

*[Translation by Danske Bank of a report from the Danish Financial Supervisory Authority (Finanstilsynet).
In case of discrepancies, the Danish version prevails.]*

MEMORANDUM

**Danish Financial
Supervisory Authority**
28 March 2012

Statement on inspection at Danske Bank A/S (agricultural customers)

1. Introduction

In February 2012, the Danish Financial Supervisory Authority (the FSA) conducted an inspection at Danske Bank A/S. The FSA conducted a function-based inspection of the agricultural area which also included other major banks (group 1). The inspection covered the credit area in relation to full-time farmers in the pig or cattle breeding or plant cultivation segments. The area had been selected on the basis of a risk assessment in light of the general financial trends in the agricultural sector.

2. Summary and risk assessment

At 31 December 2011, the bank's lending to agricultural customers (full-time farmers in the pig or cattle breeding or plant cultivation segments) amounted to 2.4% of the loan portfolio in Denmark.

The FSA had selected the bank's ten largest exposures to the agricultural sector and a sample of 40 exposures to the agricultural sector exceeding DKK 5 million. The number of exposures selected was lower than for ordinary function-based inspections because part of the purpose of the inspection was to compare the bank's management of the agricultural area with other major banks' management.

The FSA concluded that, as expected, and as is the case at other Danish banks, the agricultural segment involves increased risk owing to weak earnings and liquidity combined with falling land values.

The inspection did not result in any orders to the bank.

The bank's credit management of agricultural customers, which includes thorough analyses and a critical approach to credit exposures, is satisfactory.

The FSA considered that the bank's credit ranking of customers, which it uses to determine risk-weighted assets in solvency calculations and for other purposes, gave a true and fair view.

The FSA finds that objective evidence of impairment (OEI) exists if liquidity and/or operating profits are negative or insufficient, and owners' equity is actually negative.

The inspection identified only few instances of OEI that the bank had not identified.

The FSA found that the bank's loan impairment charges are sufficient, and that compared with the other major banks, Danske Bank recognises higher loan impairment charges against customers with comparable risks. In several cases, the bank's valuations of agricultural assets in its impairment calculations are lower than the FSA's valuations.

The Danske Bank Group has calculated its solvency need at 31 December 2011 at 10.0%. At 31 December 2011, its total capital ratio was 17.9%. The inspection did not give rise to any change in the FSA's assessment of the Group's solvency need.