosed by banks in very different ways. Deutsche Bank didn't give any clear information here at all. Handelsbanken, DnB NOR Bank and NIBC Bank disclosed some information about credit risk exposure (without explanation if it is total exposure or not) for different PD grades: Handelsbanken - for corporate and institutional portfolios separately in % of proportion of exposure; DnB NOR Bank – generally in its national currency; NIBC Bank – only for one portfolio in % of proportion of exposure. Deutsche Bank discloses more information about this point in separate Risk Report as well. Finally, UBS Bank was the only one, which disclosed that part of the model in accordance with Basel II requirements totally.

e) Almost none of participants gave clear figures for term "Actual losses" in their annual reports. For instance, Handelsbanken shows figures for "Loan losses" (not broken down to portfolios) with explanation that actual losses included in loan losses. UBS Bank demonstrates figures for Total credit loss. NIBC Bank gave information of average losses for corporate loan portfolio and actual losses for Dutch part of its residential mortgage portfolio. All other banks don't give clear information for that point.

f) None of banks disclosed information of that point of the model clearly.

4.2.5 Credit risk mitigation: disclosures for standardised and IRB approaches

a) Netting agreements were described most detailed by UBS Bank. Handelsbanken, KBC Bank and DnB NOR Bank gave just a brief description of it. Deutsche Bank and NIBC Bank don't give clear information at all.

Main policies and processes for collateral were discussed by almost all of the participants, except KBC Bank and Deutsche Bank. Discussions included general approaches, evaluation process of it and so on. KBC Bank and Deutsche Bank don't give a clear explanation here. All of banks describe main types of collateral, taken by them.

Main types guarantor or credit derivative counterparty were described only by Deutsche Bank and NIBC Bank. Deutsche Bank mentions only one type of guarantor and discloses information about its creditworthiness for AA/AAA and non-AA/AAA groups. NIBC Bank shows information about its credit derivative counterparties and discloses their creditworthiness from AAA to NR (the lowest level).

All of participants, except NIBC Bank, discuss risk concentration: definition, when it can happen, action to avoid it. NIBC Bank doesn't discuss that question

b) Information about exposure that is covered by collateral was disclosed by Handelsbanken and NIBC Bank (without breaking down to financial and other collateral). UBS Bank discloses only exposure that is covered by financial collateral. KBC Bank and Deutsche Bank show the value of collateral held (financial and other). DnB NOR Bank doesn't give any clear information here.

c) Total exposure that is covered by guarantees/credit derivatives was disclosed only by UBS Bank. All other participants don't mention it.

4.2.6 General disclosure for exposures related to counterparty credit risk

a) Almost all of participants have some discussion related to counterparty credit risk in their annual reports. Handelsbanken, UBS Bank and NIBC Bank disclose information about their general approaches to counterparties, credit limits and controls, ways to reduce counterparty credit risk. KBC Bank and DnB NOR Bank discuss that point very brief compared to the mentioned above banks. Deutsche Bank doesn't give a clear explanation here.

Besides, Handelsbanken, UBS Bank, DnB NOR Bank and NIBC Bank discuss policies for securing collateral in their annual reports. Discussion can include type of securities, its evaluation and so on. Other two banks don't disclose that information. None of the banks discuss establishing credit reserves here.

Concerning data about policies to wrong-way risk exposures and credit rating downgrade, only Handelsbanken and UBS Bank discuss it briefly, while other participants don't mention it at all.

b) - d) points of this table of the model represent the quantitative disclosure requirements related to counterparty credit risk. None of the banks show information that fulfils all criteria of these points. Handelsbanken, DnB NOR Bank and NIBC Bank don't disclose any clear information here. UBS Bank doesn't mention gross positive fair value figures, but disclose credit exposure of derivative instruments, netting benefits, collateral held and distribution of used credit derivatives products. KBC Bank discloses figures for Derivative financial instruments with breaking down to types of contracts and mentioning credit derivative products. Deutsche Bank discloses OTC and exchange-traded derivative contracts as well as its credit derivative products.

4.2.7 Securitisation: disclosure for standardised and IRB approaches

Disclosure of information related to securitisation was very different in different annual reports. Some of the banks (Handelsbanken, KBC Bank, Deutsche Bank and DnB NOR Bank) almost don't mention it, while some of them (UBS Bank) give quite detailed description. It is necessary to mention that KBC Bank directly refers to its Risk report regarding questions about securitisation activity, but there is no so much information either.

a) - c) These points represent qualitative disclosure requirements related to securitisation activity of banks. UBS Bank discloses absolutely all qualitative information about securitisation that is required by the model. Deutsche Bank discusses just the roles of SPE and the bank itself in securitisation process and mentions evaluation of retained interests. NIBC Bank discusses its own role and the role of SPE in securitisation process as well.

d) - j) Regarding quantitative disclosure requirements related to securitisation activity, UBS Bank shows the most detailed information here as well. Almost all points were clearly described, except points (h) and (i), related to securitisations subject to the early amortisation treatment. Handelsbanken mentions just some figures for its issued securities. Deutsche Bank gives some figures for securities purchased without breaking down by exposure type. NIBC Bank discloses dome figures related its securitisation activity in 2008. KBC Bank and DnB NOR Bank don't disclose clearly any quantitative information here.

4.2.8 Market risk: disclosures for banks using the standardised approach

a) Qualitative disclosure point starts with general requirements according to paragraph 824 of Basel II regulation. All of the participants give a definition of market risk, discuss its sources, risk management policy and main events of 2008.

All of the banks discuss organisation of management function as well. Handelsbanken, KBC Bank, Deutsche Bank and DnB NOR Bank describe it specifically for market risk. NIBC Bank discusses risk management process generally for all types of risks. UBS Bank shows the information for both risk in general and specifically for market risk. Besides, Deutsche Bank concentrates on the description of management responsibilities for non-trading market risk, while UBS Bank describes it for both trading and non-trading market risk.

Description of methods used for risk measurement systems were made by all six banks. However, UBS Bank and Deutsche Bank disclosed information, related to this point, more detailed than other participants. Additionally, all of the banks briefly describe their ways to mitigate market risk.

b) Information about capital requirements of market risk components (interest rate risk, equity position risk, foreign exchange risk and commodity risk) was not disclosed by all of participants. Only Handelsbanken and UBS Bank show that information clearly. DnB NOR Bank disclosed capital requirements for market risk generally without further description of its components. KBC Bank, Deutsche Bank and NIBC Bank don't disclose that information at all.

Additionally, some of the banks give some information about the components of market risk. Handelsbanken mentions sources and measurement for each of them. UBS Bank shows similar information only about interest rate risk. KBC Bank gives some brief description for three of them: interest rate risk, equity position risk and foreign exchange risk. Deutsche Bank includes in its annual report some additional quantitative data for all four risks. DnB NOR Bank and NIBC Bank just briefly describe interest rate risk and currency risks.

4.2.9 Market risk: disclosures for banks using the internal models approach (IMA) for trading portfolios

Internal models approach was not mentioned by any of the banks.

4.2.10 Operational risk

a) As qualitative disclosure of all main risks of the model, operational risk description starts with requirements of paragraph 824 of Basel II. All of participants gave a definition of operational risk, its sources and description of main strategies of the banks regarding it.

All of the banks describe the organization of management function for operational risk specifically. While Handelsbanken gives a very brief description, all other banks provide more detailed information in their annual reports. Besides UBS Bank and NIBC Bank discuss management system for all types of risks generally. Methods that were used for measurement purposes of operational risk were described quite briefly by all of participants. Mitigation techniques were not clearly mentioned by all of the banks, except of Deutsche Bank that mention back-up systems and emergency plan without any further explanations.

b) – c) These points of the model require disclosure of advanced measurement approaches for operational risk, if banks use them. Handelsbanken, KBC Bank, and NIBC Bank don’t mention Advanced measurement approach (AMA) in their annual reports. DnB NOR Bank points out that they plan to move to it later, but don’t use it at the moment. UBS Bank and Deutsche Bank disclose information about AMA, since both of them use it. UBS Bank mentions two components of AMA and describes both of them. Besides, UBS Bank underlines that it doesn’t use insurance for mitigation purposes for AMA here. Deutsche Bank describes AMA very briefly, including acceptance of it by the supervisor and use of insurance for mitigation only in appropriate cases.

4.2.11 Equities: disclosures for banking book positions

a) It is necessary to underline that only KBC Bank clearly mentions equity risk. All other banks don’t use that term in their annual reports. KBC Bank discloses some information about where equity risk concentrates, measurement techniques for it and main events in 2008. Despite UBS Bank doesn’t mention equity risk itself, there is discussion of equity investments, some accounting issues related to it and main events in 2008 in the annual report.

b) – f) Concerning quantitative disclosure of this part of the model, only UBS Bank provides that information, despite it doesn't mention the term "equity risk" in its annual report. Disclosed by UBS Bank quantitative information meets all requirements related to this part of the model. None of other participants give clear explanations of it.

4.2.12 Interest rate risk in the banking book (IRRBB)

a) – b) Interest rate risk for banking book was briefly discussed only by KBC Bank in relation to Basel II regulation requirements. KBC Bank discloses also IRRBB level in 2008. All other banks don't mention that point of the model in their annual reports.

4.3 Model for comparison: Information not included in Basel II

Besides types of risks that were included in Basel II model, the participants disclosed information about some other risks in their annual reports. For instance, all of the banks disclosed liquidity risk. Some of the banks described insurance risk. All types of risks disclosed by the participants are described in table 2 bellow.

Table 2. Types of risks not included in Basel II

Handelsbanken	UBS Bank	KBC Bank	Deutsche Bank	DnB NOR Bank	NIBC Bank
Liquidity risk	Liquidity and funding risk	Liquidity risk	Liquidity risk	Liquidity risk	Liquidity risk
Insurance risk		Technical insurance risk	Insurance specific risk	Risk in Vital Forsikring ASA	
Property risk			-		Investment risk
Business risk		Business risk	Business risk	Business risk	
		Reputation risk	Reputational risk		

4.3.1 Liquidity risk

Liquidity risk was disclosed by all of participants. All banks, except NIBC Bank, gave definition of the risk, described general strategies and main events 2008. NIBC Bank just defined the risk. UBS Bank and NIBC Bank added to this discussion some information about funding. KBC Bank discussed three pillar of liquidity risk here.

Organisation of management function was disclosed the most detailed by UBS Bank, KBC Bank, Deutsche Bank and DnB NOR Bank. Handelsbanken and NIBC Bank gave just brief a description of it. All of participants disclosed information about measurement methods. Almost of them named those methods in their annual reports, except DnB NOR Bank, which just mentioned that it used various measurement techniques. Additionally, Handelsbanken, UBS Bank, Deutsche Bank and DnB NOR Bank described their mitigation techniques for liquidity risk, while KBC Bank and NIBC Bank didn’t give any clear information about it.

4.3.2 Insurance Risk

Four of the banks disclose information about insurance risk. Handelsbanken, Deutsche Bank and DnB NOR Bank gave the risk’s definition, general discussion of strategies. Besides, Handelsbanken describes how the risk arises and refers to other source for more detailed information about insurance risk. Deutsche Bank defines also four insurance-related risks, discuss on components of insurance risk and relevant insurance activities. DnB NOR Bank discuss on types of insurance risk as well.

Handelsbanken, KBC Bank and DnB NOR Bank discuss briefly insurance risk management and responsibilities. They also mention measurement methods they use. Besides, Handelsbanken, KBC Bank and Deutsche Bank mention mitigation techniques used for insurance risk.

4.3.3 Other risks

Four of the banks disclose ***business*** risk in annual reports. KBC Bank just mentions it without further explanation. Handelsbanken only defined business risk. Deutsche Bank and DnB NOR Bank gave definition of business risk, discussed management’s responsibilities and measurement methods. Besides, DnB NOR Bank described sources of it as well.

Only two of the participants discuss ***reputation*** or ***reputational*** risk in their annual reports. KBC Bank just mentioned it without any explanations, while Deutsche Bank gave a definition of it and discussed briefly management’s responsibilities.

NIBC Bank discusses such type of risk as ***investment*** risk. Discussion includes general description of the risk, principles of management and their responsibilities, discussion of investment and exit processes.

Handelsbanken mentions ***property*** risk and just gives definition of it.

4.3.4 Additional information

Besides abovementioned information, the banks disclose some more facts in their annual reports. For example, all of participants discuss risk management approach and main events in 2008 related to risk, although some of the descriptions are more detailed than the other ones. Handelsbanken mention in its annual report general policy to risk, describes four levels of risk control and risk management. Handelsbanken has as well a separate part about comprehensive risk management, where it describes comprehensive monitoring of the bank’s risks and which of departments is responsible for it. The bank also discusses models that are used as effective tools for comprehensive risk management and main figures for the end of 2008.

UBS Bank includes in its annual report main risk management and control principles and framework, discussion of major risk measurements methods, as well as a summary of events in 2008. It is necessary to underline that annual report of UBS Bank provides the most detailed and comprehensive data among all of the participants. First, all audited information is marked in the entire report, so a reader can easily see it. Second, UBS Bank followed carefully Basel II requirements concerning risk discloser. There is even a separate part in risk related chapter, which describes Pillar 3 of Basel II regulation and provide some specific information according to its requirements. For instance, difference in some terms between Basel II, EU and Swiss regulations or different approach to calculating some indicators.

KBC Bank discuss in its annual report principles of risk management, risk governance model with explanation of responsibilities. Besides, the annual report includes a part “Asset/liability management (ALM)” with discussion of ways to manage it. It was also mentioned which information is audited in the risk related chapter of the annual report.

Deutsche Bank and DnB NOR Bank include in their annual reports some additional information as well: description of risk management in general and its organization, risk management tools and measurement systems.

NIBC Bank discusses in the annual report its difficulties in circumstances of current financial crisis and the bank’s response to it. There were a description of risk governance structure, discussion of structured credits and cash management in the credit risk part as well.

4.4 Summarizing results of comparison

General information about credit risk (for all banks) in annual reports was disclosed by the participants on a quite good level. Regarding qualitative disclosure requirements, all six banks show almost the same level of disclosure. Some participants gave more information on one question, other described better another questions, but their average level of disclosure is nearly equal. Quantitative data was not disclosed the same way. The most detailed discloser here was made by UBS Bank, the least detailed - by KBC Bank and DnB NOR Bank. Deutsche Bank, Handelsbanken and NIBC Bank were in between the best and the worst banks.

Regarding credit risk disclosure for portfolios subject to the standardised approach and supervisory risk weights in the IRB approaches, the most detailed information was provided by UBS Bank. DnB NOR Bank and NIBC Bank had less informative disclosure here. All other banks don’t disclose that information at all. However, it cannot be regarded as disadvantage, since they don’t use or use standardized approach very limited.

Next point of the model is disclosure of credit risk for portfolios subject to IRB approaches. The most detailed qualitative disclosure here was made again by UBS Bank, while DnB NOR Bank and KBC Bank had the least detailed data. Disclosure of NIBC Bank, Handelsbanken and Deutsche Bank are in the middle position. Quantitative information was mentioned the most exact in annual report of UBS Bank. KBC Bank and Deutsche Bank don’t disclose that data at all. Handelsbanken, DnB NOR Bank and NIBC Bank are in the middle. Generally for this table of the model, UBS Bank was the most exact. Handelsbanken and NIBC Bank follow. KBC Bank, Deutsche Bank and DnB NOR Bank have the least disclosed information.

Regarding credit risk mitigation: disclosures for standardised and IRB approaches, the most disclosed information was in annual report of UBS Bank. The least detailed data was in the reports of Deutsche Bank, DnB NOR Bank and NIBC Bank. Disclosures made by Handelsbanken and KBC Bank are in the middle.

General disclosure for exposures related to counterparty credit risk was the most detailed in annual report of UBS Bank. Handelsbanken, DnB NOR Bank and NIBC Bank don't disclose clear quantitative information, while KBC Bank and Deutsche Bank disclose very briefly quantitative information.

Concerning securitisation for standardised and IRB approaches, disclosure was just opposite for different banks. While UBS Bank disclosed almost all point of that table in details, Handelsbanken, KBC Bank, Deutsche Bank and DnB NOR Bank disclose almost no clear information here. Disclosure made by NIBC Bank was not very detailed, but it included both some discussion of the question and some related figures.

Market risk was disclosed in all six annual reports. However, qualitative information seems to be more detailed for UBS Bank and Deutsche Bank. Qualitative information was disclosed only by Handelsbanken and UBS Bank. Additionally, Internal models approach for market risk was not mentioned by any of the banks.

Generally required qualitative information (paragraph 824) for operational risk was disclosed by all participants. Discussion of Advanced measurement approach (AMA) was made only by UBS Bank and very briefly by Deutsche Bank.

Concerning equities: disclosures for banking book positions, qualitative information was briefly disclosed only by KBC Bank and UBS Bank, while quantitative information –only by UBS Bank.

Interest rate risk in the banking book (IRRBB) was briefly discussed only by KBC Bank.

Besides risk, mentioned in Basel model, all the banks disclosed qualitative information about liquidity risk. However, Handelsbanken, UBS Bank and Deutsche Bank showed more detailed information. Insurance risk was disclosed by those banks, which work with it. If other banks don't disclosed it because their activities don't include insurance, it cannot be regarded as a disadvantage of disclosure. Other types of risks were most often mentioned with some short explanations.

5. Analysis

In this chapter I analyse the theoretical base and the empirical evidence to achieve the aim of the research. I also try to find out the possible reasons for the result.

If we come back to discussion of three Groups of banks with strong, middle and weak financial position, Group 1 has obviously the most disclosed information. There is no doubt, that UBS Bank has the most detailed risk disclosure in its annual report. With only one small exception, namely the last table of the model, it has the best results compared to other participants. However, Handelsbanken, which has the strongest financial position, don't show risk information on constantly high or middle level of details. For some points of the model, Handelsbanken disclose data quite exact, for other – don't disclose at all, but most often its risk disclosure on the middle level compared to other participants.

Group 3 has the lowest level of disclosure risk- related information, because it includes DnB NOR Bank. This bank more often than other participants has the least detailed disclosure in its annual report or don't disclose clearly some points at all. Other three participants, KBC Bank, Deutsche Bank and NIBC Bank, disclose information with similar level of details: for some points on the middle level, for others – very little if any. However, it is important to remember, that in their annual reports KBC Bank and DnB NOR Bank during risk discussion refer to separate Risk report and Quarter report respectively. Although the existence of a specific risk report don't guarantee the disclosure of useful information, it makes more difficult to assess the level of risk disclosure in banks' publicly available reporting.

Concerning risks in the banking sector, the theory, the Basel II model and the empirical data of the research don't always describe the same types of risks. For example, the Basel II model, namely Part 2 of Pillar 3, includes almost all types of risks that were discussed in the theoretical chapter, except liquidity risk and country risk. Since liquidity risk is an important part of bank's work, it is possibly mentioned in other parts of Basel II document. The empirical data, collected during the research, shows that the banks disclose in their annual reports all types of risks, which were discussed in the theory chapter and the Basel II model. Besides, the participants mentioned some additional types of risks, such as business risk, reputation risk and insurance risk. Of course, those types of risks were not disclosed by all of the banks and the discloser was not always really detailed. However, it is possible to say that on practise the banks disclose more types of risks than it was mentioned in the theoretical literature, used for the research, or Basel II model, although the disclosure can be really brief and it doesn't always fulfil the requirements of the Basel II model.

As it was mentioned in the theoretical chapter, all the participants have the same reasons for voluntary disclosure risk-related information, besides regulation requirements. Theoretically, all six banks should be interested to disclose additional information to be attractive for new customers, to demonstrate effective management's work or to explain reasons in a case of poor earnings, to avoid legal actions for inadequate disclosure etc. At the same time all participants also have reasons to avoid disclosure of too much information, which could lead to lack of investor confidence, extra cost and competition disadvantages.

Despite all of the banks assert that they follow Basel II requirements, the results of this research shows difference of its practical use. The reason for it can be an acceptable flexibility of the Basel II, as it was discussed earlier. Since Basel II is not obligatory for the banks, except information required under IFRS, they could choose to some degree what data they want to disclose.

Also, the implementation process of Basel II requirements demands involvement of national authorities of those countries, where the implementation is realised. Since the participated banks are from different countries, the relevant national authorities could influence on accepted in these specific countries final versions of Basel II document. Additionally, different countries have different traditions concerning supervisors' power in banking sector. Obviously, in countries, where supervisors have more power, banks are more motivated to follow regulations that in countries with less powerful supervisors. All mentioned above factors would unavoidably lead to differences in risk disclosure in the banks annual reports.

As it is also mentioned in the theoretical part of this work, it is possible that banks disclose more risk-related information, according to Basel II, in their regulatory reports for the national authorities of their countries than in their publicly available annual reports. Hence, some of the participants could disclose more risk data for their national authorities, than they do for general public. It could also be one of the reasons why we see less risk information in the annual reports of some chosen banks than the others.

Another aspect that could lead to difference in risk disclosure of the banks is that using of Basel II can be more interesting for some banks and less interesting for other ones. As it is mentioned in the theory chapter, transition from Basel I to Basel II is more interesting for large advanced banks with high financial position than for smaller banks. Concerning the participants of this research, this fact is fair to some degree as well. As we could see, UBS Bank, which has the best risk disclosure according to Basel II model in its annual report, is one of the largest financial companies in the world with impressive geographical area of work. DnB NOR Bank, which is quite large bank in the Nordic region, but much smaller compared to UBS Bank, has the least detailed disclosure among all six banks. Both UBS Bank and DnB NOR Bank follow Basel II requirements, but it is possible to guess that flexibility of Basel II let DnB NOR Bank avoid undesirable for different reasons risk disclosure. However, other four banks don't show the same connection between their size and level of disclosure according to Basel II.

To summarise, the most probable reason for differences of risk disclosure in annual reports of the participants was influence of respective national authorities on the process of Basel II implementation, different legislation power of supervisors in the participant's countries and flexibility of the Basel II requirements. Concerning connection between the current financial position of the banks and level of risk-disclosure in their annual reports, it is possible to say that large banks with high financial positions are more interested to disclose information according Basel II than smaller banks.

6. Conclusion

In this chapter I reach an appropriate conclusion in accordance with the aim of the research and make some proposals for further investigations.

The purpose of this research was to find out if there is a connection between current financial position of banks and level of disclosure risk-related information in their annual reports. The investigation was focused on analysis of annual reports of six European banks. The annual reports were for the period 2008. All chosen bank had different current financial positions according to credit ratings of the largest rating agencies.

The research has led to the conclusion that there is a positive connection between current financial position of banks and level of risk disclosure in their annual reports. During the analysis of the empirical data for three groups of banks, there was discovered evidence, confirming that the group of banks with the most stable financial position had the most detailed risk discloser, while the group with the weakest financial position had the least detailed disclosure.

However, I would like to underline that the discovered connection is not undeniably strong. The banks inside one group could show really different levels of disclosure compared to each other. For instance, Handelsbanken and UBS Bank in the group with strong financial position. So if one of the banks, namely UBS Bank, would be occasionally changed to some other European bank, the results of the research could be different.

Since I studied only six participants from a certain area in the investigation, I didn't expect to get a result, which could be generalized beyond its scope. However, this research can be a useful base for other further investigations. For instance, it could be interesting to find out reasons for differences in risk-disclosure, to understand why some banks show much more publicly available information than other ones. Of course, such kind of investigation would need quite close communication with banks, organisation of interviews, personal conversations and so on. Then understanding of the reasons can be a key to improving transparency in the banking sector, which is one of the stability factors of the modern economy.

It is also possible to make a similar research with wider number of participants inside EU and to see, if results will be the same. Otherwise, it would be interesting to make a research for another area, or compare level of risk disclosure in publicly available reporting for different countries and areas and so on. There is also a possibility to continue the research in another direction. For example, to compare not only risk disclosure, but also other types of information or to use as a model the whole Basel II as well.

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Official website of Standard and poor’s rating agency
http://www2.standardandpoors.com/portal/site/sp/en/us/page.home/home/0,0,0,0,0,0,0,0,0,0,0,0,0,0,0,0.html

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http://www.ubs.com/

Official website of KBC Bank
https://www.kbc.com/

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http://www.db.com/index_e.htm

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https://www.dnbnor.com/

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Appendixes:

Appendix 1.

<u>*Moody's* Long-Term, Short-Term and Outlooks Ratings' Definitions</u>

Long-Term Definitions

Aaa Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk.

Aa Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.

A Obligations rated A are considered upper-medium grade and are subject to low credit risk.

Baa Obligations rated Baa are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics.

Ba Obligations rated Ba are judged to have speculative elements and are subject to substantial credit risk.

B Obligations rated B are considered speculative and are subject to high credit risk.

Caa Obligations rated Caa are judged to be of poor standing and are subject to very high credit risk.

Ca Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.

C Obligations rated C are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

Note: Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

Short-Term Definitions

P-1 Issuers (or supporting institutions) rated Prime-1 have a superior ability to repay short-term debt obligations.

P-2 Issuers (or supporting institutions) rated Prime-2 have a strong ability to repay short-term debt obligations.

P-3 Issuers (or supporting institutions) rated Prime-3 have an acceptable ability to repay short-term obligations.

NP Issuers (or supporting institutions) rated Not Prime do not fall within any of the Prime rating categories.

Note: Canadian issuers rated P-1 or P-2 have their short-term ratings enhanced by the senior-most long-term rating of the issuer, its guarantor or support-provider.

Rating Outlooks

A Moody's rating outlook is an opinion regarding the likely direction of an issuer's rating over the medium term. Where assigned, rating outlooks fall into the following four categories: **Positive (POS)**, **Negative (NEG), Stable (STA)**, and **Developing (DEV** - contingent upon an event). In the few instances where an issuer has multiple ratings with outlooks of differing directions, an **"(m)" modifier** (indicating multiple, differing outlooks) will be displayed, and Moody's written research will describe any differences and provide the rationale for these differences. **A RUR (Rating(s) Under Review)** designation indicates that the issuer has one or more ratings under review for possible change, and thus overrides the outlook designation. When an outlook has not been assigned to an eligible entity, **NOO (No Outlook)** may be displayed.

Source:
http://www.moodys.com/moodys/cust/aboutmoodys/aboutmoodys.aspx?topic=rdef&subtopic=moodys%20credit%20ratings&title=view%20all%20rating%20definitions.htm

Appendix 2.

Fitch ratings' Long-Term and Short-Term Ratings Definitions

Long-Term Definitions

AAA: Highest credit quality
'AAA' ratings denote the lowest expectation of default risk.

AA: Very high credit quality
'AA' ratings denote expectations of very low default risk

A: High credit quality
'A' ratings denote expectations of low default risk.

BBB: Good credit quality
'BBB' ratings indicate that expectations of default risk are currently low.

BB: Speculative
'BB' ratings indicate an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists which supports the servicing of financial commitments.

B: Highly speculative
'B' ratings indicate that material default risk is present, but a limited margin of safety remains..

CCC: Substantial credit risk
Default is a real possibility.

CC: Very high levels of credit risk
Default of some kind appears probable.

C: Exceptionally high levels of credit risk
Default is imminent or inevitable, or the issuer is in standstill.

RD: Restricted default
'RD' ratings indicate an issuer that in Fitch Ratings' opinion has experienced an uncured payment default on a bond, loan or other material financial obligation but which has not entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, and which has not otherwise ceased business.

D: Default
'D' ratings indicate an issuer that in Fitch Ratings' opinion has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, or which has otherwise ceased business.

Short-Term Definitions

F1: Highest short-term credit quality
Indicates the strongest intrinsic capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.

F2: Good short-term credit quality
Good intrinsic capacity for timely payment of financial commitments.

F3: Fair short-term credit quality
The intrinsic capacity for timely payment of financial commitments is adequate.

B: Speculative short-term credit quality
Minimal capacity for timely payment of financial commitments, plus heightened vulnerability to near term adverse changes in financial and economic conditions.

C: High short-term default risk
Default is a real possibility.

RD: Restricted default
Indicates an entity that has defaulted on one or more of its financial commitments, although it continues to meet other financial obligations. Applicable to entity ratings only.

D: Default
Indicates a broad-based default event for an entity, or the default of a specific short-term obligation.

Rating Outlook

Rating Outlooks indicate the direction a rating is likely to move over a one to two-year period. They reflect financial or other trends that have not yet reached the level that would trigger a rating action, but which may do so if such trends continue. The majority of Outlooks are generally Stable, which is consistent with the historical migration experience of ratings over a one to two-year period. Positive or Negative rating Outlooks do not imply that a rating change is inevitable and, similarly, ratings with Stable Outlooks can be raised or lowered without a prior revision to the Outlook if circumstances warrant such an action. Occasionally, where the fundamental trend has strong, conflicting elements of both positive and negative, the Rating Outlook may be described as Evolving.

Sources:
http://www.fitchratings.com/corporate/fitchResources.cfm?detail=1&rd_file=ltr
http://www.fitchratings.com/corporate/fitchResources.cfm?detail=1&rd_file=str

Appendix 3.

Standard & Poor's Long-Term, Short-Term and Outlooks Ratings' Definitions

Long-Term Definitions

AAA
An obligor rated 'AAA' has extremely strong capacity to meet its financial commitments. 'AAA' is the highest issuer credit rating assigned by Standard & Poor's.

AA
An obligor rated 'AA' has very strong capacity to meet its financial commitments. It differs from the highest-rated obligors only to a small degree.

A
An obligor rated 'A' has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.

BBB
An obligor rated 'BBB' has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

BB
An obligor rated 'BB' is less vulnerable in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions, which could lead to the obligor's inadequate capacity to meet its financial commitments.

B
An obligor rated 'B' is more vulnerable than the obligors rated 'BB', but the obligor currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitments.

CCC
An obligor rated 'CCC' is currently vulnerable, and is dependent upon favorable business, financial, and economic conditions to meet its financial commitments.

CC
An obligor rated 'CC' is currently highly vulnerable.

Plus (+) or minus (-)
The ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

R
An obligor rated 'R' is under regulatory supervision owing to its financial condition. During the pendency of the regulatory supervision the regulators may have the power to favour one class of obligations over others or pay some obligations and not others. Please see Standard & Poor's issue credit ratings for a more detailed description of the effects of regulatory supervision on specific issues or classes of obligations.

SD and D
An obligor rated 'SD' (selective default) or 'D' has failed to pay one or more of its financial obligations (rated or unrated) when it came due. A 'D' rating is assigned when Standard & Poor's believes that the default will be a general default and that the obligor will fail to pay all or substantially all of its obligations as they come due. An 'SD ' rating is assigned when Standard & Poor's believes that the obligor has selectively defaulted on a specific issue or class of obligations but it will continue to meet its payment obligations on other issues or classes of obligations in a timely manner. Please see Standard & Poor's issue credit ratings for a more detailed description of the effects of a default on specific issues or classes of obligations.

NR
An issuer designated NR is not rated.

Short-Term Issuer Credit Ratings

A-1
An obligor rated 'A-1' has strong capacity to meet its financial commitments. It is rated in the highest category by Standard & Poor's. Within this category, certain obligors are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitments is extremely strong.

A-2
An obligor rated 'A-2' has satisfactory capacity to meet its financial commitments. However, it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in the highest rating category.

A-3
An obligor rated 'A-3' has adequate capacity to meet its financial obligations. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

B-1:
Obligors with a 'B-1' short-term rating have a relatively stronger capacity to meet their financial commitments over the short-term compared to other speculative-grade obligors.

B-2:
Obligors with a 'B-2' short-term rating have an average speculative-grade capacity to meet their financial commitments over the short-term compared to other speculative-grade obligors.
B-3:
Obligors with a 'B-3' short-term rating have a relatively weaker capacity to meet their financial commitments over the short-term compared to other speculative-grade obligors.

C
An obligor rated 'C' is currently vulnerable to non-payment and is dependent upon favourable business, financial, and economic conditions for it to meet its financial commitments.

R
An obligor rated 'R' is under regulatory supervision owing to its financial condition. During the pendency of the regulatory supervision the regulators may have the power to favour one class of obligations over others or pay some obligations and not others. Please see Standard & Poor's issue credit ratings for a more detailed description of the effects of regulatory supervision on specific issues or classes of obligations.

SD and D
An obligor rated 'SD' (selective default) or 'D' has failed to pay one or more of its financial obligations (rated or unrated) when it came due. A 'D' rating is assigned when Standard & Poor's believes that the default will be a general default and that the obligor will fail to pay all or substantially all of its obligations as they come due. An 'SD' rating is assigned when Standard & Poor's believes that the obligor has selectively defaulted on a specific issue or class of obligations but it will continue to meet its payment obligations on other issues or classes of obligations in a timely manner. Please see Standard & Poor's issue credit ratings for a more detailed description of the effects of a default on specific issues or classes of obligations.

NR
An issuer designated NR is not rated.

OUTLOOK DEFINITIONS

A Standard & Poor's rating outlook assesses the potential direction of a long-term credit rating over the intermediate term (typically six months to two years). In determining a rating outlook, consideration is given to any changes in the economic and/or fundamental business conditions. An outlook is not necessarily a precursor of a rating change or future CreditWatch action.

- Positive means that a rating may be raised.
- Negative means that a rating may be lowered.
- Stable means that a rating is not likely to change.
- Developing means a rating may be raised or lowered.

Source:
http://www2.standardandpoors.com/spf/pdf/fixedincome/Ratings_Definitons.pdf

Appendix 4.

Model for comparison

			Handelsbanken	***UBS Bank***	***KBC Bank***
Table: Credit risk: general disclosures for all banks. (Table does not include equities)					
Qualitative disclosure	(a)	The general qualitative disclosure requirement (paragraph 824) with respect to credit risk, including: ● Definitions of past due and impaired (for accounting purposes);	no clear definition, p. 72 use past due in tables (different continuance), Impaired- no definition (but use a lot bad debt p. 150 definition)	p.144 definitions of past due and impaired, Past due but not impaired loans; recognition of impairment;	P. 124 definitions past due and impaired
		● Description of approaches followed for specific and general allowances and statistical methods;	See paragraph 824	See Paragraph 824	See paragraph 824
		● Discussion of the bank's credit risk management policy; and	See paragraph 824	See Paragraph 824	See paragraph 824
		● For banks that have partly, but not fully adopted either the foundation IRB or the advanced IRB approach, a description of the nature of exposures within each portfolio that are subject to the			
		1) standardised,	no information (not used)	p. 176 For a subset of its credit portfolio, UBS applies the standardized approach (SABIS), based on external ratings. P. 183 Requirements of the standardized approach (requires banks to use risk assessments prepared by External Credit Assessment Institutions (ECAI) or Export Credit Agencies), used to determine the risk weightings applied to rated counterparties (the following classes of exposure: Central governments and central banks; Regional governments and local authorities; Multilateral development banks; Institutions; Corporates.	p. 65 Description of material group companies (K&H Bank, Kredyt Bank and others), which used standardised approach in 2008, but will adopt the IRB Foundation approach in 2009–2010.

		2) foundation IRB,	P. 94 basic approach (PD calculation for customers, used for corporate exposures in the whole of the regional banking operations, institutional exposures)	Not mentioned	p. 65 KBC Bank N.V. and most of its main subsidiaries use the IRB Foundation approach from 2007.
		3) advanced IRB approaches and of management's plans and timing for migrating exposures to full implementation of the applicable approach.	p. 94 advanced IRB approach (LGD, EAD calculation, for retail exposures (households and small companies) in Sweden, Norway and Finland)	P. 176 The advanced Internal Ratings Based (IRB) approach applied by UBS for the majority of its businesses. P. 183 The standardized approach is generally applied where it is not possible to use the advanced IRB approach	p. 65 KBC Group's moving to IRB Advanced approach is planed in 2011
Quantitative disclosure	**(b)**	Total gross credit risk exposures, plus average gross exposure over the period broken down by major types of credit exposure.	P. 55 Table "Credit risk exposure "(For main types of credit exposure) without explanation if it is before or after mitigation factors	p. 136 Table: "Exposure to credit risk – UBS Group" (Maximum exposure to credit risk, adjustments, before and after hedging for different types banking and trading products, 2007-2008) without explanation if it is gross credit risk exposure or not, nothing about average gross exposure. P. 137 Table "Gross credit exposure by business division" (for Global Wealth Management & Business Banking, Investment Bank, Other)	No clear information for credit risk exposure, but : p. 63 Figure for Total loan portfolio in table "Loan portfolio", p. 64 Table "Other credit exposure" (not loan) p. 124 Table" Maximum credit exposure"
	(c)	Geographic distribution of exposures, broken down in significant areas by major types of credit exposure.	p. 56 Table "Geographical distribution" (For different types of disclosure, including Loans, Off-balance-sheet commitments and other)	P. 179 Table "Regulatory gross credit exposure by geographical region" (detailed)	no clear information, but : p. 63 Loan portfolio breakdown by business unit (break down to Belgium, CEER (Central & Eastern Europe and Russia Business Unit), Merchant Banking and European Private Banking) in Table "Loan portfolio".
	(d)	Industry or counterparty type distribution of exposures, broken down by major types of credit exposure.	only for loans to the public, p. 56 Table : "Loans to the public, by sector"	P. 179 Table "Regulatory gross credit exposure by counterparty type" (detailed)	No clear information, but p. 63 Loan portfolio breakdown by counterparty sector in table "Loan portfolio"

	(e)	Residual contractual maturity breakdown of the whole portfolio,[6] broken down by major types of credit exposure.	no information	P. 181 Table "Regulatory gross credit exposure by residual contractual maturity" (detailed**)**	no information
	(f)	By major industry or counterparty type: ● Amount of impaired loans and if available, past due loans, provided separately;	P, 72 Table ”Analysis of past due loans which are not bad debts”(for credit institutions; Household; Corporate) P. 71 Table ”Bad debts and/or non-performing loans, by sector ” (more detailed)	P. 185 Table "Impaired assets by exposure segment" P. 145 Table "Past due but not impaired loans" (totally, not by industry or counterparty)	p. 63 Table ”Impaired loans” (total, without breaking down by industry or counterparty type) not exactly past due, but : p. 124 figure for Loans and advances in table "Past due, but not impaired assets" (total, without breaking down)
		● Specific and general allowances; and	no information	P. 145 Table "Allowances and provisions for credit losses" (detailed + some ratios)	no information
		● Charges for specific allowances and charge-offs during the period.	no information	no information	no information
	(g)	Amount of impaired loans and, if available, past due loans provided separately broken down by significant geographic areas including, if practical, the amounts of specific and general allowances related to each geographical area.	P. 71 Table ”Bad debts and/or non-performing loans, geographic distribution (2007, 2008)	P. 184 Table: "Impaired assets by geographical region"	p. 63 Table ”Impaired loans”
	(h)	Reconciliation of changes in the allowances for loan impairment.	no information	P. 185 Table "Changes in allowances, provisions and specific credit valuation adjustments" (p. 184 : a breakdown of movements in the specific and collective allowances and provisions for impaired assets, including changes in the credit valuation allowance for derivatives)	no information

	(i)	For each portfolio, the amount of exposures (for IRB banks, drawn plus EAD on undrawn) subject to the:			no information
		1) standardised,	Not mentioned	Not exactly that information, but close to it P. 183 Table "Regulatory gross and net credit exposure by risk weight under the standardized approach"	
		2) foundation IRB,	p.95 Table "Credit risk IRB approach" (break down to Exposure after credit risk protection (EAD), Average risk weight, % Capital requirement)	Not mentioned	
		3) advanced IRB approaches.		Not exactly that information, but close to it: P. 182 Table : "Advanced internal ratings-based approach: regulatory net credit exposure by UBS-internal rating".	
General qualitative disclosure		**Paragraph 824**			
		General qualitative disclosure requirement for each separate risk area (e.g. credit, market, operational, banking book interest rate risk, equity) banks must describe their risk management objectives and policies, including: ● strategies and processes;	P. 53 Definition of the risk, general approach to credit risk, policy and strategies . Discussion of counterparty and payment risk as part of credit risk.	P. 134 Definitions, how arises, sources of the risk for different departments of UBS (Global Wealth Management & Business Banking, the Investment Bank, less for Global Asset Management) P. 134 General discussion, Limits and operational controls: different types of limits, what they exist for. p. 143-144 : Discussion on Settlement and Country risks	p. 61-62 Definition, managed on two levels: Transactional (Acceptance, Supervision and monitoring, impairment, events in 2008) and portfolio level (Monitoring) p. 62-64 separate overview of loan portfolio (what includes and excludes) and others sources of credit risk (short-term commercial transactions, trading book securities, counterparty risk in interprofessional transactions, government securities in the investment portfolio), Table (p. 64) p. 70 Credit risk in the investment portfolios

		● the structure and organisation of the relevant risk management function;	P. 53- 54 Description of decision making process; figure: Decisions level for credits, p. 52- 53 Description of controlling and managing risk in general (+ figure)	p. 121-122 Generally for all types of risks: Risk management and control principles, Risk management and control responsibilities Figure: Corporate governance and risk control	p. 61 Description of Risk Governance model (for all types of risks): responsibilities and connection of The Board of Directors, the Audit Committee, the Group Executive Committee, the Group Asset/Liability Management Committee (ALCO) and Specialised group risk committees, Figure
		● the scope and nature of risk reporting and/or measurement systems;	p. 54-55, use IRB approach, the Bank calculate: the Probability of default (PD), EAD, LGD, explanations for what company which method is used. General description of PD (ex: what factors are included...), what is used the result for further, 2 diagrams ...Proportion of exposure by exposure category, excluding default credits, corporate; Proportion of exposure by exposure category, excluding default credits, institutions	P. 135 Difference of measurement of credit exposure for a loan and a traded product (more complex for second); Main parameters- definitions and what are they used for further.: **probability of default ; exposure at default** (P. 147-148 how is calculated: for traded products is more complex than for loans, monitoring of its performance)**; loss given default** (more details about each p. 146-148). A**lso used expected loss, statistical loss** and **stress los**s: definitions, what used for further, p. 136 Composition of credit risk – UBS Group : Different measurement for different purposes (ex.: IFRS, internal management view) table: Exposure to credit risk – UBS Group (for IFRS and Internal management view, 2008-2007)	p. 62 **Loan portfolio** : Credit monitoring is determined primarily by the risk class, which is based on Probability of Default (PD) and the Loss Given Default (LGD). Discussion of PD classes (from 1 to 12). Use of stress test (for "certain types of credit (for instance, mortgages, loans provided to specific business sectors), as well as on the full scope of credit risk"). p. 65 **Insurance** : use Exposure at Default (EAD) and Expected Loss (EL) for Credit exposure to (re)insurance companies
		● policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants.	Nothing about mitigating, hedging only in context of accounting P.57 The counterparty risk: reduced through netting agreements. The Bank's policy is to sign netting agreements with all counterparties. Use of collateral, Derivative agreements.	p.134Credit risk control: **Limits and controls** P. 134 Discussion about collateral, OTC derivatives p. 135 credit hedging	

			Handelsbanken	***UBS Bank***	***KBC Bank***
Table: Credit risk: disclosures for portfolios subject to the standardised approach and supervisory risk weights in the IRB approaches					
Qualitative disclosure	(a)	For portfolios under the standardised approach: ● Names of ECAIs and ECAs used, plus reasons for any changes;*	No information	Don't mention ECAI or ECA names, but names of FINMA (Swiss Financial Market Supervisory Authority): P. 183 UBS has selected three FINMA-recognized external credit assessment institutions for this purpose - **Moody's Investors Service, Standard and Poor's Ratings Group and Fitch Group**	no information
		● Types of exposure for which each agency is used;	No information	P. 183 for all agencies: classes of exposure: – Central governments and central banks; – Regional governments and local authorities; – Multilateral development banks; – Institutions; and – Corporates.	no information
		● A description of the process used to transfer public issue ratings onto comparable assets in the banking book; and	No information	P. 146-147. Description of how external ratings are used, Table "UBS internal rating scale and mapping of external ratings" (only for Moody's and Standard & Poor's rating agencies)	no information
		● The alignment of the alphanumerical scale of each agency used with risk buckets.	No information		no information
Quantitative disclosure	**(b)**	● For exposure amounts after risk mitigation subject to the standardised approach, amount of a bank's outstandings (rated and unrated) in each risk bucket as well as those that are deducted; and	No information	Not clear	no information
		● For exposures subject to the supervisory risk weights in IRB (HVCRE, any SL products subject to supervisory slotting criteria and equities under the simple risk weight method) the aggregate amount of a bank's outstandings in each risk bucket.	No information	Not clear	no information

			Handelsbanken	*UBS Bank*	*KBC Bank*
Table: Credit risk: disclosures for portfolios subject to IRB approaches					
Qualitative disclosure	(a)	Supervisor’s acceptance of approach/ supervisory approved transition	P.54 Approved by the Swedish Financial Supervisory Authority	p. 176 UBS uses internal models, approved by FINMA (Swiss Financial Market Supervisory Authority)	not clear, mention Belgian Banking, Finance and Insurance Commission (CBFA), but not in relation to IRB approach
	(b)	Explanation and review of the: ● Structure of internal rating systems and relation between internal and external ratings;	p. 54 Description of internal rating, connection management and the board, controlling system p. 10 separately external rating, without explanation of their connection	p. 146-147 Description and Table "UBS internal rating scale and mapping of external ratings"	no information, just mention: p. 65 Expected loss is calculated using internal or external ratings,
		● use of internal estimates other than for IRB capital purposes;	p. 44 internal reporting to the company management for operating decision-making and follow-up purposes., p. 49 Accounting purposes (ex. for intangible assets: internally generated values, which are not recognised as assets)	p. 30 internal performance measurement and planning, p. 34 internal management reporting ,p. 66 internal SRI research (Socially responsible investments) , p. 122 Internal Audit;	p. 61 internal audit, p. 75 internal controls, internal governance
		● process for managing and recognising credit risk mitigation; and	no information	P. 134-135. Description of process of credit risk mitigation	no information
		● Control mechanisms for the rating system including discussion of independence, accountability, and rating systems review.	P.54 brief description of control mechanism	p. 147 Mainly review is described	no information
	(c)	Description of the internal ratings process, provided separately for five distinct portfolios:	P: 54 Description of internal rating process separately for two groups: SME (small and medium-sized companies) and private individuals; large companies and banks (institutional exposures),	p. 146-148 General description of internal rating process without details for each portfolios P. 180 Definitions of Corporates; Sovereigns; Banks; Residential mortgages; Other retail.	no information, p. 62 just description of internal rating process generally for credit risk
		● Corporate (including SMEs, specialised lending and purchased corporate receivables), sovereign and bank;			
		● Equities;			
		● Residential mortgages;			
		● Qualifying revolving retail; and			
		● Other retail.			

		The description should include, for each portfolio: ● The types of exposure included in the portfolio;	No information	No information	no information
		● The definitions, methods and data for estimation and validation of PD, and (for portfolios subject to the IRB advanced approach) LGD and/or EAD, including assumptions employed in the derivation of these variables; and	p. 54 for mentioned above portfolios	p. 146-148 Description of PD, EAD (more detailed, different breaking down) and LGD (less detailed)	not clear, but for loan portfolio: p. 62 the risk class is based on the Probability of Default (PD) and the Loss Given Default (LGD). The 'normal' loan portfolio has internal rating classes from 1 (lowest risk) to 9 (highest risk) for the PD and – in a fev buckets – for the LGD. Very brief
		● Description of deviations as permitted under paragraph 456 and footnote 89 from the reference definition of default where determined to be material, including the broad segments of the portfolio(s) affected by such deviations.	No information	No information	no information
Quantitative disclosure	(d)	For each portfolio (as defined above) except retail, present the following information across a sufficient number of PD grades (including default) to allow for a meaningful differentiation of credit risk: ● Total exposures (for corporate, sovereign and bank, outstanding loans and EAD on undrawn commitments; for equities, outstanding amount);	P 55 graph "Proportion exposure" not for classes of ratings but in % PD (for corporates and institutions).	P. 182 Table "Net credit exposure" (including total exposure)	p. 63 only for loan portfolio, Table "Loan portfolio breakdown by risk class"
		● For banks on the IRB advanced approach, exposure-weighted average LGD (percentage); and	no information	p. 182 Table "Advanced internal ratings-based approach: exposure-weighted average loss given default by UBS-internal rating"	no information
		● Exposure-weighted average risk-weight.	No information	p. 182 Table "Advanced internal ratings-based approach: exposure-weighted average risk-weight by UBS-internal rating"	no information
		For banks on the IRB advanced approach, amount of undrawn commitments and exposure-weighted average EAD for each portfolio;	No information	No information	no information
		For each retail portfolio (as defined above), either:	no information	No information	no information
		● Disclosures as outlined above on a pool basis (i.e. same as for non-retail portfolios); or			

		● Analysis of exposures on a pool basis (outstanding loans and EAD on commitments) against a sufficient number of EL grades to allow for a meaningful differentiation of credit risk.			
	(e)	Actual losses (e.g. charge-offs and specific provisions) in the preceding period for each portfolio (as defined above) and how this differs from past experience. A discussion of the factors that impacted on the loss experience in the preceding period — for example, has the bank experienced higher than average default rates, or higher than average LGDs and EADs.	P. 70 Table "Loan losses" (general without breaking down to each portfolio) p. 47 Explanation of what is included in Loan losses (also actual losses)	No clear figures for Actual losses , but P.185 Table "Total credit loss at year-end 2008" (for defined portfolios), P. 190 Table "Losses recognized on originated transactions in 2008"	not clear
	(f)	Banks' estimates against actual outcomes over a longer period. At a minimum, this should include information on estimates of losses against actual losses in each portfolio (as defined above) over a period sufficient to allow for a meaningful assessment of the performance of the internal rating processes for each portfolio. Where appropriate, banks should further decompose this to provide analysis of PD and, for banks on the advanced IRB approach, LGD and EAD outcomes against estimates provided in the quantitative risk assessment disclosures above.	Not clear	not clear	no information

			Handelsbanken	***UBS Bank***	***KBC Bank***
Table: Credit risk mitigation: disclosures for standardised and IRB approaches					
Qualitative disclosure	(a)	The general qualitative disclosure requirement (paragraph 824) with respect to credit risk mitigation including: ● policies and processes for, and an indication of the extent to which the bank makes use of, on- and off-balance sheet netting;	p. 55 General policy, some exceptions (credit is given without collateral), how evaluation happens, very brief about netting	p. 134-135, 137 Some discussion about netting (without mentioning about on- and off-balance sheet)	p. 64 only mentioned that Close-out netting is used
		● policies and processes for collateral valuation and management;	p. 55, Description+, why it is needed for	p. 134-135 Discussion about collateral, general policies, valuation and so on	not clear
		● a description of the main types of collateral taken by the bank;	p. 55 about types- p. 57 Table "Loans to the public, collateral", P. 57 collateral for Netting agreements	P. 134-135. Main types of collateral	p. 125 mentioned some types of collateral: cash, Equity instruments, Debt instruments, Loans and advances

		● the main types of guarantor/credit derivative counterparty and their creditworthiness; and	not clear	Not clear	no information
		● information about (market or credit) risk concentrations within the mitigation taken.	P. 55-57, Description of risk concentration	P. 125 definition, identification P. 134 information about Banks actions to avoid it	p. 62 monitoring of credit risk concentrations, briefly about the scope of monitoring. p. 73 monitoring of Market Risk concentration
Quantitative disclosure	**(b)**	For each separately disclosed credit risk portfolio under the standardised and/or foundation IRB approach, the total exposure (after, where applicable, on- or off-balance sheet netting) that is covered by:	P. 57 Table "Loans to the public, collateral" without explanation : that is after on- off-balance sheet netting or not	P. 183 Table "Eligible financial collateral recognized under standardized approach"	p. 125 just Table "Collateral held (which may be sold or repledged in the absence of default by the owner)" : two types- financial and other
		● eligible financial collateral; and	no information		no information
		● other eligible IRB collateral;	no information	No information	no information
		after the application of haircuts	no information	No information	no information
	(c)	For each separately disclosed portfolio under the standardised and/or IRB approach, the total exposure (after, where applicable, on- or off-balance sheet netting) that is covered by guarantees/credit derivatives.	no information	P. 181 Table "Regulatory gross credit exposure covered by guarantees and credit derivatives" (without explanation about on- or off-balance sheet)	no information

			Handelsbanken	***UBS Bank***	***KBC Bank***
Table: General disclosure for exposures related to counterparty credit risk					
Qualitative disclosure	(a)	The general qualitative disclosure requirement (paragraphs 824 and 825) with respect to derivatives and CCR, including:● Discussion of methodology used to assign economic capital and credit limits for counterparty credit exposures;	P. 57 general description, policy of the Bank, discussion of credit limits P. 57 general policy about on- and off-balance sheet netting, used for reducing counterparty risk	P. 134-135 Discussion about Limits and controls for credit risk exposure: individual counterparties and counterparty groups.	Not clear
		● Discussion of policies for securing collateral and establishing credit reserves;	p. 57 Discussion, use different type of securities (cash and governmental securities, derivatives)	p. 134-135 Discussion about collateral, general policies, valuation and so on	no information
		● Discussion of policies with respect to wrong-way risk exposures;	p. 57 Discussion + , depends on type of contract	P. 135, 148 Some brief discussion	no information
		● Discussion of the impact of the amount of collateral the bank would have to have to provide given a credit rating downgrade.		p. 25 discussion about it	no information

Quantitative disclosure	**(b)**	Gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held (including type, e.g. cash, government securities, etc.), and net derivatives credit exposure. Also report measures for exposure at default, or exposure amount, under the IMM, SM or CEM, whichever is applicable. The notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure.	Not clear	P. 186 Table " Credit exposure of derivative instruments" (not for positive fair value)	some information: p. 128 Table "Derivative financial instruments" (Carrying value and Notional amount for portfolios : Interest rate contracts, Foreign exchange contracts, Equity contracts, Credit contracts)
	(c)	Credit derivative transactions that create exposures to CCR (notional value), segregated between use for the institution's own credit portfolio, as well as in its intermediation activities, including the distribution of the credit derivatives products used , broken down further by protection bought and sold within each product group.	No information	P. 186 Table "Credit derivatives"	not clear
	(d)	The estimate of alpha if the bank has received supervisory approval to estimate alpha.	No information	No information	no information

			Handelsbanken	***UBS Bank***	***KBC Bank***
Table: Securitisation: disclosure for standardised and IRB approaches					
Qualitative disclosure	**(a)**	The general qualitative disclosure requirement (paragraph 824) with respect to securitisation (including synthetics), including a discussion of: ● the bank's objectives in relation to securitisation activity, including the extent to which these activities transfer credit risk of the underlying securitised exposures away from the bank to other entities;	Not clear! There is no chapter about securities	P. 188 quite detailed: Sources and control of risks resulting from securitisation structures; Regulatory treatment of securitisation; Accounting Policies; Good practice guidelines; Securitisation activity during 2008;	p.66 KBC's investments in structured credit products and KBC's involvement in securitisation activities can be found in KBC's Risk Report, which is available at www.kbc.com
		● the roles played by the bank in the securitisation process [29] and an indication of the extent of the bank's involvement in each of them; and		p. 188 clear what role the Bank plays (warehousing assets as principal, the creation of securitisation vehicles and others) and doesn't play (doesn't provided material liquidity facilities and has not a sponsor)	

		the regulatory capital approaches (e.g. RBA, IAA and SFA) that the bank follows for its securitisation activities.		p. 188 generally applies the Ratings Based Approach, for some securities (Interest rate or foreign currency derivatives with securitisation vehicles) the advanced Internal Ratings Based approach is used.	
	(b)	Summary of the bank's accounting policies for securitisation activities, including:	P. 45-48 briefly about some accounting policies for derivatives		
		● whether the transactions are treated as sales or financings;		p. 188 as sales	
		● recognition of gain on sale;		P. 188 description (A gain or loss on sale is recognized when the exposures are derecognised)	
		● key assumptions for valuing retained interests, including any significant changes since the last reporting period and the impact of such changes; and		P. 267 Discussion about retained interests	
		● treatment of synthetic securitisations if this is not covered by other accounting policies (e.g. on derivatives).		p. 188 refers to "Note 1 Summary of significant accounting policies"	
	(c)	Names of ECAIs used for securitisations and the types of securitisation exposure for which each agency is used.		P. 188 use of Moody's, Standard & Poor's and Fitch's Ratings for all securitisation exposures.	
Quantitative disclosure	**(d)**	The total outstanding exposures securitised by the bank and subject to the securitisation framework (broken down into traditional/synthetic), by exposure type.		P. 189 Table "Total outstanding exposures – synthetic securitisations"	
	(e)	For exposures securitised by the bank and subject to the securitisation framework: [32]			
		● amount of impaired/past due assets securitised; and		P. 189 Table "Amount of impaired / past due assets securitised – synthetic securitisations"	
		● losses recognised by the bank during the current period [33]		P. 190 Table "Losses recognized on originated transactions in 2008"	
		broken down by exposure type.			
	(f)	Aggregate amount of securitisation exposures retained or purchased [34] broken down by exposure type. [30]		P. 190 Table "Securitisation exposures retained or purchased" (by exposure type)	

	(g)	Aggregate amount of securitisation exposures retained or purchased [34] and the associated IRB capital charges for these exposures broken down into a meaningful number of risk weight bands. Exposures that have been deducted entirely from Tier 1 capital, credit enhancing I/Os deducted from Total Capital, and other exposures deducted from total capital should be disclosed separately by type of underlying asset.		P. 190 Table "Securitisation exposures retained or purchased" , Table "Capital charge for securitisation exposures retained or purchased"	
	(h)	For securitisations subject to the early amortisation treatment, the following items by underlying asset type for securitised facilities:		No information	
		● the aggregate drawn exposures attributed to the seller's and investors' interests;			
		● the aggregate IRB capital charges incurred by the bank against its retained (i.e. the seller's) shares of the drawn balances and undrawn lines; and			
		● the aggregate IRB capital charges incurred by the bank against the investor's shares of drawn balances and undrawn lines.			
	(i)	Banks using the standardised approach are also subject to disclosures (g) and (h), but should use the capital charges for the standardised approach.		No information	
	(j)	Summary of current year's securitisation activity, including the amount of exposures securitised (by exposure type), and recognised gain or loss on sale by asset type.	P. 85 summary of figures, related to securitisation, is in Table «Issued securities"	P. 189 Table "Securitisation activity during 2008 – traditional securitisations"	

			Handelsbanken	***UBS Bank***	***KBC Bank***
Table: Market risk: disclosure for banks using the standardised approach					
	(a)	The general qualitative disclosure requirement (paragraph 824) for market risk including the portfolios covered by the standardised approach.	See paragraph 824	see paragraph 824	See paragraph 824

Quantitative disclosure	**(b)**	The capital requirements for:	P. 94 for all 4 risks (only risk 2 is called Equity price risk): Table ”Capital requirement”		no information about capital requirements
		● interest rate risk;	P.59 INTEREST RATE RISK How arises, measurement system (several ways, VaR)	P. 159 Where arise from, management, measurement (VaR and stress loss), development in 2008, P 177 Table "Detailed segmentation of required capital"	included in Asset/Liability Management (ALM) p. 67 the risk's management, measurement, development in 2008 and expectations for 2009 , Table "KBC group ALM risk, by risk category"
		● equity position risk;	P. 60 EQUITY PRICE RISK How arises, way to measure, + table Equity price risk 31 December 2008	P 177 Table "Detailed segmentation of required capital"	included in Asset/Liability Management (ALM) p. 69 Briefly concentration, measurement
		● foreign exchange risk; and	P.60 EXCHANGE RATE RISK How arises,	P 177 Table "Detailed segmentation of required capital"	included in Asset/Liability Management (ALM) p. 71 briefly general policy
		● commodity risk.	P. 60 COMMODITY PRICE RISK How occurs, how measured	P 177 Table "Detailed segmentation of required capital"	no information
		Paragraph 824			
General qualitative disclosure		General qualitative disclosure requirement for each separate risk area (e.g. credit, market, operational, banking book interest rate risk, equity) banks must describe their risk management objectives and policies, including: ● strategies and processes;	P.58 Definition, where arise from , general policy and strategies P. 94 How calculated (in accordance with the Swedish Financial Supervisory Authority’s standardised directives)	P. 128 Definition, factors driving the risk, detailed about sources of the risk: trading, non-trading; general strategies and management responsibilities	p. 73 Definition of market risk, risk governance
		● the structure and organisation of the relevant risk management function;	P.58 Figure: Decision levels and follow-up of market risk ; Relationship between management and the board, reporting system	p. 121- 123 Risk management and control principles, Risk management and control **responsibilities** Figure: Corporate governance and risk control (generally for all types of risks) P. 128 management responsibilities separately for trading and non-trading market risk	p. 66 Management of interest rate risk, equity risk, real estate risk, foreign exchange risk, inflation risk p. 71 Foreign exchange risk management p.. 73-74 Market risk management: who is responsible, managing mechanism
		● the scope and nature of risk reporting and/or measurement systems;	P.58 RISK MEASUREMENT Description of used methods	p. 129 VaR and stress loss: definitions, what are used for, limits, VaR: detailed what used for, what includes,	p. 67 Interest rate risk measurement system: Basis-Point-Value (BPV) and VAR p. 69 Equity risk is monitored using

			(VaR, stress test). Description of VaR, what it is used for, which risks it doesn't identify,	how calculated, different timing for different purposes (internal purposes, VaR backtesting), reasons why Realized market losses can differ from those implied by the VaR measure, VaR developments in 2008, Backtesting (accuracy of the VaR model is monitored by backtesting): definition, general description, how works, how often happens, two figures "Investment Bank: backtesting revenue[1] distribution", "Investment Bank: analysis of negative backtesting revenues" P. 131 stress loss: what used for, standard and specific scenarios, how often happens, stress tests approaches differ for different financial institutions 3 tables (2008-2007):" Investment Bank: Value-at-Risk (10-day, 99% confidence, 5 years of historical data)", "UBS Group: Value-at-Risk (10-day, 99% confidence, 5 years of historical data)", "UBS: Value-at-Risk (1-day, 99% confidence, 5 years of historical data)" p. 132 Concentration limits and other controls(applied to general market risk factors such as interest rates, credit spreads, equity indices and foreign exchange rates or groups of highly correlated factors.....), volume-based limits to certain portfolios and sub-portfolios, potential impact of increased default rates... p. 133 other applications of market risk measures	a VAR technique p. 73-74 For Market risk in general - VAR method, stress test. Table "Market risk (VAR, 1-day holding period)"
		● policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants.	P. 58 Description of used securities, monitoring system of effectiveness	P. 128 general description of ways for monitoring risk and who is responsible for it	p. 73 use of derivatives and others

			Handelsbanken	UBS Bank	KBC Bank
Table: Market risk: disclosures for banks using the internal models approach (IMA) for trading portfolios					
Qualitative disclosure	**(a)**	The general qualitative disclosure requirement (paragraph 824) for market risk including the portfolios covered by the IMA. In addition, a discussion of the extent of and methodologies for compliance with the "Prudent valuation guidance" for positions held in the trading book (paragraphs 690 to 701).	IMA is not mentioned	IMA for trading portfolios not mentioned	IMA for trading portfolios is not mentioned
	(b)	The discussion should include an articulation of the soundness standards on which the bank's internal capital adequacy assessment is based. It should also include a description of the methodologies used to achieve a capital adequacy assessment that is consistent with the soundness standards.			
	(c)	For each portfolio covered by the IMA:			
		● the characteristics of the models used;			
		● a description of stress testing applied to the portfolio; and			
		● a description of the approach used for backtesting/validating the accuracy and consistency of the internal models and modelling processes.			
	(d)	The scope of acceptance by the supervisor.			
Quantitative	**(e)**	For trading portfolios under the IMA:			
		● The high, mean and low VaR values over the reporting period and period end; and			
		● A comparison of VaR estimates with actual gains/losses experienced by the bank, with analysis of important "outliers" in backtest results.			

			Handelsbanken	UBS Bank	KBC Bank
Table: Operational risk					
Qualitative disclosures	**(a)**	In addition to the general qualitative disclosure requirement (paragraph 824), the approach(es) for operational risk capital assessment for which the bank qualifies.	See paragraph 824	See paragraph 824	See paragraph 824
	(b)	Description of the AMA, if used by the bank, including a discussion of relevant internal and external factors considered in the bank's measurement approach. In the case of partial use, the scope and coverage of the different approaches used.	No information	P. 149 Advanced Measurement Approach (AMA): 2 main components (The historical component, The scenario component. The scenarios themselves are generated from an analysis of internal and external event information. AMA model is used for the consolidated Group and the parent bank , regulated subsidiaries use the standardized approaches.	no information

	(c)*	For banks using the AMA, a description of the use of insurance for the purpose of mitigating operational risk.	No information	P. 149 Currently, UBS does not reflect mitigation through insurance in its AMA model.	no information
Paragraph 824					
General qualitative disclosure		General qualitative disclosure requirement for each separate risk area (e.g. credit, market, operational, banking book interest rate risk, equity) banks must describe their risk management objectives and policies, including: ● strategies and processes;	p. 63 OPERATIONAL RISK Definition, How arises, general strategies	P. 149 Definition, where arise from, general strategies and policy	p. 74 Definition, what includes
		● the structure and organisation of the relevant risk management function;	P: 63 Briefly about risk management and reporting system (twice a year to the board)	p. 121- 123 Risk management and control principles, Risk management and control responsibilities; Figure: Corporate governance and risk control generally for all types of risks P. 149 who is responsible for the effective design of the operational risk framework. Description of Operational risk framework**:** each business division also has an Operational Risk Control unit, discussion about financial and non-financial operational risk	p. 74 Description of the global framework for managing operational risk, quite detailed about management's responsibilities. Building blocks for managing operational risks (The Loss Event Database, Risk Self-Assessments, Group Standards, Recommended Practices, Case-Study Assessments, Key Risk Indicators) p. 61 The system on how the risks are managed in general (Risk governance model includes Group Operational Risk Committee, p. 61, + schema).
		● the scope and nature of risk reporting and/or measurement systems;	P. 63 Brief description of measurement	P. 149UBS use Advanced Measurement Approach (AMA): for 2 main components - what they are base on and what they are used for)	p. 75 the Standard Approach is used for calculating operational risk capital under Basel II, use of key indicators (without explanations which exactly)
		● policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants.	No information	No information	No information

			Handelsbanken	*UBS Bank*	*KBC Bank*
Table: Equities: disclosures for banking book positions					
Qualitati	**(a)**	The general qualitative disclosure requirement (paragraph 824) with respect to equity risk, including:	no information		p. 69 Equity risk: where concentrates, events 2008, use of VAR technique

		● differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons; and	no information	P. 133 Description of different types of investments P. 187 Explanation about difference in calculation of equity investment exposure under IFRS and requirements of regulatory capital purposes.	no information
		● discussion of important policies covering the valuation and accounting of equity holdings in the banking book. This includes the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation as well as significant changes in these practices.	no information	P. 133 Discussion on accounting of equity investments, practices, main events in 2008	no information
Quantitative disclosures	**(b)**	Value disclosed in the balance sheet of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.	not clear flow statement (the line- Investing activities, including Equities in investing activities) and p. 66 Table Net gains/losses on financial items at fair value (the line- Available for sale, realised, including equities)	P. 187 Table "Equities disclosure for banking book positions" (not for every point, but quite detailed)	Not clear
	(c)	The types and nature of investments, including the amount that can be classified as:	No information		no information
		● Publicly traded; and		P. 187 Table "Equities disclosure for banking book positions"	
		● Privately held.		P. 187 Table "Equities disclosure for banking book positions"	
	(d)	The cumulative realised gains (losses) arising from sales and liquidations in the reporting period.	no information	P. 187 Table "Equities disclosure for banking book positions" (without explanation if it is **cumulative** realised gain and what it arises from)	not clear
	(e)	● Total unrealised gains (losses) [36]	no information	P. 187 Table "Equities disclosure for banking book positions"	not clear
		● Total latent revaluation gains (losses) [37]	no information	P. 187 Explanation that there was no "unrealised gains and losses that were not recognized either on the balance sheet or in the statement of income"	not clear

		● any amounts of the above included in Tier 1 and/or Tier 2 capital.	no information	P. 187 Table "Equities disclosure for banking book positions" (figure only for : Unrealised gains included in tier 2)	no information
	(f)	Capital requirements broken down by appropriate equity groupings, consistent with the bank's methodology, as well as the aggregate amounts and the type of equity investments subject to any supervisory transition or grandfathering provisions regarding regulatory capital requirements.	no information	P. 187 Table "Equities disclosure for banking book positions"	no information

			Handelsbanken	***UBS Bank***	***KBC Bank***
Table: Interest rate risk in the banking book (IRRBB)					
Qualitative disclosures	**(a)**	The general qualitative disclosure requirement (paragraph 824), including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behaviour of non-maturity deposits, and frequency of IRRBB measurement.	no information	no information	p. 67 mention IRRBB in relation to the Basel II guidelines, its level for the KBC Bank group in 2008
Quantitative disclosures	**(b)**	The increase (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant).	no information	no information	no information

Liquidity risk			
Paragraph 824	***Handelsbanken***	***UBS Bank***	***KBC Bank***
General qualitative disclosure requirement for each separate risk area (e.g. credit, market, operational, banking book interest rate risk, equity) banks must describe their risk management objectives and policies, including: ● strategies and processes;	P. 61 Definition, general approach and policy to the risk, Figure: Short-term financing by market 2008 P. 62 Description of liquidity reserve	P.151 Definition of the risks; new framework: principles, roles and responsibilities, models, methodologies. 154-157 discussion about funding .	p. 71-72 Definition, discussion of three pillar of liquidity framework: Contingency, Structural liquidity Operational liquidity risk. Influence of financial crisis. Table :Liquidity risk at year-end
● the structure and organisation of the relevant risk management function;	P. 62 General description of the Bank's actions	P. 152 **Liquidity**: mechanism of monitoring and control, who are responsible, Liquidity and fund management: discussion about general	p- 72 Management system for liquidity risk, responsibilities (p. 72)

		approach	
● the scope and nature of risk reporting and/or measurement systems;	P. 62 Description of measurement methods (an analysis of cash flows for different maturities regardless of currency, an analysis of cash flows in each currency in which the Bank has significant commitments, the gap analysis). Tables: Maturity analysis for contracted payment commitments – remaining contractual time to maturity (2008-2007) The figure Stress test of SEK liquidity including liquidity-creating measures	p. 152 Discussion about main measures of liquidity: a cash ladder, a contractual maturity gap analysis, a behavioural maturity gap analysis, a cash capital model. For what purposes each of them is used	p. 72 use liquidity stress test for Contingency liquidity risk
● policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants.	P. 62 + tables Derivatives Description of types of used securities (commercial paper, bonds and covered bonds).	P. 153 Liquidity limits and controls: general discussion mitigation strategies	not clear

Insurance risk

Paragraph 824	***Handelsbanken***	***UBS Bank***	***KBC Bank***
General qualitative disclosure requirement for each separate risk area (e.g. credit, market, operational, banking book interest rate risk, equity) banks must describe their risk management objectives and policies, including:	P.63 Definition, how arises, factors of insurance policy, it is written where to find further information. P. 61 Table Credit insurance premiums for Nordic banks		
● strategies and processes;			p. 75-76 Technical insurance risk: Definition; Table "Loss triangles, KBC Insurance"
● the structure and organisation of the relevant risk management function;	P.63 Description of the board and management communication, daily monitoring the risk exposure		p. 65 Management process, responsibilities
● the scope and nature of risk reporting and/or measurement	P. 63 Used method (VaR)		p. 75 Risk modelling; stress

systems;			testing
● policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants.	P. 63 Description of what securities are used to reduce the risk		p. 75 description of reinsurance process

			Deutsche Bank	***DnB NOR***	***NIBC Bank***
Table: Credit risk: general disclosures for all banks. (Table does not include equities)					
Qualitative disclosure	(a)	The general qualitative disclosure requirement <u>(paragraph 824)</u> with respect to credit risk, including: ● Definitions of past due and impaired (for accounting purposes);	no clear definition of past due, only use of it (ex. p. 331) p. 161 definitions and p. 164 criteria of impaired p. 161 definition of problem loans (impaired+ non-impaired),	No clear definition of past due or impaired.	Past due: no clear definition, p.215 how often reported, Impaired: no clear definition, p. 112 The criteria for impairment, p. 216 how often reported, how calculated
		● Description of approaches followed for specific and general allowances and statistical methods;	See paragraph 824	See paragraph 824	see paragraph 824
		● Discussion of the bank's credit risk management policy; and	See paragraph 824	See paragraph 824	see paragraph 824
		● For banks that have partly, but not fully adopted either the foundation IRB or the advanced IRB approach, a description of the nature of exposures within each portfolio that are subject to the		P: 61 Table "Reporting methods for capital adequacy as at 31 December 2008" (Description what approach (Standardised, Foundation IRB, Advanced IRB) is used for different portfolios: ex. Mortgage loans, small and medium-sized entities, Qualifying revolving retail exposure,) and plan for its	
		1) standardised,	no information		p. 237 A small residue of exposures is measured on the standardised approach.

		2) foundation IRB,	No information	exposure ...) and plan for its future developments 2008-2010)	No information
		3) advanced IRB approaches and of management's plans and timing for migrating exposures to full implementation of the applicable approach.	p. 324 More than 90 % of the Group's exposure relating to asset and off-balance sheet credit risks is measured using internal rating models under the so-called advanced internal rating based approach ("advanced IRBA").		p. 237 For credit risk, NIBC has adopted the Advanced Internal Rating Based (AIRB) approach for the majority of its business.
Quantitative disclosure	**(b)**	Total gross credit risk exposures, **plus average gross exposure** over the period broken down by major types of credit exposure.	p. 154 total credit risk exposure: Table "Credit risk profile by industry sector" (without explanation if it is gross	p. 57-58 **All quantitative information:** refers to the Group's website dnbnor.com (through quarterly reports). Some information p. 155 Table "Specification of risk-weighted volume and capital requirements" (Total credit risk: under IRB and standardised approach for different portfolios)	p. 211. Table "Exposure breakdown per portfolio" (2008, 2007) (without explanation if it is gross exposure or not)
	(c)	Geographic distribution of exposures, broken down in significant areas by major types of credit exposure.	p. 154 Table "Credit risk profile by region"	Not exactly, the only related data : P. 136 Table "Loans and guarantees according to geographical location "	Separately for Credit risk portfolios: p. 65 **Corporate loans**: Figures "Corporate Loan exposure per region", P. 67 **Leveraged finance**: Figure "Leveraged Finance exposure per region ", p. 68 **Commercial Real Estate**: % in main countries (the Netherlands, Germany, other EU countries) P. 69 **Residential Mortgages:** % in 2 countries **(**the Netherlands and Germany), % . p. 72 **Corporate derivatives:** table "Corporate derivative "exposure per region **Mezzanine** p. 218 Table Breakdown of mezzanine exposure per region

	(d)	Industry or counterparty type distribution of exposures, broken down by major types of credit exposure.	p. 154 total credit risk exposure: Table ”Credit risk profile by industry sector”	Not exactly, the only related data: loans and guarantees in different sectors: P. 135 Table ”Commitments for principal sectors”	Separately for Credit risk portfolios: P. 66 **Corporate loans**: Figures "Corporate Loan exposure per industry sector," P. 67 **Leveraged finance**: Figure ”Leveraged Finance exposure per industry sector” P. 68 **Commercial Real Estate**: the portfolio consists of 179 mortgages loans to 48 counter parties, percentage of the main p. 218 **Mezzanine** Table "Breakdown of mezzanine exposure per industry sector "
	(e)	Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure.	not clear	P. 166 Table "Residual maturity as at 31 December 2008" (the same for 2007) but it was in the part, related to liquidity risk.	No information
	(f)	By major industry or counterparty type: ● Amount of impaired loans and if available, past due loans, provided separately;	p. 331 Past due: Table (not for industry or counterparty type, but breaks down the non-impaired past due loan to past due status). P. 161-162 Total figures for Impaired loans and problem loans, Table (not for industry or counterparty type, only for Individually assessed, Collectively assessed).	p. 137 Table ”Non-performing and impaired commitments for principal sectors” P. 159 Table ”Past due loans not subject to write-downs” (total numbers without breaking down to industry or counterparty type)	**Corporate loans** portfolio : p.215 Tables "Past due loan amounts, 31 December 2008/2007" (collaterised and not collaterised) including impairment amount. General numbers, broken down by age of payment, but not by industry or counterparty type p. 217 Table "Impairment per Industry Sector"
		● Specific and general allowances; and	p 166 Table ”Allowance for Loan Losses” (detailed, breakdowns by industry for German and non-German portfolios).	no information	no information
		● Charges for specific allowances and charge-offs during the period.	p. 168 Table ”Charge-offs” (for German and non-German portfolios)	no information	no information

	(g)	Amount of impaired loans and, if available, past due loans provided separately broken down by significant geographic areas including, if practical, the amounts of specific and general allowances related to each geographical area.	P. 332 Table ”Total impaired loans” (For German and non-German portfolios) p 166 Table ”Allowance for Loan Losses” (detailed, breakdowns by industry for German and non-German portfolios).	no information	**Corporate loans** portfolio: p. 217 Tables: "Impairment per Region, ”Impairment per Industry Sector”; **Mezzanine loans:** p. 219 general figures for impairment
	(h)	Reconciliation of changes in the allowances for loan impairment.	P. 167 Tables on movements in the allowance for loan losses (without explanation about reconciliation)	no information	no information
	(i)	For each portfolio, the amount of exposures (for IRB banks, drawn plus EAD on undrawn) subject to the:	no information	P. 155 Table "Capital adequacy and capitalisation policy" (nominal exposure and EAD under standardised and IRB (advanced) approaches).	no information
		1) standardised,			
		2) foundation IRB,			
		3) advanced IRB approaches.			
		Paragraph 824			
General qualitative disclosure		General qualitative disclosure requirement for each separate risk area (e.g. credit, market, operational, banking book interest rate risk, equity) banks must describe their risk management objectives and policies, including: ● strategies and processes;	p. 147 Definition, three types of credit risk + their definition and development in 2008: default, country and settlement risks (the most detailed is country risk) P. 151 Default risk, p. 159 country risk management + country risk rating (p. 159); p. 160 country risk limits, monitoring of risk, risk exposure. Tables on development of total Emerging Markets net counterparty exposure and the utilized Emerging Markets net transfer risk exposure by region, P. 170 Settlement risk	P. 62-63 definition, credit strategies P. 64 Developments in credit risk during 2008	P. 64 -72 Definition, description of Credit risk separately for portfolios(the corporate loan portfolio: size, events in 2008; Leveraged finance; Commercial Real Estate; Shipping; Residential Mortgages: Size, development in 2008, figure Residential Mortgages, outstanding balance development (2008,separately for Netherlands, Germany); Debt investments and counterparty credit risk: description and some figures for its three categories p. 210 Portfolios that contain Credit risk (Corporate loans; Mezzanine loans; Residential mortgages; Debt Investments portfolio; Cash management; Counterparty risk on Derivatives)

		● the structure and organisation of the relevant risk management function;	146-147 Who is in charge of managing the credit risk P. 150 Management and measurement principles (for credit risk), p. 152 Loan Exposure Measurement Group ("LEMG") and its activities, some definitions related to credit exposure (Loans, Irrevocable lending commitments, Contingent liabilities, OTC derivatives)	P. 57- 59 Risk management and Control in general P. 63-64 Discussion about the Group's credit policy, who approve it, its aim. Credit strategies: who and how often approve.	Description of risk management separately for portfolios: p. 211 **Corporate loans**: Credit approval process (who is responsible, what figures are calculated **Residential mortgages (**separately for: p. 220 Dutch portfolio(standardised procedures to manage all loan amounts in arrears. p. 222 German portfolio (control of credit risk, criteria of acceptance of new mortgages, developed standardised procedures. Table Arrears overview, German Residential Mortgage Portfolio) p. 223 **Debt investments**: Risk monitoring : who is responsible.
		● the scope and nature of risk reporting and/or measurement systems;	149-150 Risk management tools: economic capital, expected loss, value at risk, stress testing, regulatory risk assessment calculate economic capital for the default risk, p. 151 transfer risk and settlement risk as elements of credit risk	P. 62 DnB NOR measures risk (including credit risk) by calculating risk-adjusted capital Table: Developments in risk-adjusted capital P. 64 PD - probability of default, EAD - exposure at default and LGD - loss given default (definitions, further use) Calculations of risk parameters are based on statistical models, which complies with IRB	Separately for portfolios: P. 64 - 65 **Corporate loans**: description of methods (Probability of default (PD), Loss Given Default) (LGD), Who supported it (the Rating Monitoring System (RMS)), used for the Basel II solvency report. The basis for PD and LGD , used for four asset classes (Corporate Lending, Asset Finance, Leveraged Finance and Project Finance), PD approach (qualitative and quantitative rating indicators, LGD approach. P. 69 **Residential mortgages**: Risk of loss is measured by assigning PD and LGD estimates for every loan (separately for p. 220 Dutch portfolio: Probability of Default (PD), and Loss Given Default (LGD) estimates for every loan., table Rating class allocation of Residential Mortgages) p. 210 Description of what is included and not included in credit risk analysis (all financial assets included, Non-financial assets and equity are not included. Off-balance sheet exposures are included where relevant (description)

		● policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants.	P. 152 The credit derivatives, synthetic collateralised loan obligations supported predominantly by financial guarantees, some related figures 2008 in comparison with 2007. P. 153 use of collateral	p. 64 use of collateral	Separately for portfolios: p. 70-72 **Debt investments and counterparty credit risk**: description of the banks policies of mitigating risk. P 219-220 **Residential mortgages**, Dutch portfolios Description of Risk governance criteria (Conformity with the Code of Conduct on Mortgage Credits of the Dutch Bankers' Association; A check of an applicant's credit history, Mortgage loans are secured by first ranking and others...)

			Deutsche Bank	*DnB NOR*	*NIBC Bank*
Table: Credit risk: disclosures for portfolios subject to the standardised approach and supervisory risk weights in the IRB approaches					
Qualitative disclosure	(a)	For portfolios under the standardised approach: ● Names of ECAIs and ECAs used, plus reasons for any changes;*	p. 334 Euler-Hermes Kreditversicherungs AG	p. 72 Moody's Investors Service, Standard & Poor's and Dominion Bond Rating Service	p. 211 Standard & Poor's
		● Types of exposure for which each agency is used;	no information	no information	no information
		● A description of the process used to transfer public issue ratings onto comparable assets in the banking book; and	not clear	p. 64 Description briefly	p. 211 Briefly
		● The alignment of the alphanumerical scale of each agency used with risk buckets.	no information	p. 158 Table "DnB NOR's risk classification" (only for Moody's and Standard & Poor's)	p. 211 Brief description
Quantitative disclosure	**(b)**	● For exposure amounts after risk mitigation subject to the standardised approach, amount of a bank's outstandings (rated and unrated) in each risk bucket as well as those that are deducted; and	no information	p. 158 Table "Commitments according to risk classification" (not exactly outstandings, Gross loans, Guarantee commitments, Undrawn limits)	not clear, p. 212 Table "On- and Off-Balance Corporate Loan exposure, 31 December 2008 and 31 December 2007"
		● For exposures subject to the supervisory risk weights in IRB (HVCRE, any SL products subject to supervisory slotting criteria and equities under the simple risk weight method) the aggregate amount of a bank's outstandings in each risk bucket.	no information	no information	p. 216 Graph "Distribution of outstanding amounts with a payment arrear per rating category,"

			Deutsche Bank	*DnB NOR Bank*	*NIBC Bank*
Table: Credit risk: disclosures for portfolios subject to IRB approaches					
Qualitative disclosure	(a)	Supervisor's acceptance of approach/ supervisory approved transition	P. 324 BaFin (Federal Financial Supervisory Authority)	p. 56 Kredittilsynet- supervisor(the Financial Supervisory Authority of Norway). P. 60- acceptance of IRB	p. 61 approval from the Dutch Central Bank (DNB) to use the Advanced Internal Ratings Based (AIRB)
	(b)	Explanation and review of the: ● Structure of internal rating systems and relation between internal and external ratings;	p. 151 The Bank has granular 26-grade rating scale (calibrated on a probability of default measure based upon a statistical analysis of historical defaults in our portfolio). Not clear about relation between internal and external ratings, but: the Bank compares internal risk rating with external risk ratings by the major international rating agencies, where possible.	P. 158 Table "DnB NOR's risk classification" (relation between internal and external ratings), p. 64 some explanation	p. 211 Brief description (scale from 1 to 10 and are mapped to the corresponding credit ratings of Standard & Poor's, labelled from AAA to D).
		● use of internal estimates other than for IRB capital purposes;	p. 15 internal policies, p. 59 internal control systems, internal audit, internal reports	p. 22 internal management and control, p. 41 internal consulting, p. 54 internal audit,	p. 14 internal reporting, internal audit, p. 41 internal control, p. 131 an internal valuation model for Accounting purposes
		● process for managing and recognising credit risk mitigation; and	152-153 process of credit risk mitigation, its aims, results in 2008	no information	p. 221 Description of ways to mitigate Credit losses, measurement of potential losses
		● Control mechanisms for the rating system including discussion of independence, accountability, and rating systems review.	no information	no information	No information
	(c)	Description of the internal ratings process, provided separately for five distinct portfolios:	no information	no information	
		● Corporate (including SMEs, specialised lending and purchased corporate receivables), sovereign and bank;			p. 64-65 Description of internal rating process for **Corporate loans** portfolio
		● Equities;			no information
		● Residential mortgages;			no information
		● Qualifying revolving retail; and			no information
		● Other retail.			no information

		The description should include, for each portfolio:			
		● The types of exposure included in the portfolio;	no information	no information	corporate loans
		● The definitions, methods and data for estimation and validation of PD, and (for portfolios subject to the IRB advanced approach) LGD and/or EAD, including assumptions employed in the derivation of these variables; and	p. 151 Generally: internal rating system is based on a probability of default measure based upon a statistical analysis of historical defaults. !!! Don't even mention EAD and LGD. Very brief	p. 64 Some description of PD, LGD and EAD (generally, not separately for each portfolio). Very brief.	p. 64-65 Description for **Corporate loans** portfolio: PD, LGD briefly.
		● Description of deviations as permitted under paragraph 456 and footnote 89 from the reference definition of default where determined to be material, including the broad segments of the portfolio(s) affected by such deviations.	no information	no information	no information
Quantitative disclosure	(d)	For each portfolio (as defined above) except retail, present the following information across a sufficient number of PD grades (including default) to allow for a meaningful differentiation of credit risk: ● Total exposures (for corporate, sovereign and bank, outstanding loans and EAD on undrawn commitments; for equities, outstanding amount);	No information	Some data: p. 25 Graph "Risk classification of portfolio" in NOK bn.	p. 212 Graph "On- and Off-Balance Corporate Loan exposure", in % for PD class
		● For banks on the IRB advanced approach, exposure-weighted average LGD (percentage); and	no information	no information	no information
		● Exposure-weighted average risk-weight.	no information	No information	no information
		For banks on the IRB advanced approach, amount of undrawn commitments and exposure-weighted average EAD for each portfolio;	no information		no information
		For each retail portfolio (as defined above), either:			
		● Disclosures as outlined above on a pool basis (i.e. same as for non-retail portfolios); or	no information	no information	no information
		● Analysis of exposures on a pool basis (outstanding loans and EAD on commitments) against a sufficient number of EL grades to allow for a meaningful differentiation of credit risk.	no information	not clear	no information

	(e)	Actual losses (e.g. charge-offs and specific provisions) in the preceding period for each portfolio (as defined above) and how this differs from past experience. A discussion of the factors that impacted on the loss experience in the preceding period — for example, has the bank experienced higher than average default rates, or higher than average LGDs and EADs.	not clear	not clear,	P. 66 **Corporate loans**: Table ”Overview of average losses”, ”Corporate Loan portfolio” (2008-2001) P. 70 For **Residential mortgage** (Dutch) portfolio : table ”Overview of actual losses”, Dutch residential mortgage portfolio
	(f)	Banks' estimates against actual outcomes over a longer period. At a minimum, this should include information on estimates of losses against actual losses in each portfolio (as defined above) over a period sufficient to allow for a meaningful assessment of the performance of the internal rating processes for each portfolio. Where appropriate, banks should further decompose this to provide analysis of PD and, for banks on the advanced IRB approach, LGD and EAD outcomes against estimates provided in the quantitative risk assessment disclosures above.	no information	not clear	no information

			Deutsche Bank	***DnB NOR***	***NIBC Bank***
Table: Credit risk mitigation: disclosures for standardised and IRB approaches					
Qualitative disclosure	(a)	The general qualitative disclosure requirement (paragraph 824) with respect to credit risk mitigation including: ● policies and processes for, and an indication of the extent to which the bank makes use of, on- and off-balance sheet netting;	not clear	very brief: p. 108 definition, p. 158 it is a part of collateral security	no clear information
		● policies and processes for collateral valuation and management;	no information	P. 158 Base for evaluation of collateral. Some specific rule: for such physical assets as buildings, residential properties or warehouses.	p. 209 Discussion p. 213-214 Ways to collateralise loans, request to collateral, base for evaluation of collateral based and how often evaluation happens.

		● a description of the main types of collateral taken by the bank;	p. 329 Main types: Financial collateral and Physical collateral (examples)	p. 158 types of collateral: physical assets, guarantees, cash deposits or netting agreements. A specific rule for such physical assets as buildings, residential properties or warehouses.	P. 64 **Corporate loans**: Type of collateral (mortgages on real estate and ships, by receivables, leases, liens on machinery and equipments, or by third-party guarantees and other similar agreements) Description of the most significant types of collateral separately for main portfolios: p. 213 Credit loans; p. 221 Residential mortgages; p.227 Counterparty risk on derivatives
		● the main types of guarantor/credit derivative counterparty and their creditworthiness; and	p. 100-103 discussion about only one type of financial guarantor: monoline insurers; Tables: Monoline exposure related to U.S. Residential mortgages; Other Monoline exposure (breaking down for creditworthiness AA/AAA and non-AA/AAA)	no information	p.227-228 description of Derivatives counterparties
		● information about (market or credit) risk concentrations within the mitigation taken.	p. 330 Discussion about Credit risk concentration: when exist, monitoring, description of largest concentration (geographically, types of business)	P. 157 General information, how concentration arises, the aim of management	not clear
Quantitative disclosure	**(b)**	For each separately disclosed credit risk portfolio under the standardised and/or foundation IRB approach, the total exposure (after, where applicable, on- or off-balance sheet netting) that is covered by:	not exactly, but: p. 332-333 Tables: “Collateral held” for loans past due but not impaired, for impaired loans (for financial and physical collateral); ”Total collateral obtained during the reporting period” (for commercial real estate and residential real estate)	not clear	P. 214 Figure Breakdown of (un)collateralised exposures per industry sector, 31 December 2008 and 31 December 2007
		● eligible financial collateral; and			no information
		● other eligible IRB collateral;			no information
		after the application of haircuts.			
	(c)	For each separately disclosed portfolio under the standardised and/or IRB approach, the total exposure (after, where applicable, on- or off-balance sheet netting) that is covered by guarantees/credit derivatives.	no information	no information	no information

			Deutsche Bank	***DnB NOR***	***NIBC Bank***
Table: General disclosure for exposures related to counterparty credit risk					
Qualitative disclosure	(a)	The general qualitative disclosure requirement (paragraphs 824 and 825) with respect to derivatives and CCR, including:● Discussion of methodology used to assign economic capital and credit limits for counterparty credit exposures;	Not clear	Not clear	p. 71 discussion about counterparty, limits for counterparties p. 227-228 **Counterparty risk on derivatives**: Risk monitoring and measurement, Exposures, Table "Counterparty exposure excluding netting and collateral"
		● Discussion of policies for securing collateral and establishing credit reserves;	no information	p. 158 some discussion on collateral security	p. 228: **Collateral (**for credit risk from derivatives): general discussion, way to securing collateral (by means of Credit Support Annexes (CSAs),Accepted collateral is mainly cash collateral. Table: "Counterparty exposure including netting and collateral»
		● Discussion of policies with respect to wrong-way risk exposures;	no information	no information	no information
		● Discussion of the impact of the amount of collateral the bank would have to have to provide given a credit rating downgrade.	no information	no information	no information
Quantitative disclosure	**(b)**	Gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held (including type, e.g. cash, government securities, etc.), and net derivatives credit exposure. Also report measures for exposure at default, or exposure amount, under the IMM, SM or CEM, whichever is applicable. The notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure.	not clear, but: p. 158 Table "The notional amounts and gross market values of OTC and exchange-traded derivative contracts, held for trading and non-trading purposes as of December 31, 2008	no information	no information

	(c)	Credit derivative transactions that create exposures to CCR (notional value), segregated between use for the institution's own credit portfolio, as well as in its intermediation activities, including the distribution of the credit derivatives products used, broken down further by protection bought and sold within each product group.	not clear , but some information: p. 158 Table "Notional amounts and gross market values of OTC and exchange-traded derivative contracts, held for trading and non-trading purposes"	no information	no information
	(d)	The estimate of alpha if the bank has received supervisory approval to estimate alpha.	no information	no information	no information

			Deutsche Bank	***DnB NOR Bank :***	***NIBC Bank:***
Table: Securitisation: disclosure for standardised and IRB approaches					
Qualitative disclosure	**(a)**	The general qualitative disclosure requirement (paragraph 824) with respect to securitisation (including synthetics), including a discussion of: ● the bank's objectives in relation to securitisation activity, including the extent to which these activities transfer credit risk of the underlying securitised exposures away from the bank to other entities;	p. 213 Securitisation: mechanism, the role of SPE, some accounting issues	p. 32 securitisation was not among the Bank's priority areas	p. 134 Discussion on Securitisations and SPE (special purpose entities):purpose, criteria for consolidation of SPE. Discussion on CMBS program (Commercial Mortgage Backed Securities): its purpose, some related figures (comparison of 2008 and 2007)
		● the roles played by the bank in the securitisation process [29] and an indication of the extent of the bank's involvement in each of them; and	p. 111 Sponsor for SPE	no information	p. 134The bank sponsors the formation of SPEs .
		the regulatory capital approaches (e.g. RBA, IAA and SFA) that the bank follows for its securitisation activities.	no information	no information	no information
	(b)	Summary of the bank's accounting policies for securitisation activities, including:			
		● whether the transactions are treated as sales or financings;	not clear	no information	no information
		● recognition of gain on sale;	no information	no information	no information
		● key assumptions for valuing retained interests, including any significant changes since the last reporting period and the impact of such changes; and	p. 213 Evaluation of Retained interests	no information	no information

		● treatment of synthetic securitisations if this is not covered by other accounting policies (e.g. on derivatives).	p. 207 discussion of derivatives in Accounting policies	p. 140 no synthetic securities	no information (treatment of derivatives is mentioned in the part accounting policies of Annual report)
	(c)	Names of ECAIs used for securitisations and the types of securitisation exposure for which each agency is used.	no information	no information	no information
Quantitative disclosure	**(d)**	The total outstanding exposures securitised by the bank and subject to the securitisation framework (broken down into traditional/synthetic), by exposure type.[30, 31, 32]	no information	Not clear	no information
	(e)	For exposures securitised by the bank and subject to the securitisation framework: [32]			
		● amount of impaired/past due assets securitised; and	no information	no information	no information
		● losses recognised by the bank during the current period [33]	no information	no information	no information
		broken down by exposure type.	No		
	(f)	Aggregate amount of securitisation exposures retained or purchased [34] broken down by exposure type. [30]	not clear, but p. 246 Figure: Securities purchased under resale agreements for 2008 (not broken down)	no information	no information
	(g)	Aggregate amount of securitisation exposures retained or purchased [34] and the associated IRB capital charges for these exposures broken down into a meaningful number of risk weight bands. Exposures that have been deducted entirely from Tier 1 capital, credit enhancing I/Os deducted from Total Capital, and other exposures deducted from total capital should be disclosed separately by type of underlying asset.	no information	no information	no information
	(h)	For securitisations subject to the early amortisation treatment, the following items by underlying asset type for securitised facilities:	no information	No information	no information
		● the aggregate drawn exposures attributed to the seller's and investors' interests;			
		● the aggregate IRB capital charges incurred by the bank against its retained (i.e. the seller's) shares of the drawn balances and undrawn lines; and			
		● the aggregate IRB capital charges incurred by the bank against the investor's shares of drawn balances and undrawn lines.			
	(i)	Banks using the standardised approach are also subject to disclosures (g) and (h), but should use the capital charges for the standardised approach.	no information	no information	no information

	(j)	Summary of current year's securitisation activity, including the amount of exposures securitised (by exposure type), and recognised gain or loss on sale by asset type.	no information	no information	no clear summary p. 134 Some figures, related to securitisation activity in 2008 (in comparison with 2007): The total amount of commercial loans prior to the securitisation, ,the loans that continued to be recognised to the extent of NIBC's continuing involvement and others.

			Deutsche Bank	***DnB NOR Bank :***	***NIBC Bank:***
Table: Market risk: disclosures for banks using the standardised approach					
Qualitative disclosure	**(a)**	The general qualitative disclosure requirement (paragraph 824) for market risk including the portfolios covered by the standardised approach.		see paragraph 824	see paragraph 824
Quantitative disclosure	**(b)**	The capital requirements for:	no information about capital requirements	p. 155 capital requirements totally for market risk (without breaking down to:….) p. 65 some description of those risks	no information about capital requirements
		● interest rate risk;	p. 176 some figures the value-at-risk of the trading units of Corporate and Investment Bank Group Division: average, maximum, minimum and year end (for 2008, 2007)		p. 72, 73 Description of Interest rate risk separately for two main portfolios (Trading portfolio, Mismatch portfolio) + figure for Trading portfolio; briefly about other portfolios p. 229-230 Table "Key risk statistics Trading portfolio"(2008, 2007); Table "Key risk statistics Mismatch portfolio"
		● equity position risk;	p. 176 some figures the value-at-risk of the trading units of Corporate and Investment Bank Group Division: average, maximum, minimum and year end (for 2008, 2007)		no information

		● foreign exchange risk; and	p. 176 some figures the value-at-risk of the trading units of Corporate and Investment Bank Group Division: average, maximum, minimum and year end (for 2008, 2007)		p. 230-231 (Currency risk) Briefly: How arises, general strategies
		● commodity risk.	p. 176 some figures the value-at-risk of the trading units of Corporate and Investment Bank Group Division: average, maximum, minimum and year end (for 2008, 2007)		no information
Paragraph 824					
General qualitative disclosure		General qualitative disclosure requirement for each separate risk area (e.g. credit, market, operational, banking book interest rate risk, equity) banks must describe their risk management objectives and policies, including: ● strategies and processes;	p. 148 Definition, p. 171 separation of market risk into two types - as of trading and non-trading activities. p. 176 Graph: Daily aggregate VaR of trading units in 2008; p. 177 Histogram: distribution of actual daily income of trading units in 2008. p. 178 Non- trading market risk - How arises	p. 63 Definition P. 65 how arise. P 65 briefly strategies, developments in market risk during 2008	p. 72-74 General strategies, main events of 2008. Description of the main market risk drivers: interest rate risk and credit spread risk
		● the structure and organisation of the relevant risk management function;	p. 146-147, p. 172 Who is in charge of managing the market risk (briefly) .p. 178 Who is in charge of non-trading market risk (detailed)	P. 65 Who is responsible for market risk management	p. 62-64 Generally for all types of risks

		● the scope and nature of risk reporting and/or measurement systems;	p. 171 Specifics (nature) of market risk reporting is explained in details according to German Banking Regulations (consolidation, overall market risk position, definition of trading assets and non-trading assets) p. 149-150 Briefly about risk management tools (for all types of risks) p. 172-173 Detailed about Market risk management tools: economic capital metrics, risk sensitivities, VaR, stress testing, back testing, p. 174-175 Critic and limitations of proprietary risk models + some comments on financial crises 2008 p. 178 For assessment of market risk non-trading portfolios VaR is not used. It is assessed through stress testing	P. 62 calculating risk-adjusted capital Table : Developments in risk-adjusted capital P. 65 stress scenarios, sensitivity testing and daily Value-at-Risk calculations are used in operational management and control in DnB NOR Markets. P. 161 more details about calculation of the risk, some changes during 2007-2008 years, some figures (including and excluding Vital)	p. 228 Calculation of: Interest Basis Point Value (BPV), credit BPV, interest Value at Risk (VaR), credit VaR measures, how often, for what, stress testing and vulnerability identification are used as well
		● policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants.	p. 178 use of internal hedges for the majority of the interest rate and foreign exchange risks arising from our non-trading asset and liability positions	P. 65 Generally about hedging policy, responsibilities	p. 109 NIBC uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks and to credit spread risk.

			Deutsche Bank	***DnB NOR Bank***	***NIBC Bank***
Table: Market risk: disclosures for banks using the internal models approach (IMA) for trading portfolios					
Qualitative disclosure	**(a)**	The general qualitative disclosure requirement (paragraph 824) for market risk including the portfolios covered by the IMA. In addition, a discussion of the extent of and methodologies for compliance with the "Prudent valuation guidance" for positions held in the trading book (paragraphs 690 to 701).	IMA is no mentioned	Don't mention IMA	don't mention IMA
	(b)	The discussion should include an articulation of the soundness standards on which the bank's internal capital adequacy assessment is based. It should also include a description of the methodologies used to achieve a capital adequacy assessment that is consistent with the soundness standards.			

	(c)	For each portfolio covered by the IMA:			
		● the characteristics of the models used;			
		● a description of stress testing applied to the portfolio; and			
		● a description of the approach used for backtesting/validating the accuracy and consistency of the internal models and modelling processes.			
	(d)	The scope of acceptance by the supervisor.			
Quantitative disclosure	**(e)**	For trading portfolios under the IMA:			
		● The high, mean and low VaR values over the reporting period and period end; and			
		● A comparison of VaR estimates with actual gains/losses experienced by the bank, with analysis of important "outliers" in backtest results.			
			Deutsche Bank	***DnB NOR Bank***	***NIBC Bank***
Table: Operational risk					
Qualitative disclosures	**(a)**	In addition to the general qualitative disclosure requirement (paragraph 824), the approach(es) for operational risk capital assessment for which the bank qualifies.	See paragraph 824	See paragraph 824	See paragraph 824
	(b)	Description of the AMA, if used by the bank, including a discussion of relevant internal and external factors considered in the bank's measurement approach. In the case of partial use, the scope and coverage of the different approaches used.	p. 186-187 Very briefly: Advanced Measurement Approach ("AMA") is used. It is approved by BaFin in 2008.	P. 60 Will be used later	don't mention AMA
	(c)*	For banks using the AMA, a description of the use of insurance for the purpose of mitigating operational risk.	p. 187. very briefly, just that the Bank purchases insurance against operational risks where it is appropriate		
Paragraph 824					
		General qualitative disclosure requirement for each separate risk area (e.g. credit, market, operational, banking book interest rate risk, equity) banks must describe their risk management objectives and policies, including: ● strategies and processes;	p. 146, 186 Definition; included legal and regulatory risk.	p. 68 Definition, Generally about strategies Developments in operational risk during 2008	p. 81 Definition, general strategies
		● the structure and organisation of the relevant risk management function;	p. 146 -147, 186 (more details) Who is in charge of managing the operational risk, description of different techniques to manage the	p. 68 system of risk management, who is responsible for what, system of reporting	p. 81 who is responsible, 62-64 Generally for all types of risks

			operational risk.		
General qualitative disclosure		• the scope and nature of risk reporting and/or measurement systems;	p. 149-150 Risk management tools: economic capital, expected loss, stress testing (for all types of risks)	P. 62 calculating risk-adjusted capital Table: "Developments in risk-adjusted capital "; p. 68 base for calculation of risk-adjusted capital for operational risk; about reporting	p. 237 standardised approach for measuring operational risk
		• policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants.	p. 187 very briefly: mention mitigation strategies the development of back-up systems and emergency plans		

			Deutsche Bank	***DnB NOR Bank***	***NIBC Bank:***
Table: Equities: disclosures for banking book positions					
Qualitative Disclosures	**(a)**	The general qualitative disclosure requirement (paragraph 824) with respect to equity risk, including:			no separate chapter about it
		• differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons; and	not clear	no information	Not clear
		• discussion of important policies covering the valuation and accounting of equity holdings in the banking book. This includes the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation as well as significant changes in these practices.	no information	no information	Not clear
Quantitative Disclosures	**(b)**	Value disclosed in the balance sheet of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.	no information	not clear	not clear
	(c)	The types and nature of investments, including the amount that can be classified as:	no information	no information	
		• Publicly traded; and			no information
		• Privately held.			Not clear
	(d)	The cumulative realised gains (losses) arising from sales and liquidations in the reporting period.	no information	no information	no information
	(e)	• Total unrealised gains (losses)	no information	no information	no information
		• Total latent revaluation gains (losses)	no information	no information	Not clear

		● any amounts of the above included in Tier 1 and/or Tier 2 capital.	Not clear	Not clear	no information
	(f)	Capital requirements broken down by appropriate equity groupings, consistent with the bank's methodology, as well as the aggregate amounts and the type of equity investments subject to any supervisory transition or grandfathering provisions regarding regulatory capital requirements.	no information	no information	no information

			Deutsche Bank	***DnB NOR Bank :***	***NIBC Bank:***
Table: Interest rate risk in the banking book (IRRBB)					
Qualitative disclosures	**(a)**	The general qualitative disclosure requirement (paragraph 824), including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behaviour of non-maturity deposits, and frequency of IRRBB measurement.	no information	no information	no information
Quantitative disclosures	**(b)**	The increase (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant).			

Liquidity risk			
Paragraph 824	***Deutsche Bank***	***DnB NOR Bank***	***NIBC Bank***
General qualitative disclosure requirement for each separate risk area (e.g. credit, market, operational, banking book interest rate risk, equity) banks must describe their risk management objectives and policies, including: ● strategies and processes;	p. 148, 180: Definition,	P. 65-66 Definitions, generally about strategies, Developments in liquidity risk during 2008 p. 166 Some more details, events of 2008 , some figures for 2007-2008.	p. 78 Aim of Liquidity risk management, events of 2008 p. 80 Brief discussion about Funding, Figures "Breakdown of total funding portfolio"
● the structure and organisation of the relevant risk management function;	146-147 Briefly: Who is in charge of managing the liquidity risk p. 180 More details: Liquidity risk management framework (p. 180)	P. 66 who is responsible	p. 78 management framework, p. 62-64 for all types of risks
● the scope and nature of risk reporting and/or measurement systems;	p. 181 Risk reporting is separated to: short-term liquidity, unsecured	P. 66 Liquidity risk is managed and measured	p. Stress test, Stress scenario, figures: "Stress scenario, short-term analysis"

	funding, asset liquidity and funding diversification. p. 182 Diagram on external unsecured liabilities by product p. 149- 150 , p. 180 (more details) risk management tools: stress testing, regulatory risk assessment	using various measurement techniques, including stress test	
● policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants.	p. 181 mention liquidity reserves	P. 66 generally about used securities, including collateral, covered bonds	not clear

Insurance risk

Paragraph 824	***Deutsche Bank***	***DnB NOR Bank***	***NIBC Bank***
General qualitative disclosure requirement for each separate risk area (e.g. credit, market, operational, banking book interest rate risk, equity) banks must describe their risk management objectives and policies, including: ● strategies and processes;	p. 148 Definition for insurance specific risk + four insurance-related risks and the definition for them p. 343 Three types of Insurance activities and what component of Insurance risk they are related; some general discussion of strategies	P. 62 : Ownership risk for Vital, what it comprises p. 67 Briefly about strategies, Developments in life insurance risk during 2008, Changes in external parameters P. 167 - 172 more details : types of insurance risks, tables, numbers and so on	
● the structure and organisation of the relevant risk management function;		More about the risk p. 156-157. Operations in Vital are different from operations in the rest of the Group, and risk in Vital Forsikring ASA is therefore managed separately P. 67 Briefly about risk management	
● the scope and nature of risk reporting and/or measurement systems;		P. 67 Vital has developed a stress test which is used to measure the company's risk tolerance	
● policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants.	p. 148 Briefly: The strategies for mitigation of every component of the risk	no information	

Additional information

Handelsbanken

p. 52
Business risk: only definition
Property risk: only definition

p. 52 – 53
The Banks approach to risk generally, figure Loan losses as percentage of loans, genera policy, the same principles for all countries. Activities to reduce risk during the year

Four levels of risk control and risk management (description of each level):
1. Business operations
2. Operations-related risk control
3. Central risk control
4. Capital planning

P. 64
Comprehensive risk management using the economic capital model: that is a model for calculating economic capital identifies in one measurement the bank's overall risks and corresponds to the capital which with high probability will cover unexpected losses or decreases in value.
Managed by Central Risk Control.
Measurement: Description of used models (Model for economic capital (EC), AFR (Available financial resources)) and their functions, figures for the end of 2008,

P. 65
Capital planning: explanations why the Bank need it, how it is done
Short term forecasting: up to 1 year, what it is needed for, how done, what for use the result further; mid- to long term forecasting.

Source:
http://www.handelsbanken.se/shb/inet/icentsv.nsf/vlookuppics/investor_relations_en_hb_08_eng_ar/$file/hb08eng_medfoto.pdf

UBS Bank

The entire Annual report has been marked what information was audited

P. 120
Summary of key developments in 2008 related to risk management and control

P121-122

Five Risk management and control principles, including: Business management is accountable for risk; Independent control of risk; Disclosure of risk; Earnings protection; Reputation protection.

Generally for all types of risks: Risk management and control principles, Risk management and control responsibilities Figure: Corporate governance and risk control

Risk management and control framework: Risk policies and authorities (to implement the firm's risk management and control principles); Risk identification; Risk measurement; Risk control; transparent risk reporting

p. 123
Quantitative controls (definitions and explanation what for used further for all three complementary risk measures: expected loss, statistical loss and stress loss)

Earnings-at-risk and capital-at-risk - general measures designed to assess the firm's overall ability to absorb the potential losses. Detailed description of each method and further use of them

P. 126-127
Composition of credit risk (business divisions) in details about two departments: Global Wealth Management & Business Banking and Investments Banking

P. 177 - 180
Separate chapter "Basel II Pillar 3"
Differences in some terms between Bank for International Settlements (BIS) rules and Swiss and EU regulations (EX.: "Exposure segments"; "Sovereigns"(BIS)="Central governments and central banks"(Swiss and EU regulations); "Banks" = "Institutions"; "Residential mortgages" = "Claims secured on residential real estate". Explanation, why the rating and LGD distributions differ under Basel 2 approach and internal UBS approach.

Some definitions (types of collaterals),which are used in Basel 2: Corporate, Sovereigns, Banks, Residential mortgages, Other retail

Source: http://www.ubs.com/1/e/investors/annualreporting/2008.html

KBC Bank

P. 60
Business risk and Reputation risk: just mentioned without explanations

P. 60
Discussion of Vision and principles of Risk management. It is mentioned which information is audited.

Risk governance model: responsibilities in the process of managing risks of : The Board of Directors, the Group Executive Committee, the Group Asset/Liability Management Committee (ALCO), Specialised group risk committees and others. +Figure

P. 65
Credit risk for insurance activities of the Bank, its measurement

P. 66-71
Separate chapter: Asset/Liability management (ALM)
Definition (structural exposure to macroeconomic risks), includes risks: interest rate risk (management, measurement, development in 2007, 2008), equity risk (briefly about concentration, measurement, figures for 2007, 2008), real estate risk (brief discussion, figures for 2007-2008), foreign exchange risk (briefly), inflation risk, credit risk (limited to the investment portfolios), (brief discussion. Description of each of these risks (except inflation risk)+ figures, interest rate risk the most detailed
Management of ALM risk, responsibilities and mechanism

P. 76-79
Separate chapter: Solvency and economic capital (relates to capital adequacy)
Definition of solvency risk, how is calculated, measurement, main events of 2008 (qiute detailed)
Economic capital: a model is used to measure the overall risk KBC is exposed: calculation, how often.

Source:
https://multimediafiles.kbcgroup.eu/ng/published/KBCCOM/PDF/COM_RVG_pdf_jaarverslag_2008_EN.pdf

Deutsche Bank

p. 146-147
For all types of risks: Risk and Capital Management Principles,
Risk and Capital Management Organization: two committees (The Capital and Risk Committee, The Group Reputational Risk Committee) and their responsibilities

P. 146 – 148
Reputational risk: definition, who is in charge of managing.

p. 146 – 148
Business risk: definition, who is in charge of managing briefly.

P. 149-150
For all types of risks: Risk Management Tools (- Economic capital: what measures, for which types of risks is used, changes in 2008; - Expected loss: for which types of risks is used, base of calculating ; - Value-at-Risk: types of risks, use of results in reporting further; - Stress testing: types of risks ; Regulatory risk assessment).

P. 153
Some definitions related to Credit Exposure: Credit exposure itself, Loans, Irrevocable lending commitments, Contingent liabilities, OTC derivatives.

P. 155
Credit Risk classification 2: two broad headings: corporate credit exposure and consumer credit exposure. Discussion of both, what they include, tables: "Corporate credit exposure credit risk profile by creditworthiness category", "Total consumer credit exposure" (Germany, outside Germany)

Source: http://www.db.com/ir/en/download/DB_Annual_Review_2008_entire.pdf

DnB NOR Bank

P. 57-59
Risk management: Role the board of directors in monitoring and managing different types of risks (organisation and responsibilities, how often gets reports), Role of Group chief executive and executive bodies (the same information), Role of Group Finance and Risk Management (The same), Role of Group Compliance (the same), Role of Audit (the same)

P. 156
Generally about all types of risks: Organisation and authorisation structure (Board of Directors, Authorisations, Annual review of limits, Independent risk management functions); Monitoring and use (Accountability, Risk reporting, Capital assessment, Use of risk information); Relevant risk measures (A common risk measure for the Group, Supplementary risk measure).

Source:
https://www.dnbnor.com/portalfront/nor_com/nedlast/no/2008/resultater/annualreport_2008_group_3.pdf

NIBC Bank

P. 60-61
Description of the current financial crises, difficulties of the bank, the bank's response to it (separately about credit, market and more detailed about liquidity risks)

P. 62
Business risk: definition, briefly about measurement; P. 69 shortly about Business risk in 2008

P. 62-64
Risk governance structure: figure: 5 committees and managing board, their role in the client-risk-making decisions relationship, their responsibilities)

p. 76-78

Investment risk: general discussion, direct and indirect investments, principles of investments process, responsibilities of management.

P. 221
Structured credits: events in 2007-2008, geographical distribution

P. 222-223
Cash management: Risk monitoring and measurement, Correspondent banking and third-party exposures.

Source:
http://www.nibc.com/investor/Documents/Annual%20Report%202008%20NIBC%20Bank.pdf